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2013 Will Hit Higher-income Taxpayers Hard — Be Prepared

Now that Congress has passed the American Taxpayer Relief Act of 2012 (ATRA) and avoided the so-called "fiscal cliff," higher-income taxpayers need to brace for higher taxes. There are numerous provisions in the ATRA that don't provide the higher-income taxpayer any relief, and when these are combined with the provisions of the 2010 Affordable Health Care Act, higher-income taxpayers will feel a significant increase in taxes for which they need to prepare.

Virtually all of the increases are based on a taxpayer's filing status and income, and even individuals who don't perceive themselves as higher-income taxpayers may be surprised if they have a substantial gain from the sale of stocks, sale of a home or rental, sale of a business, the exercise of stock options, and just about any other event that would inflate income for the year or generate investment income.

So here are the things to watch for in 2013:

- **Personal Exemption Phase-out –** For tax years beginning after 2012, ATRA reinstated the Personal Exemption Phase-out (PEP), which had been suspended in 2010 through 2012. It is interesting to note that the reinstated phase-out thresholds are higher than in previous years, thus requiring significantly higher income before the phase-out begins to take effect. The otherwise allowable exemption amounts are reduced by 2% for each $2,500, or part of $2,500 ($1,250 for married filing separately), that the taxpayer's AGI exceeds the amount shown in the table below for the taxpayer's filing status.

Historical Exemption & Itemized Deduction Phase-out - AGI Thresholds				
Year	***2008***	***2009***	***2010 - 2012***	***2013****
Single	159,950	166,800	N/A	250,000
Head of Household	199,950	208,500	N/A	275,000
Married Taxpayers Filing Jointly & Surviving Spouse	239,950	250,200	N/A	300,000
Married Filing Separately	119,975	125,100	N/A	150,000

* Inflation adjusted after 2013.

Example: *Ralph and Louise have an AGI of $412,500 for 2013 and two children for a total of four exemptions totaling $15,600 (4 x $3,900). The threshold for a married couple is $300,000; thus, their income exceeds the threshold by $112,500. Dividing $112,500 by $2,500 equals 45. So 90% (45 x 2%) of their $15,600 exemption allowance is phased out, leaving them with a reduced exemption deduction of $1,560 ((100-90) x $15,600). Assuming Ralph and Louise are in the 33% federal tax bracket, the phase-out costs them an additional $4,633 ($15,600 x 90% x 33%).*

Planning Tips **–** Taxpayers subject to the phase-out should consider relinquishing the exemption of a dependent child to the other parent, in cases where the parents are divorced or separated. Where a taxpayer is party to a multiple support agreement, the taxpayer may want to allow another contributing member of the agreement who is not hit by the phase-out to claim the dependent's exemption.

- **Itemized Deduction Phase-out** **–** The itemized deduction phase-out referred to as the "Pease" limitation, which, like the personal exemption phase-out, had been suspended for 2010 through 2012, is reinstated for 2013 and later years. The AGI threshold amounts are the same as the exemption thresholds shown in the table above. Like the exemption phase-out thresholds, the reinstated itemized deduction phase-out thresholds are higher than they were in earlier years, thus requiring significantly higher income before the phase-out begins to take effect. For taxpayers subject to the "Pease" limitation, the total amount of their itemized deductions is reduced by 3% of the amount by which the taxpayer's adjusted gross income (AGI) exceeds the threshold amount, with the reduction not to exceed 80% of the otherwise allowable itemized deductions.

  Not all itemized deductions are subject to phase-out. The following deductions are not subject to the phase-out:
    - Medical and dental expenses
    - Investment interest expense
    - Casualty and theft losses from personal use property
    - Casualty and theft losses from income-producing property
    - Gambling losses

  Thus, a taxpayer who is subject to the full phase-out still gets to deduct 20% of the deductions subject to the phase-out and 100% of the deductions listed above.

  Example: *Ralph and Louise from the previous example, who had an AGI of $412,500 for 2013, exceed the threshold for a married couple by $112,500. Thus, they must reduce their itemized deductions subject to the phase-out by $3,375 (3% of $112,500) but not exceeding 80% of the deductions subject to the phase-out. For 2013, Ralph and Louise had the following itemized deductions:*

	Subject to Phase-out	*Not Subject to Phase-out*
Home mortgage interest:	*$10,000*	
Taxes:	*$8,000*	
Charitable contributions:	*$6,000*	
Casualty loss:		*12,000*
Total:	***$24,000***	***12,000***

  The phase-out is the lesser of $3,375 or 80% of $24,000. Thus Ralph and Louise's itemized deductions for 2013 will be $32,625 ($24,000 – $3,375 + $12,000). Assuming Ralph and Louise are in the 33% federal tax bracket, the phase-out will cost them an additional $1,114 ($3,375 x 33%).

