

# ROBERT C. ROWLAND, CPA TAX LETTER

## TAX YEAR 2011

Welcome to the new year and another tax filing. Hopefully, with a minimal effort on your part, we can get those returns accurately prepared and out of the way.

**EARLY BIRD** Last year the final three weeks of tax season were extraordinarily challenging. Please show a little mercy on your over-worked accountant and **bring me your tax information in February or early March even if you are missing one or two items.**

Congress, the IRS, the state legislature, and the tax courts were all busy this year contributing to the tax laws including the following:

### **CHANGES FOR 2011**

For **business use of a vehicle** the mileage rate was 51 cents per mile through June 30<sup>th</sup> and 55.5 cents per mile from July 1<sup>st</sup> to December 31<sup>st</sup>.

The maximum wage base for the **FICA portion of Social Security** was \$106,800 for 2011.

The **exemption for estate taxes** increased to \$5,000,000.

Employees had only 4.2% withheld from their paychecks for **social security taxes** instead of the normal 6.2%. Note: So far this reduced withholding has been extended for two month in 2012.

The **energy efficiency credit** has been reduced to \$500 (was \$1,500) and further reduced by the energy credit which was taken in previous years.

A new form 8938 may need to be filed with the tax return if the aggregate value of all “**specified foreign financial assets**” exceed \$100,000.

### **CHANGES FOR 2013**

Individuals will pay an additional approx. 1% in Medicare tax on earned income (wages or self-employment income) in excess of \$200,000 (single) or \$250,000 (married)

In addition, Medicare at a rate of 3.9% will be imposed on the lesser of a taxpayers net investment

income or the excess of total income over \$200,000 (single) or \$250,000 (married). Distributions from retirement accounts are not included in this new provision.

The medical exclusion of 7.5% increases to 10%. Senior citizens will get several year’s delay in this change. Remember Arizona does not have any medical exclusion.

### **CHANGES FOR 2014**

Individuals **without health insurance coverage** will be subject to a penalty of the greater of \$95 (increasing to \$695 in 2016) or 1% of their income (increasing to 2.5% in 2016)

**Quarterly Estimate Tax Payments** The biggest post-filing issue the IRS has with my clients is properly accounting for quarterly estimated tax payments. Please review your quarterly estimated tax payment records carefully and verify those payments by seeing if they cleared on your bank statement.

**Fees and Scope of Services.** I will assist you in the preparation of the Federal and state individual income tax returns based on the information which you provide. I will charge a reasonable fee generally based on my current fee schedule for returns and schedules. Extraordinary work on a return or any schedule or additional advice will be charged at an hourly rate.

Fees and rates can change without notice. If you are unable to pay the fees in full when the return is completed, please make prior arrangements.

**Retainer - Audit Representation** My fees (to Arizona residents only) will include a one time 8% charge as a nonrefundable retainer to cover my representation in the audit, if any, of your 2011 individual income tax returns by the IRS or the state of Arizona. The retainer covers my services at no additional charge not only for the audit, but also, when reasonable, appeals within the IRS or the Arizona Department of Revenue and to the Federal or Arizona Tax Court. This retainer does not include the defense against any criminal investigation or prosecution.

**Referrals** As always I greatly appreciate any past or future referrals for accounting services and tax preparation.

**Gift Tax Returns** In addition to income taxes you may be liable to file a gift tax return and possibly pay gift taxes. A gift tax return generally needs to be filed if you made gifts of more than \$13,000 to any one individual during 2011. Please let me know if this is your situation.

**Estate Tax Planning** If the value of your assets (including life insurance) exceeds \$1,000,000 (exemption amount starting in 2013) then upon you or your spouse's death there is the possibility of an estate tax. The estate tax is a percentage (for 2013 more than 40%) of the fair market value of assets (and life insurance on your life) at the time of your death in excess of your debts and the exemption amount. There are several estate planning techniques legally available to reduce the possible estate tax such as lifetime gifts, charitable contributions, and trusts. Let me know if you want to explore estate tax planning.

**Tax Records** I am often asked how long does one need to save tax records. The IRS has up to 3 years to audit your return; the state of Arizona 4 years. If one under reports one's income by more than 25% the IRS audit period expands to 6 years. Also consider that for non-tax reasons the statute of limitations for litigation in which to be sued for a debt is up to 6 years. Therefore, I recommend that you keep supporting receipts and documents to your returns for at least 6 years. I also recommend that

you keep copies of the tax returns indefinitely. However there are documents which need to be saved for more than six years. Keep the receipts which back up any items being depreciated on a return since those are still subject to audit. Also, keep all the receipts on the cost of stocks, bonds, real estate (including improvements), or any other investments which you still own.

Generally (as a backup to your records) I keep copies of your tax returns for six years. Keep in mind that I keep limited copies of your W-2 forms, 1099 forms, or other supporting documents.

**Preliminary Estimate** For many of my clients I provide a preliminary estimate of their taxes at the time of our meeting. The completed returns can vary substantially from the preliminary estimate due to many factors including:

- a. **Use of estimates** on complex calculations such as the amount of taxable social security, Alternate Minimum Tax (AMT), phase out rules based on income, depreciation, and business vehicle expense calculations.
- b. **Additional information** provided after the preliminary estimate is made.
- c. **Calculation errors** that can occur when difficult computations are made rapidly and without the benefit of a double check.

*This letter is not intended or written to be used, and cannot be used as or considered a "covered opinion" or other written tax advice and cannot be used by any taxpayer to avoid penalties under the Internal Revenue Code*