LAHRMER & COMPANY LLC
CERTIFIED PUBLIC ACCOUNTANT

NEWSLETTER

Check your tax situation before year-end

December 31, 2012, will be a very important date in the lives of taxpayers, because that is the date that many tax-saving provisions are set to expire. Congress has extended many of these provisions on a year-by-year basis. However, as it stands now, many tax-cutting provisions have already expired or will expire. Here are a few of the more important ones that could apply to you.

* Employee's share of social security taxes. The employee's share of FICA taxes will return to 6.2% after 2012, up from 4.2%.

* Income tax rates. The 10% tax rate bracket will be eliminated, and the top rate will be 39.6% (up from 35%).

* Long-term capital gains. The maximum tax on most long-term capital gains will increase from the current level of 15% to 20%. For some low-income taxpayers, the current long-term capital gains rate can be zero. That provision will also be eliminated. Additionally, qualified dividends will no longer be taxed at the long-term gains rates (including the zero rate for lower-income taxpayers). Instead, dividends will be taxed at ordinary income rates as high as 39.6%.

* Child tax credit. The current credit, which is $1,000 for a qualifying child, will be reduced to $500.

* Student loan interest deduction. This deduction will be limited to only the first 60 months that interest payments are made, and there will be a much lower income limit where this deduction can be claimed at all.

* Section 179 expensing deductions. The first-year expensing limit and qualifying property limit will be reduced to $25,000 and $200,000 (down from the 2012 levels of $139,000 and $560,000).

* Itemized deductions. Itemized deductions are currently not reduced by the size of your adjusted gross income. That provision will expire, and itemized deductions will again be reduced for higher bracket taxpayers.

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IRS announces 2013 HSA limits

Health Savings Accounts (HSAs) allow taxpayers with high-deductible health insurance to set aside tax-deductible dollars that can be used tax-free to pay unreimbursed medical expenses.

If you have an HSA, you'll be able to contribute more in 2013, thanks to the inflation-adjusted limit recently announced by the IRS. The amount you can set aside in 2013 will increase to $3,250 for an individual and to $6,450 for a family. If you're 55 or older, you're allowed an additional $1,000 contribution.

For 2013, a high-deductible health plan is one with an annual deductible that is not less than $1,250 for self-only coverage or $2,500 for family coverage. Annual out-of-pocket expenses cannot exceed $6,250 for self-only coverage or $12,500 for family coverage.

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* Estate and gift taxes. The estate and gift tax rules will revert to those in effect before 2001. That means the maximum estate and gift tax rate will increase to 55% (up from 35%), and the maximum amount of assets to be left to beneficiaries tax-free will be reduced to $1,000,000 (down from the current level of $5,120,000).

What can you do to manage your tax bill for 2012 and 2013? You should monitor the tax landscape as Congress returns to Washington. Some of the things that you'll want to examine include the following:

* Should you accelerate income into 2012 in order to take advantage of the current tax rates that may be lower than future rates?

* Should you sell assets that you have held long-term (such as stocks, mutual funds, and property) to take advantage of the expected lower capital gains tax rates in 2012?

* Should you sell dividend-paying stocks since the tax benefit for holding such stock may be eliminated?

Contact us if you would like to review these and other tax issues before year-end.

"Bunching" deductions could cut your taxes

Getting the most benefit from tax deductions requires multi-year planning as well as consideration of the alternative minimum tax (AMT).

The multi-year part involves "bunching" your expenses. That's a strategy where you decide to accelerate or delay payments between different years for itemized deductions such as state income taxes, routine health care, and charitable contributions. You calculate the tax savings for each year and choose the most advantageous time to pay the expense and claim the deduction.

The AMT adds another step to the calculation because it eliminates certain deductions. For instance, state and local income taxes are not deductible when figuring AMT liability.

What if you usually claim the standard deduction? You'll still want to take a look at your total itemized deductions in case you're close enough to the tipping point to consider accelerating some expenses into 2012. In addition, there are circumstances where itemizing makes sense even when the total is lower than your standard deduction. Your exposure to the AMT can come into play here, too, since the standard deduction is not allowed in the AMT calculation.

For 2012, the regular standard deduction when you're married filing jointly is $11,900 ($5,950 for singles). The last few months of the year is a good time to review your situation and consider opportunities for bunching deductions. Planning could help you salvage itemized deductions that would otherwise be lost. Contact our office for more information about this tax-cutting strategy.

IRS eases reporting requirement on health coverage

The *Affordable Care Act of 2010* included a provision requiring employers to report the cost of coverage under an employer-sponsored group health plan on the employee's 2012 W-2.

However, employers issuing fewer than 250 W-2s will not need to include the cost of health care on W-2s for 2012. For these employers, the 2012 reporting is optional. And such reporting will not apply for future calendar years until the IRS publishes further guidance.

IRS delays basis reporting for bonds and options

The IRS is giving brokers extra time to start reporting the basis in debt instruments and options. This requirement had been scheduled to go into effect on January 1, 2013, but brokers and other involved parties complained to the IRS that this did not give them enough time to build and test the systems required to meet this obligation. The IRS has extended the deadline to January 1, 2014. This reporting requirement was the third phase of investment basis reporting included in a 2008 tax law.