  Planning Tip **–** Conventional thinking is to maximize deductions. However, where taxpayers are not normally subject to phase-out and have a high-income year because of unusual income, it may be appropriate, where possible, to defer paying deductible expenses to the year following the high-income year, or perhaps pay and deduct the expenses in the preceding year.

- **Ordinary Income Tax Rate Increase** **–** Beginning in 2013, the ATRA retained the graduated tax marginal rates that are adjusted annually for inflation, and added a new top rate of 39.6% (previously the top rate was 35%). Thus, higher-income taxpayers who fall within this new bracket will be subject to an additional 4.6% tax on their income above the threshold for this new bracket. The thresholds are:

- $450,000 for joint filers and surviving spouses;
- $425,000 for heads of household;
- $400,000 for single filers; and
- $225,000 for married filing separately.

Example: *Jack and Sally who are filing jointly have an ordinary taxable income of $600,000. Their income above $450,000 will be subject to the 39.6% tax rate. Thus, they will see a tax increase of $6,900 (($600,000 – $450,000) x 4.6%) as a result of the new tax bracket.*

- **Capital Gains and Dividends –** Beginning in 2013, ATRA permanently increased the top rate for long-term capital gains and qualified dividends to 20% (up from 15%) for taxpayers with incomes exceeding the following for 2013 (inflation adjusted for future years):
  - $450,000 for joint filers and surviving spouses;
  - $425,000 for heads of household;
  - $400,000 for single filers; and
  - $225,000 for married filing separately.

  This results in an increase of 5% (20% – 15%) in capital gains rates for higher-income taxpayers.

  Example: *Howard, a single individual, retired this year and sold his rental, which he had owned for a long time, for a profit of $700,000. Even though his income is generally in a lower-income tax bracket, the profit from the sale itself pushed his income above the $400,000 threshold for single taxpayers, and to the extent his income exceeds the $400,000 threshold, he will be subject to the increased capital gains rate. Had Howard's other taxable income been $50,000, then he would have had a total income of $750,000, of which $350,000 exceeds the 20% long-term CG rate threshold. As a result, Howard pays the 20% rate on $350,000. That is an increase of $17,500 ($350,000 x 5%) over what he would have paid in 2012.*

  Caution – Generally, sales that are subject to long-term capital gains rates are also investment income subject to the 3.8% unearned income Medicare contribution tax that is part of the Affordable Care Act discussed later in this article.

  Planning Tip **–** If Howard had utilized an installment sale, he could have spread the gain over multiple years and possibly avoided the higher CG rate. He might have also utilized a tax-deferred exchange to defer the gain into other real estate property.

- **Increased Hospital Insurance Tax –** As part of the Affordable Health Care Act, beginning in 2013, the Hospital Insurance (HI) tax rate (currently at 1.45%) will be increased by 0.9% on individual taxpayer earnings (wages and self-employment income) in excess of compensation thresholds for the taxpayer's filing status. Married taxpayers must combine their incomes subject to HI tax when computing this additional tax. Thus, for wages the HI tax rate will be 1.45% up to the income threshold and 2.35% (1.45 + 0.9) on amounts in excess of the income threshold. The hospital insurance portion of the self-employed tax rate will be 2.9% up to the income threshold and 3.8% (2.9 + 0.9) on amounts in excess of the threshold. The income thresholds where this increase begins are $250,000 for married taxpayers filing jointly, $125,000 for married taxpayers filing separately, and $200,000 for all other taxpayers.

Employers are required to withhold the additional tax once wages exceed $200,000, but only on income from that employer. Employers cannot adjust the HI withholding based upon the employee having additional employment or a spouse who also works. Thus, there will be situations where the taxpayers will be under-withheld for the year.

Example *– Jack and Jill are both employed. Jack's wages are $175,000, and Jill's wages are $150,000. Since neither employee's wages exceed $200,000, their employers do not withhold the additional 0.9% for HI tax on either Jack's or Jill's wages. When they file their joint 1040 return, they will need to include $675 (($175,000 + $150,000 – $250,000) x 0.009) HI tax as part of their total tax. Jack and Jill may need to adjust their income tax withholding or make estimated tax payments to account for the extra HI tax and to avoid any underpayment penalty.*

- **Unearned Income Medicare Contribution Tax –** As part of the Affordable Health Care Act, a new tax takes effect beginning in 2013. The official name of this tax is the "Unearned Income Medicare Contribution Tax," and even though the name implies it is a contribution, don't get the idea you deduct it as a charitable contribution. It is, in actuality, a surtax levied on the net investment income of higher-income taxpayers.

