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Leslie A. Cesario, Ltd. Monthly Newsletter

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HAPPY NEW YEAR!

We would like to take this opportunity to thank you for your continued patronage of our firm and wish you and yours a very happy New Year. We look forward to working with you on the preparation of your 2012 returns this tax season.

If you have questions related to income, deductions, credits, or preparing for your appointment, please call.

Congress Avoids the Fiscal Cliff

As we were going to press with this newsletter, the Senate and the House have voted on a last-minute budget deal worked out between President Barack Obama and congressional Republicans averting the so-called fiscal cliff.

Details of the deal were sketchy at press time, but here are some highlights of the compromise bill as provided by unofficial sources:

- The current tax rates will be kept in place for individuals making less than $400,000. Incomes above $400,000 ($450,000 for married taxpayers, $425,000 for heads of household) will be taxed at 39.6%.
- Capital gains rates will be raised from 15% to 20% for taxpayers in the 39.6% bracket.
- Qualified dividends will continue to be taxed at capital gains rates.
- The estate tax rate will rise to 40% (up from 35%) with an exemption of $5 million.
- A one-year extension of unemployment benefits will be provided.
- There will be a two-month delay on the automatic spending cuts.
- Tax credits established under President Obama's economic recovery program will be extended for 5 years.
- The American Opportunity Tax Credit (tuition credit) will be extended for 5 years.
- The alternative minimum tax (AMT) will be made permanent with the exemption being inflation-adjusted in future years.
- Itemized deductions and personal exemptions for households will be phased out for those making more than certain amounts.
- A host of individual provisions will be extended, including the treatment of mortgage insurance premiums as qualified residence interest, deductions for state and local general sales taxes, and the above-the-line deduction for qualified tuition and related expenses.
- Key business tax breaks will be extended such as depreciation provisions, including bonus depreciation, and the research and work opportunity tax credits.
- There will be no extension of the 2% payroll tax deduction.

This is an evolving story, so we will keep you updated as additional information and details become available.

Ready For a Take-Home Pay Cut?

For two years, employees have enjoyed a 2% reduction in the FICA payroll tax. That will all come to an abrupt end beginning with their first payroll check in 2013 when the FICA rate returns to 6.2% (up from 4.2% in 2011 and 2012). Self-employed individuals will have a corresponding increase in their SE tax.

The maximum wage subject to the FICA tax in 2013 is $113,700 (up from $110,100 in 2012). Thus, if you make $113,700 or more during the year, the result will be a $2,274 increase in payroll tax for the entire year, and each paycheck will be reduced by 2% of your pay until the maximum amount has been withheld. If you make less than the maximum, simply multiply your pay for the year by 2% to determine your tax increase.

Employees who made more than $110,100 in 2012 enjoyed a period of time with no FICA withheld, but FICA withholding will return at the full 6.2% rate with the first paycheck in 2013.

To make matters worse, as part of the Obamacare legislation, higher income taxpayers are faced with an additional 0.9% health insurance (HI) tax. Starting in 2013, this surtax is imposed upon wage earners and self-employed taxpayers whose wage and self-employment income exceeds $250,000 for married taxpayers filing jointly ($125,000 if filing separately) and $200,000 for all others.

Although each employer will withhold the additional tax, the employer is not required to account for other employment or both spouses working. Thus, in these situations when the total earned income exceeds the threshold amounts, the unpaid tax will have to be included on the 2013 tax return.

> ***Example:*** *John is a single individual who had two jobs in 2013. He earns $150,000 from one employer and $100,000 from the other. For the purposes of determining his liability for the extra 0.9% HI tax, his wages from both are added together, and to the extent that they exceed $200,000, he is subject to the additional 0.9% tax. Because he earned less than $200,000 from each employer, neither of them withheld any of the additional 0.9% tax. Because his total wages for the year were $250,000, John is liable for an additional $450 (0.009 x $50,000) in taxes when he files his 2013 tax return.*

> ***Example:*** *A married couple, one earning $300,000 and the other $100,000, is subject to an additional tax of 0.9% of their combined incomes in excess of $250,000. In this case, that's an additional 0.9% on $150,000 ($400,000 less $250,000). However, the spouse earning the $300,000 will already have had the additional tax withheld, so the amount of additional tax on their 2013 return will be $900 (0.009 x $100,000).*

Employees in these situations may want to adjust their 2013 income tax withholding amounts or make estimated income tax payments to account for the additional tax. Self-employed taxpayers subject to the tax will need to increase their 2013 estimated tax payments to cover the additional amount.

