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2012 Tax Newsletter

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Dear Clients and Friends,

Happy New Year! We wish you have a very successful and prosperous 2012.

Last two newsletters we have been talking about uncertainty and numerous tax law changes made by Congress to help the sinking economy. There were approximately 4,430 changes to the tax code from 2001 through 2010, an average of more than one a day, including an estimated 579 changes in 2010 alone. We are not sure whether these changes helped the economy to recover. So compared to some prior years, Congress has made few tax changes this year and I believe it is due to upcoming elections. Following are highlights of changes and facts for tax year 2011 & 2012.

- For 2011, the **Code Sec. 179** expensing dollar limit is $500,000 and phase out investment limits is $2 million. Taxpayers may also elect to treat up to $250,000 of qualified real property as §179 property.
- **Bonus depreciation** is enhanced and extended through December 31, 2012. 100% first-year depreciation is available for qualified assets.
- The Temporary Payroll Tax Cut Continuation Act of 2011 temporarily extended the **2%** cut in employee portion of **payroll tax** through Feb. 29, 2012.
- Phase outs on exemptions and itemized deductions are eliminated through 2012.
- The Social Security Administration announced that the Social Security wage base for 2012 is $110,100 (up from $106,800 in 2011).
- Lower tax rates for long term capital gains and qualified dividends have been extended through 2012.
- **Standard mileage rate** for business miles driven was changed mid-year. From 01/01/2011 to 06/30/2011 the rate was 51 cents per mile; after 06/30/2011 it went up to 55 1/2 cents per mile. For 2012 the rate standard mileage stays at 55 1/2 cents per mile. To claim the business miles you must maintain mileage log with date, destination, purpose and total miles.

The Comprehensive 1099 Taxpayer Protection and Repayment of Exchange Subsidy Overpayments Act of 2011 eliminated expanded information reporting requirements enacted by previous legislation. Payments of $600 or more for nonemployee compensation made in the course of a trade or business are generally required to be reported on Form 1099-MISC. You are not considered to be in a trade or business solely because you receive rental income.

IRS has announced new Voluntary Classification Settlement Program (VCSP) designed to increase tax compliance and reduce burden for employers by providing greater certainty for employers, workers and the government. Under the program, eligible employers can obtain substantial relief from federal payroll taxes they may have owed for the past, if they prospectively treat workers as employees. The VCSP is available to many businesses, tax-exempt organizations and government entities that currently erroneously treat their workers or a class or group of workers as nonemployees or independent contractors, and now want to correctly treat these workers as employees.

The Internal Revenue Service reopened the offshore voluntary disclosure program to help people hiding offshore accounts get current with their taxes and announced the collection of more than $4.4 billion so far from the two previous international programs. The program was reopened due to continued strong interest from taxpayers and tax practitioners after the closure of the 2011 and 2009 programs. The third offshore program comes as the IRS continues working on a wide range of international tax issues and follows ongoing efforts with the Justice Department to pursue criminal prosecution of international tax evasion. This program will be open for an indefinite period until otherwise announced.

"Our focus on offshore tax evasion continues to produce strong, substantial results for the nation's taxpayers," said IRS Commissioner Doug Shulman. "We have billions of dollars in hand from our previous efforts, and we have more people wanting to come in and get right with the government. This new program makes good sense for taxpayers still hiding assets overseas and for the nation's tax system."

The **Form 8938** filing requirement was enacted in 2010 to improve tax compliance by U.S. taxpayers with offshore financial accounts. Form 8938 is required when the total value of specified foreign assets exceeds certain thresholds. For example, a married couple living in the U.S. and filing a joint tax return would not file Form 8938 unless their total specified foreign assets exceed $100,000 on the last day of the tax year or more than $150,000 at any time during the tax year. The thresholds for taxpayers who reside abroad are higher. The new Form 8938 filing requirement does not replace or otherwise affect a taxpayer's obligation to file an FBAR (Report of Foreign Bank and Financial Accounts).

Failing to file Form 8938 when required could result in a $10,000 penalty, with an additional penalty up to $50,000 for continued failure to file after IRS notification. A 40 percent penalty on any understatement of tax attributable to non-disclosed assets can also be imposed.

Effective tax planning requires a long term strategy, periodic reviews and frequent adjustments. We can help you keep your taxes as low as the law allows, call now for a review of your tax situation.

NOTE: This newsletter is issued annually to provide you with information about minimizing your taxes. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.

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