  The surtax is 3.8% on the lesser of your net investment income or the excess of your modified adjusted gross income (MAGI) over a threshold based on your filing status. MAGI is your regular AGI increased by income excluded for working out of the country; net investment income is your investment income reduced by investment expenses.

  The filing status threshold amounts are:
  - $250,000 for married taxpayers filing jointly and surviving spouses.
  - $125,000 for married taxpayers filing separately.
  - $200,000 for single and head of household filers.

  Example *– A single taxpayer has net investment income of $100,000 and MAGI of $220,000. The taxpayer would pay a Medicare contribution tax only on the $20,000 amount by which his MAGI exceeds his threshold amount of $200,000, because that is less than his net investment income of $100,000. Thus, the taxpayer's Medicare contribution tax would be $760 ($20,000 × 3.8%).*

  Investment income includes:
  - Interest, dividends, annuities (but not distributions from IRAs or qualified retirement plans), and royalties,
  - Rents (other than derived from a trade or business),
  - Capital gains (other than derived from a trade or business),
  - Home sale gain in excess of the allowable home gain exclusion,
  - A child's investment income in excess of the excludable threshold if, when eligible, the parent elects to include his or her child's investment income on the parent's return,
  - Trade or business income that is a Sec. 469 passive activity with respect to the taxpayer, and
  - Trade or business income with respect to trading financial instruments or commodities.

  Planning Tips: For surtax purposes, gross income doesn't include interest on tax-exempt bonds. Thus, one can avoid the net investment income surtax by investing in tax-exempt bonds. A taxpayer can also utilize the installment sale provisions to spread gains from capital assets such as rentals and business assets over a number of years to keep the investment income under the tax threshold.

Investment expenses include:

- Investment interest expense,
- Investment advisory and brokerage fees,
- Expenses related to rental and royalty income, and
- State and local income taxes properly allocable to items included in Net Investment Income.

Do you think you will never get hit with this tax because your income is way under the threshold amounts? Don’t be so sure. When you sell your home, the gain is a capital gain, and to the extent that the gain is not excludable using the home gain exclusion, it will add to your income and possibly push you above the taxation thresholds. And, since capital gains are investment income, you might be in for a surprise. The same holds true for gains from selling stock and a second home. So when planning to sell a capital asset, be sure to consider the impact of this new surtax.

The surtax also applies to undistributed net investment income of trusts and estates, and there are special rules applying to the sale of partnership and Sub-S Corporation interests.

If you are subject to these new and increased taxes on higher-income taxpayers, it may be appropriate to review your situation so that you can avoid any unpleasant tax surprises at the end of 2013 and to adjust your withholding and estimated taxes if necessary to prevent underpayment penalties. Please give this office a call for assistance.

Has Your 2012 Roth-Converted IRA Declined in Value?

If you converted your traditional IRA to a Roth IRA in 2012 and paid (or will pay) the tax on the conversion and then watched the value of the account decrease due to an unexpected poor investment performance, you still have an opportunity to do something about it.

If you filed your return on time or are on extension, you automatically receive a 6-month extension from the return’s original due date to recharacterize the Roth account back to a traditional account, thereby avoiding having to pay taxes on IRA values that have evaporated. After making the recharacterization, you must wait 30 days before reconverting the IRA back to a Roth.

However, the deadline for both completing your recharacterization and filing or amending your 2012 return is October 15, 2013. If you have questions or wish to implement this strategy, you will thus need to call this office right away.

Energy Costs Rise as Tax Incentives Fade

With energy costs skyrocketing, you would think that the federal government would come up with some tax incentives aimed at curbing the consumption of energy. However, on the consumer end of taxes, the incentives are actually fading away. Apparently, federal lawmakers and administrators believe the high cost of energy itself is incentive enough to reduce consumption. The following are the only energy-related tax incentives remaining for individual taxpayers:

- **Credit for Energy-Efficient Home Modifications**—Through 2013, a taxpayer can still claim a credit for making qualifying energy-saving improvements to his existing home. But after 2013, this credit will not be available. The credit is 10% of the cost of making the improvement but is limited to $500 and is reduced by any credit claimed under this provision in any prior year.