Please give this office a call if you have additional questions.

Don’t Forget Those Nominee 1099s

For tax purposes, if you receive income in your name that actually belongs to someone else, you are also a nominee. Being a nominee means that you must file a 1099 form with the IRS appropriate to the type of income you received and give a copy of the 1099 to the actual owner of the income. However, if the other person is your spouse, no 1099 filing is required.

One of the most commonly encountered nominee situations is having a joint bank account or brokerage account with someone other than your spouse and all of the income from those accounts being reported under your SS number. You will need to provide the IRS and your joint account owner with a 1099 reporting the co-owner’s share of the income under his or her SS number. Then, when you file your return, you need to show all of the income but back out the co-owner’s share as “nominee amount.”

The type of 1099 to file depends upon the type of income: 1099-INT for interest, 1099-DIV for dividends, and 1099-B for the proceeds from selling stocks and bonds.

Forms 1099-INT and 1099-DIV issued by you as a nominee are supposed to be provided to the recipients by January 31, while the deadline for providing forms 1099-B to the other owner(s) is February 15. In order to avoid penalties, copies of the 1099s need to be sent to the IRS by February 28. The 1099s must be submitted on magnetic media or on optically scannable forms (OCR forms). This firm prepares 1099s in OCR format for submission to the IRS along with the required 1096 transmittal form. This service provides recipient and file copies for your records.

If you have questions about filing 1099s as a nominee, please call this office.

Don’t Be a Victim!

Not too long ago, we cautioned you about being duped by Internet identity thieves. We want to remind you once again about this fast-growing threat and how to protect yourself from being a victim and avoid the immense amount of trouble and aggravation that accompanies identity theft.

As the tax-filing season approaches, the identity thieves are gearing up with tax scams to sucker you into providing them with your identity information, which they can then use to charge against your credit cards, tap your bank account, steal your tax refund, file a fraudulent tax return in your name . . . the list goes on and on.

These thieves are clever, and some even disguise e-mails to look as if they come from a government agency; the IRS banner has been used in many scams to steal taxpayer identities. For example, you may receive an e-mail with the IRS banner indicating that you have a refund coming and directing you to a web site where you are duped into revealing your identity to obtain the refund. During the holidays, scammers were sending out e-mails disguised as being sent by major department stores—you may have received one indicating that you had won a gift card and asking you to reveal your financial information to receive the gift card.

The scams, known as phishing, have one goal: to trick you into revealing your personal and financial information. The scammers can then use that information—such as your Social Security number, bank account, or credit card numbers—to commit identity theft or steal your money.

Here are some tips you should know about phishing scams:

1. The IRS never asks for detailed personal and financial information such as personal identification numbers (PINs), passwords, or similar secret access information for credit card, bank, or other financial accounts.
2. The IRS does not initiate contact with taxpayers by e-mail to request personal or financial information. If you receive an e-mail from someone claiming to be a representative of the IRS or directing you to an IRS site:
   - **Do not reply to the message.**
   - **Do not open any attachments.** Attachments may contain malicious code that will infect your computer.
   - **Do not click on any links.** If you clicked on links in a suspicious e-mail or phishing website and entered confidential information, you may have compromised your financial information. If you entered your credit card number, contact the credit card company for guidance. If you entered your banking information, contact the bank for the appropriate steps to take. The IRS website provides additional resources that can help. Visit the IRS website and enter the search term "identity theft" for additional information.
3. The address of the official IRS website is www.irs.gov. Do not be confused or misled by sites claiming to be the IRS but ending in .com, .net, .org or other designations instead of .gov. If you discover a website that claims to be the IRS but you suspect it is bogus, do not provide any personal information on the suspicious site.
4. If you receive a phone call, fax, or letter in the mail from an individual claiming to be from the IRS but you suspect he or she is not an IRS employee, contact the IRS at 1-800-829-1040 to determine whether the IRS has a legitimate need to contact you. Report any bogus correspondence. You can forward suspicious e-mails to phishing@irs.gov.