  Qualified energy-efficiency improvements are the following building-envelope components installed on or in a taxpayer's main home in the United States that the taxpayer owned during 2012, provided that the original use of the component (1) began with the taxpayer and the component can be expected to remain in use at least 5 years and (2) the component meets certain energy standards. These credits are nonrefundable and can offset both income tax and alternative minimum tax (AMT) for the year.

  - Any insulation material or system that is specifically and primarily designed to reduce heat loss or gain of a home when installed in or on the home*(1)*.
  - Exterior windows and skylights. The credit for these items is limited to $200*(1)(2)*.
  - Exterior doors*(1)(2)*.
  - Any metal roof with appropriate pigmented coatings or an asphalt roof with appropriate cooling granules that are specifically and primarily designed to reduce the heat gain of the home*(1)(2)*.
  - Certain electric heat pump water heaters; electric heat pumps; central air conditioners; natural gas, propane, or oil water heaters; and stoves that use biomass fuel. No more than $300 of the cost is credit-eligible.
  - Qualified natural gas, propane, or oil furnaces and qualified natural gas, propane, or oil hot water boilers. No more than $150 of the cost is credit-eligible.
  - Certain advanced main air circulating fans used in natural gas, propane, or oil furnaces. No more than $50 of the cost is credit-eligible.

  (1) To figure the credit, do not include the amounts paid for the onsite preparation, assembly, or original installation.
  (2) Must meet or exceed the Energy Star program requirements.

- **Energy Generation Credits**—Through 2016, a taxpayer can claim a credit for installing systems that generate energy. The expenses used to determine the credit include installation costs; but generally no portion of the cost allocated to heating a swimming pool or hot tub can be used toward the credit.

  - **Solar electric systems**—A credit equal to 30% of the cost for the installation of a qualified solar electric system (50% of the energy is generated from the sun) in the taxpayer's *primary or secondary* home in the United States.

- o **Solar water heating systems**—A credit equal to 30% of the cost for the installation of a qualified solar water heating system in the taxpayer's *primary or secondary* home in the United States.
- o **Fuel cell power plant—**A credit of $500 per 0.5 kilowatts of electricity generated by electrochemical means from a qualified fuel cell plant installed in the taxpayer's primary home in the United States.

These credits are nonrefundable and can offset both income tax and AMT for the year. However, any unused credit can be carried forward.

- ***Plug-in Electric Vehicles Credit***—The American Taxpayer Relief Act (ATRA) of 2012 modified and extended for two years, through 2013, the individual income tax credit for highway-capable plug-in motorcycles and 3-wheeled vehicles, replacing the 10% tax credit that expired at the end of 2011 for plug-in electric motorcycles, 3-wheeled vehicles, and low-speed vehicles.

  Through revised definitions, ATRA repeals the ability of golf carts and other low-speed vehicles to qualify for the credit. The credit continues to be the lesser of 10% of the purchase cost or $2,500 per qualified vehicle. The revised rules require that the vehicle must have been manufactured primarily for use on public streets, roads, and highways; be capable of a speed of at least 45 miles per hour; and be acquired in 2012 or 2013.

  Other requirements are the same as under the old credit: The vehicle must have 2 or 3 wheels, have a gross vehicle weight rating of fewer than 14,000 pounds, and have been acquired for use or lease by the taxpayer and not for resale. The original use must be with the taxpayer and the vehicle must have been made by a manufacturer and be propelled to a significant extent by an electric motor that draws electricity from a battery with a capacity of no less than 2.5 kilowatt hours.

  The *personal use* portion of this credit is nonrefundable and may offset both the current year's income tax and AMT. However, if the vehicle is used for business, the unused business portion of the credit can be carried back one year and then carried forward up to 20 years. This credit (other than any business portion being carried over) will no longer be available after 2013.

If you have a question related to any of these credits, you may wish to contact this office in advance to verify how the tax benefits will apply to your specific tax situation.

Home Affordable Modification Program (HAMP)

To help financially distressed homeowners lower their monthly mortgage payments, the Dept. of the Treasury and the Dept. of Housing and Urban Development (HUD) established HAMP. In appropriate cases, HAMP has been offering the Principal Reduction Alternative (PRA) as part of a HAMP loan modification since the last quarter of 2010. Current plans call for HAMP to continue accepting new borrowers through the end of 2013.