If you have any questions or doubts related to a letter, phone call, or e-mail from the IRS or other taxing authorities, please call this office before responding or providing any financial or personal information. Better safe than sorry!

It's Tax Time! Are You Ready?

If you're like most taxpayers, you find yourself with an ominous stack of "homework" around TAX TIME! Unfortunately, the job of pulling together the records for your tax appointment is never easy, but the effort usually pays off when it comes to the extra tax you save! When you arrive at your appointment and are fully prepared, you'll have more time to:

- Consider every possible legal deduction;
- Better evaluate your options for reporting income and deductions to choose those that are best suited to your situation;

- Explore current law changes that affect your tax status;
- Talk about possible law changes and discuss tax planning alternatives that could reduce your future tax liability.

Choosing Your Best Alternatives

The tax law allows a variety of methods for handling income and deductions on your return. Choices made at the time you prepare your return often affect not only the current year, but future returns as well. When you're fully prepared for your appointment, you will have more time to explore all avenues available for lowering your tax.

For example, the law allows choices in transactions like:

Sales of property. . . .

If you're receiving payments on a sales contract over a period of years, you are sometimes able to choose between reporting the whole gain in the year you sell or over a period of time as you receive payments from the buyer.

Depreciation. . . .

You're able to deduct the cost of your investment in certain business property using different methods. You can either depreciate the costs over a number of years; or, in certain cases, you can deduct them all in one year.

Where to Begin?

Ideally, preparation for your tax appointment should begin in January of the tax year you're working with. Right after the New Year, set up a safe storage location – a file drawer, a cupboard, a safe, etc. As you receive pertinent records, file them right away, before they're forgotten or lost. By making the practice a habit, you'll find your job a lot easier when your actual appointment date rolls around.

Other general suggestions to consider for your appointment preparation include:

- Segregate your records according to income and expense categories. For instance, file medical expense receipts in an envelope or folder, mortgage interest payment records in another, charitable donations in a third, etc. If you receive an organizer or questionnaire to complete before your appointment, make certain you fill out every section that applies to you. (Important: Read all explanations and follow instructions carefully to be sure you don't miss important data – organizers are designed to remind you of transactions you may miss otherwise.)
- Be sure to call our attention to any foreign bank account, foreign financial account or foreign trust in which you have an ownership interest, signature authority or control over. We also need to know about foreign inheritances and ownership of foreign assets. Generally any foreign financial dealings should be brought to our attention so we can determine if you have any special reporting requirements. The penalties for not making and submitting the required reports can be draconian.
- Keep your annual income statements separate from your other documents (e.g., W-2s from employers, 1099s from banks, stockbrokers, etc., and K-1s from

partnerships). Be sure to take these documents to your appointment, including the instructions for K-1s!

- Write down questions you may have so you don't forget to ask them at the appointment. Review last year's return. Compare your income on that return to the income for the current year. For instance, a dividend from ABC stock on your prior-year return may remind you that you sold ABC this year and need to report the sale or that you haven't yet received the 1099-DIV form for the current year.
- Make certain that you have social security numbers for all your dependents. The IRS checks these carefully and can deny deductions for returns filed without them.
- Compare deductions from last year with your records for this year. Did you forget anything?
- Collect any other documents and financial papers that you're puzzled about. Prepare to bring these to your appointment so you can ask about them.

Accuracy Even for Details

To ensure the greatest accuracy possible in all detail on your return, make sure you review personal data. Check name(s), address, social security number(s) and occupation(s) on last year's return. Note any changes for this year. Although your telephone number isn't required on your return, current home and work numbers are always helpful should questions occur during return preparation.

Marital Status Change

If your marital status changed during the year, if you lived apart from your spouse or if your spouse died during the year, list dates and details. Bring copies of prenuptial, legal separation, divorce or property settlement agreements, if any, to your appointment. If your spouse passed away during the year, you should have a copy of his or her trust agreement or will available for review.

Dependents

If you have qualifying dependents, you will need to provide the following for each:

- First and last name
- Social security number
- Birth date
- Number of months living in your home
- Their income amount (both taxable and nontaxable)

If you have dependent children over age 18, note how long they were full-time students during the year. To qualify as your dependent, an individual must pass five strict dependency tests. If you think a person qualifies as your dependent (but you aren't sure), tally the amounts you provided toward his/her support vs. the amounts he/she provided. This will simplify making a final decision about whether you really qualify for the dependency deduction.

Some Transactions Deserve Special Treatment

Certain transactions require special treatment on your tax return. It's a good idea to invest a little extra preparation effort when you have had the following transactions:

Sales of Stock or Other Property: All sales of stocks, bonds, securities, real estate and any other type of property need to be reported on your return, even if you had no profit or loss. List each sale, and have the purchase and sale documents available for each transaction.

Purchase date, sale date, cost and selling price must all be noted on your return. Make sure this information is contained on the documents you bring to your appointment.

Gifted or Inherited Property: If you sell property that was given to you, you need to determine when and for how much the original owner purchased it. If you sell property you inherited, you need to know the date of the decedent's death and the property's value at that time. You may be able to find this information on estate tax returns or in probate documents.

Reinvested Dividends: You may have sold stock or a mutual fund in which you participated in a dividend reinvestment program. If so, you will need to have records of each stock purchase made with the reinvested dividends.

Sale of Home: The tax law provides special breaks for home sale gains, and you may be able to exclude all (or a part) of a gain on a home if you meet certain ownership, occupancy and holding period requirements. If you file a joint return with your spouse and your gain from the sale of the home exceeds $500,000 ($250,000 for other individuals), record the amounts you spent on improvements to the property. Remember, too, possible exclusion of gain applies only to a primary residence, and the amount of improvements made to other homes is required regardless of the gain amount. Be sure to bring a copy of the sale documents (usually the closing escrow statement) with you to the appointment.

Purchase of a Home: Be sure to bring a copy of the closing escrow statement if you purchased a home.

Vehicle Purchase: If you purchased a new plug-in electric car (or cars) this year, you may qualify for a special credit. Please bring the purchase statement to the appointment with you.

Home Energy-Related Expenditures: If you installed solar, geothermal or wind power generating systems, please bring the details of those purchases and the manufacturer's credit qualification certification to your appointment. You may qualify for a substantial energy-related tax credit.

Identity Theft: Identity theft is becoming more and more prevalent and can impact your tax filings. If you have reason to believe that your identity has been stolen, please contact this firm as soon as possible. The IRS provides special procedures for filing returns of taxpayers who have had their identity stolen.

Car Expenses: Where you have used one or more automobiles for business, list the expenses of each separately. The government requires that you provide your total mileage, business miles, and commuting miles for each car on your return, so be prepared to have them available. If you were reimbursed for mileage through an employer, know the reimbursement amount and whether the reimbursement is included in your W-2.

Charitable Donations: Cash contributions (regardless of amount) must be substantiated with a bank record or written communication from the charity showing the name of the charitable organization, date and amount of the contribution.

Cash donations put into a "Christmas kettle," church collection plate, etc., are not deductible. For clothing and household contributions, the items donated must generally be in good or better condition, and items such as undergarments and socks are not deductible. A record of each item contributed must be kept, indicating the name and address of the charity, date and location of the contribution, and a reasonable description of the property. Contributions valued less than $250 and dropped off at an unattended location do not require a receipt. For contributions of $500 or more, the record must also include when and how the property was acquired and your cost basis in the property. For contributions valued at $5,000 or more and other types of contributions, please call this office for additional requirements.