Mortgage Reduction – Where the borrower satisfies certain conditions during a trial period, the principal of the borrower's mortgage may be reduced over three years by a predetermined amount called the "PRA Forbearance Amount."

Trial Period – Before a loan modification becomes permanent, the borrower must meet certain conditions during a three-year trial period. If those conditions are met, the borrower will be offered a permanent modification of the terms of the mortgage loan. Until the effective date of a permanent modification, the terms of the existing mortgage loan continue to apply.

After the mortgage loan is permanently modified under HAMP, if the loan is in good standing on the first, second and third annual anniversaries of the effective date of the 3-year trial period, the loan servicer reduces the unpaid principal balance of the loan by one-third of the initial PRA Forbearance Amount on each anniversary date. Accordingly, if the borrower continues to make timely payments on the loan for three years, the entire PRA Forbearance Amount is forgiven.

Tax Consequences – The borrower realizes cancellation of debt income equal to any excess of the balance of the old mortgage loan (which was satisfied in the deemed exchange) over the issue price of the new (post-modification) mortgage loan.

Where the taxpayer qualifies, the cancellation of debt income can be excluded using either or both insolvency exclusion and/or principal residence acquisition debt relief exclusion. The latter exclusion is only available through 2013, unless further extended by Congress.

- **When Income Is Realized** – To the extent the cancellation of debt income cannot be excluded, the borrower may treat the cancellation of debt income as being realized in either of the following ways:

  (1) One hundred percent of the PRA Adjusted Forbearance Amount at the time of the permanent modification; or

  (2) One-third of the PRA Adjusted Forbearance Amount on each of the first three annual anniversaries of the trial period plan effective date, when, as required by the terms of the new mortgage loan, the servicer reduces the unpaid principal balance of the new mortgage loan. If some or all of the reduction in the unpaid principal balance is accelerated because the HAMP-PRA borrower prepays the non-forbearance portion of the mortgage loan, then the HAMP-PRA discharge represented by the amount of the reduction that was accelerated is treated as being realized at the time of the accelerated reduction.

- **Incentive Payments to Lenders** – Incentive payments made by the HAMP administrator to mortgage lenders to encourage their participation in the program are treated as payments on the mortgage loans by the U.S. government on behalf of the borrowers. The borrower treats these payments as follows:

  - *Personal residence* – Under the "general welfare exclusion", the borrower excludes the incentive payments from income if the property that is encumbered by the mortgage is used by the borrower as his principal residence or the property is occupied by his legal dependent, parent or grandparent without rent being charged or collected. No information return (1099) will be issued.

  - *Rental property* – If the borrower uses the property as a rental, or it is vacant but available to be rented, the incentive payments made to the lender are includible in the borrower's income in the year in which the payments are applied to the loan. The lender is obligated to issue a Form 1099-MISC reporting the amount.

If you are in the process of having your loan modified and have some questions relating to how this will impact your taxes, please give this office a call.

IRS Introduces New Safe Harbor Home Office Deduction

Effective for tax years beginning in 2013, taxpayers can elect a simplified deduction for the business use of the taxpayer's home. The deduction is $5 per square foot with a maximum square footage of 300. Thus, the maximum deduction is $1,500 per year. Here are the details of this simplified method:

- *Annual Election* – A taxpayer may elect the safe-harbor method or the regular method on an annual basis. Thus, a taxpayer may freely switch between the methods each year. The election is made by choosing the method on a timely filed original return and is irrevocable for that year.
- *Depreciation* – When the taxpayer elects the safe-harbor method, no depreciation deduction for the home is allowed, and the depreciation for the year is deemed to be zero.
- *Additional Office Expenses* – Additional office expenses such as utilities, insurance, office maintenance, etc., are not allowed when the safe-harbor method is used.
- *Home Interest and Taxes* – Prorated home interest and taxes are not allowed as an office expense when using the safe-harbor method. Instead, 100% of the home interest and taxes are deductible as usual on Schedule A.
- *Deduction Limited by Business Income* – As is the case with the regular method, under the safe harbor method the home office deduction is limited by the business income. For the safe-harbor, the deduction cannot exceed the gross income derived from the qualified business use of the home for the taxable year reduced by the business deductions (deductions unrelated to the qualified business use of a home). However, unlike the regular method, any amount in excess of this gross income limitation is disallowed and may not be carried over and claimed as a deduction in any other taxable year.
- *Home Office Carryover* – This cannot be used in a year the safe harbor method is used. The carryover continues to future years and can only be used when the regular method is used.
- *Qualifications* – A taxpayer must still meet the regular qualifications to use the safe-harbor method.
- *Reimbursed Employee* – The safe harbor method cannot be used by an employee who receives advances, allowances, or reimbursements for expenses related to qualified business use of his or her home under a reimbursement or other expense allowance arrangement with the employer.
- *Determining Square Footage* - To determine the average square footage of the business, use these guidelines:
    - **Square Feet Maximum** - Never use more than 300 square feet for any month, even if the taxpayer has multiple businesses. Where there are multiple businesses use a reasonable method to allocate between businesses.
    - **Determining Average Square Feet for the Year** - Use zero for months where there was no business use, or where the business was not for a full year.
    - **15-Day Minimum** – Don't count any month in which the business use is less than 15 days.

    As example, *a taxpayer begins using 400 square feet of her home for business on July 20, 2013 and continues using the space as a home office through the end of the year. Her average monthly allowable square footage for 2013 is 125 square feet (300 x 5 months = 1500/12 = 125).*

- **Multiple Businesses** - Where there are multiple businesses, only one method may be used for the year—either the regular or safe harbor.
- **Mixed Use Property** - A taxpayer who has a qualified business use of a home and a rental use for purposes of § 280A(c)(3) of the same home cannot use the safe harbor method for the rental use.
- **Taxpayers sharing a home** - Taxpayers sharing a home (for example, roommates or spouses, regardless of filing status), if otherwise eligible, may each use the safe harbor method, but not for a qualified business use of the same portion of the home.

  ***As example**, a husband and wife, if otherwise eligible and regardless of filing status, may each use the safe harbor method for a qualified business use of the same home for up to 300 square feet of different portions of the home.*

- **Depreciation Rate When Switching Methods** – When the safe harbor method is used, and the taxpayer subsequently switches back to the regular method, use the depreciation factor from the appropriate optional depreciation table as if the property had been depreciated all along.

When choosing between the methods, the following factors should be considered.

- There is no reduction in basis for depreciation or depreciation recapture when using the safe harbor method.
- When using the regular method, the income limitation takes into account home interest, taxes, and other expenses before allowing the depreciation portion of the deduction. That is not true for the safe harbor method as the interest, taxes, and other business-use-area expenses are not considered.

The IRS has not yet released a form for this new method.

If you have questions related to this new simplified method of claiming a deduction for the business use of your home, please give this office a call. However, keep in mind that this new method does not apply to 2012 returns and does not take effect until 2013.

Tax Tips for Recently Married Taxpayers

If you got married during 2012, here are some post-marriage tips to help you avoid stress at tax time.

1. **Notify the Social Security Administration –** Report any name change to the Social Security Administration so that your name and SSN will match when filing your next tax return. Informing the SSA of a name change is quite simple. File a *Form SS-5, Application for a Social Security Card* at your local SSA office. The form is available on SSA's Web site, by calling 800-772-1213, or at local offices. Your income tax refund may be delayed if it is discovered your name and SSN don't match at the time your return is filed.
2. **Notify the IRS** – If you have a new address, you should notify the IRS by sending *Form 8822 Change of Address*.
3. **Notify the U.S. Postal Service** – You should also notify the U.S. Postal Service when you move so that any IRS or state tax agency correspondence can be forwarded.

4. **Review Your Withholding and Estimated Tax Payments** – If both you and your new spouse work, your combined income may place you in a higher tax bracket, and you may have an unpleasant surprise when we prepare your return for 2012. On the other hand, if only one works, filing jointly with your new spouse can provide a significant tax benefit, enabling you to reduce your withholding or estimated payments. The fat is in the fire for 2012, but it may be appropriate to review your withholding (W-4 status) and estimated tax payments, if any, for 2013 to make sure you are not going to be under-withheld and set yourself up to receive bad news.

If you have any questions, please give this office a call.

Does This Icon Make Me Look Fat?

Spring is a good time to clean up and slim down QuickBooks and its data.

Depending on your location, you're probably starting to see early signs of spring. The nicer weather and signs of new life seem to make people want to spruce up their surroundings.

Now would be a good time, too, to clean up your accounting environment. Some of your screens may be unnecessarily cluttered. And your QuickBooks company file probably needs attention, too.

So here are some suggestions for streamlining QuickBooks. You'll have a tidier workspace, and you'll save time and frustration.