If you have questions about assembling your tax data prior to your appointment, please give this office a call.

Is 2013 The Year You Finally Go Mobile With Financial Data?

Using QuickBooks Mobile, you'll improve business relations, put out fires before they start and unchain yourself from your office computer.

There are only a few reasons why you wouldn't be using QuickBooks Mobile on your smartphone. Maybe you don't have a smartphone. Or when you're out of the office, you don't want to be available for accounting work. Or you might not think that it has enough features to make it worth using.

While the first two reasons are matters of personal preference, the third just isn't true. QuickBooks Mobile automatically – and almost instantly – synchronizes the data from your desktop or laptop computer copy of QuickBooks. While it's only focused on sales, not payables or payroll, you can manage receivables quite nicely whether you're in a customer's office or at a trade show or community event – or sitting on the couch at home.

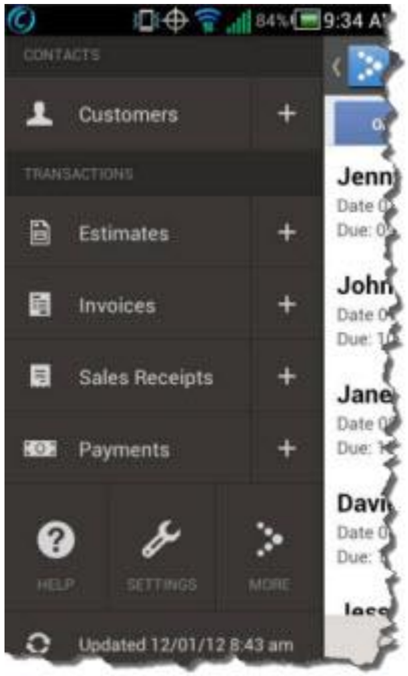

Figure 1: You can see this screen no matter where you and your smartphone are (the recently-upgraded Android version is pictured here).

Countless Scenarios

There are numerous situations where you might want to access, add or edit customers, estimates, invoices, sales receipts or payments when you're not near the PC where QuickBooks is installed, like these:

- You do a half day of onsite training and your client wants to pay you cash right then to qualify for a discount. You can record the payment and email a sales receipt.
- You're on the road and you want to see how well your bookkeeper is managing receivables. QuickBooks Mobile displays three views: recent activity, today and upcoming.
- You're with a client who would like to give you a check to get current, but he or she can't find the invoice. Rather than calling your office and sitting on hold until someone has time to look, you can pull up the form on your smartphone to discuss it.

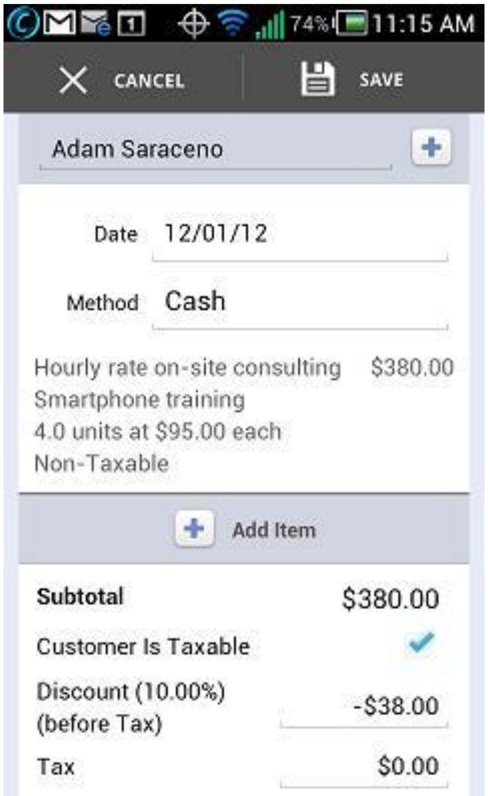

Figure 2: You can record sales receipts and payments on your smartphone – even schedule appointments that move to your Google calendar.