Make a Clean Start

Intuit did a great job of giving QuickBooks' home page a fresher, more "open" look in its 2013 versions. But does everything really need to be there? Could you simplify it a bit? There are several things you can do, including:

- ***Minimize icons.*** That pretty graphical process map on the home page is great for quick access to frequently-used actions. Some of them must remain there if they're related to activities you do (i.e., **Invoices** has to stay if you use **Estimates**), but you can remove some of the ones you don't use. Go to **Preferences | Desktop View | Company Preferences**. You'll see this:

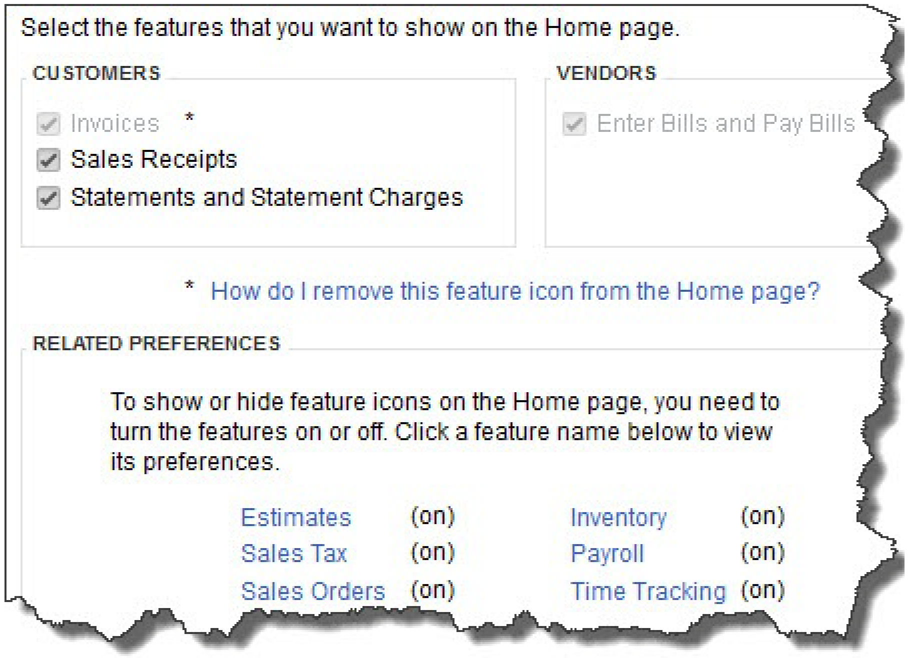

Figure 1: You can turn off some of the feature icons on your home page.

Some of the options have been grayed out because they support other processes. To remove an active feature icon like **Inventory**, click on it. In the window that opens, uncheck the box next to **Inventory and purchase orders are active** (you can also modify options here).

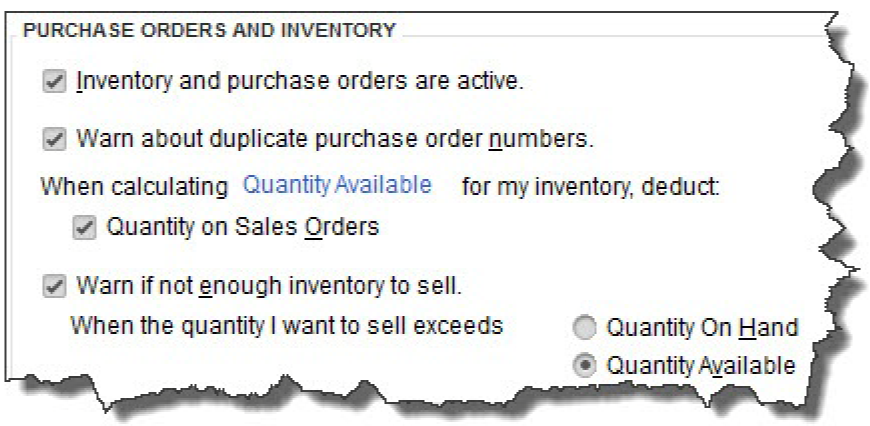

*Figure 2: Clicking the checkbox next to **Inventory and purchase orders are active** grays out the other options and removed related feature icons from the home page.*

To reduce the number of feature icons even more, go to the **Finance Charge, Jobs & Estimates, Payroll & Employees, Sales & Customers, Sales Tax** and **Time & Expenses**. QuickBooks removes the related icons and reroutes the process map on the home page.

More Time-Saving Tweaks

- ***Don't allow multiple windows to open in your work area.*** Tired of seeing all of those overlapping open windows on your desktop? Open the **View** menu and select **One Window**. All of your open windows remain active in the background. To return to one of them, open the **Window** menu and select the one you want to move to the front (**Window | Close All** returns you to a blank work area).

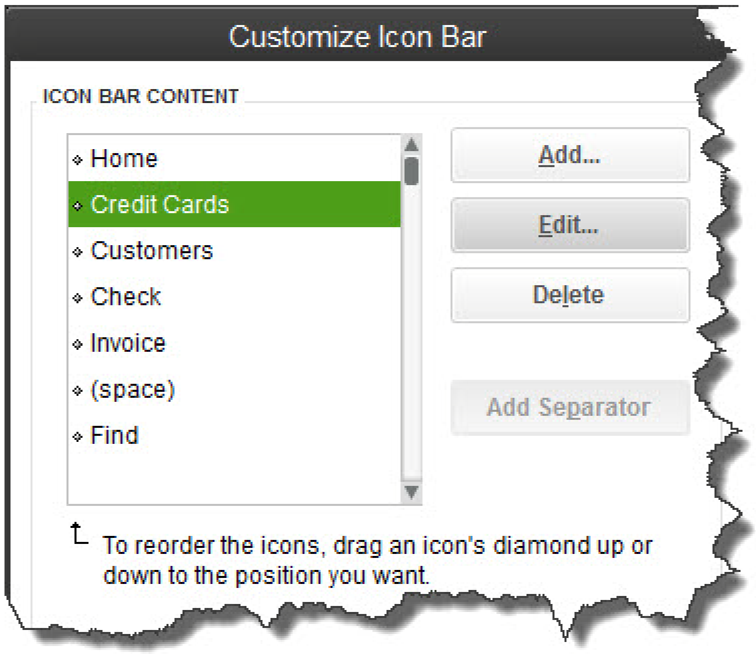

Figure 3: Your Icon bar can be your fastest route to often needed screens – if you modify it to only contain the functions you use, in order of importance. You can also change the labels to make them more meaningful to you.

- ***Trim down your icon bar.*** Seems like a minimal change, but it's one of those things that can add unnecessary moments of frustration throughout the day ("Where's the **Calendar**!"). Click **View | Customize Icon Bar**.

- ***Customize columns in Lists.*** You probably work in QuickBooks' **Lists** often, but are you spending too much time tracking down the right information? Customize their columns so your registers contain only what you usually need (and add additional ones if it's helpful). Open a list, right-click anywhere within it and select **Customize Columns** to modify the display (resize column widths by placing your cursor on the vertical set of dots between labels and dragging).

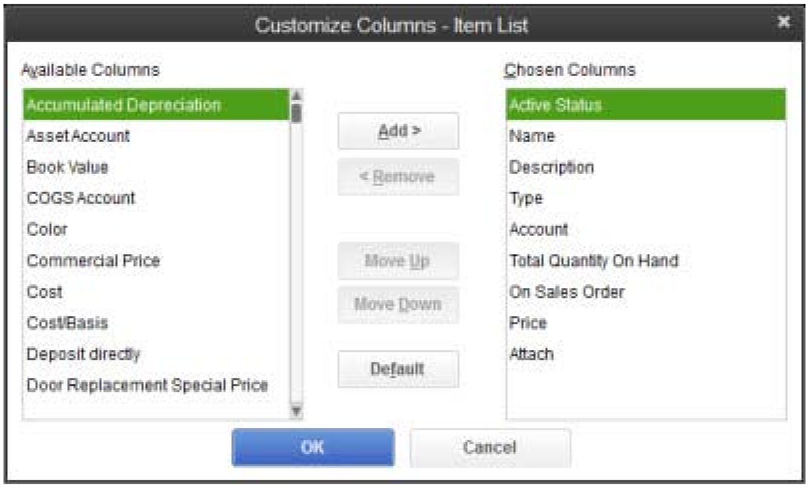

Figure 4: When you customize your columns in Lists, you'll find what you're looking for faster.

- ***Hide inactive items***. Highlight an item, right-click and select **Make Item Inactive**. Open the **Item** menu in the lower left and click **Hide Inactive Items** (this action won't delete them).

Internal Cleaning

These may all seem like cosmetic changes, but you will save time and frustration over the long run.

The most critical spring cleaning task is company file analysis and maintenance. We can handle this for you. QuickBooks can slow down and start generating error messages when the data file becomes unwieldy and sloppy. Preventing file corruption before it crashes your system is a lot faster and less expensive than a reconstruction project.