The Perils of Payroll

QuickBooks Mobile doesn't support payroll, but Intuit Online Payroll does. Like QuickBooks Mobile, the app itself is free (of course, you have to pay for the service itself). You can view the most recent payroll run and employee information, as well as preparing, previewing and approving the current payroll.

Neither app is available yet for the iPad, though QuickBooks Online is.

Paper or Plastic?

If you've been in business for very long and still don't accept credit cards, you have an idea of how many sales you've lost. And QuickBooks Mobile won't let you do so, anyway. You'll need to get a merchant account from Intuit Merchant Service for QuickBooks (fees apply). A merchant account allows you to accept plastic through QuickBooks itself, your web browser, your web storefront – and on your smartphone or iPad.

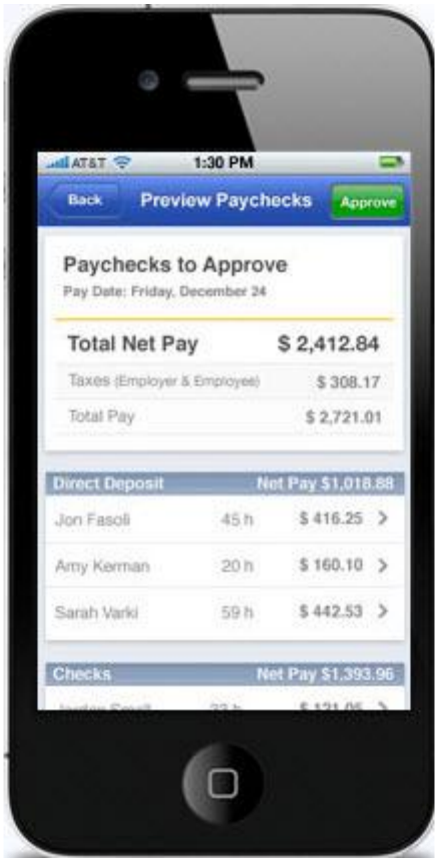

Figure 3: Missed your flight and afraid you'll miss the current payroll run, too? Intuit Online Payroll gives you access from your Android or iPhone.

To do so, you'll need to apply for a merchant account and download Intuit's free GoPayment app. You can either swipe cards on the free mobile reader or type numbers in. Your customers sign their names on the surface of your mobile device, and you can print or email a receipt.

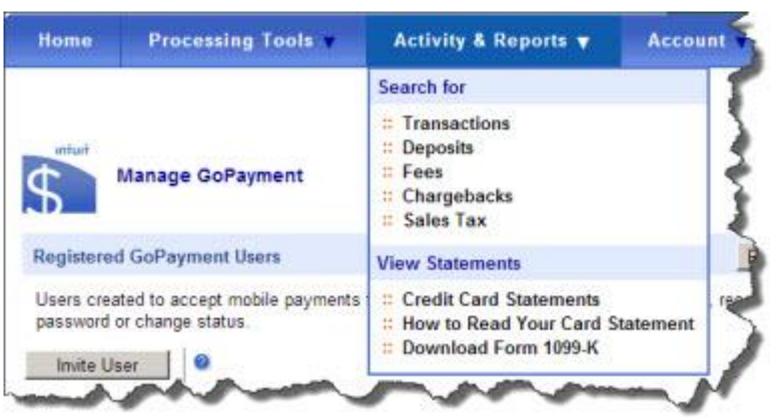

Figure 4: You'll need to get acquainted with the Intuit Merchant Service Center to work with credit card payments.

It would be nice if those credit card payments were just instantly zapped into the right places in QuickBooks, but alas, it isn't so. You'll need to do some setup and processing both within QuickBooks and in the online Intuit Merchant Service Center. We can help you with setup and your initial transactions to make sure all of your payments get through and are deposited and/or credited correctly.

We think you'll find that once you start using all of the mobile payment services that Intuit offers, you'll wonder what took you so long.