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For Tax Year 2012

'Fiscal Cliff' Avoidance Highlights

- Minimal changes apply to 2012, so you are not likely see many changes on your 2012 tax return.
- AMT 'patch' in place through 2012. And now made permanent.
- Tax brackets remain intact as before, except for those who earned greater than \$400,000 of income.
- Child Tax Credit made permanent. Child Care Credit made permanent.
- Student Loan Interest Deduction is made permanent for a max deduction of \$2,500.
- Estate tax is due only for those with assets greater than \$5,000,000, at a max rate of 40%.
- For 2013, the Capital Gains rates are now 'graduated' depending on the overall income. Max rate will be 20% if income greater than \$400,000. Otherwise the 0% and 15% rates will still apply depending on overall income.
- American Opportunity Credit for college tuition paid has been extended through 2017. This credit is partially refundable.
- Extended only to the end of 2013:
 - Sales tax deduction on Schedule A (if not taking state income tax paid as the deduction.)
 - Educator K thru 12, classroom expenses of \$250 as an AGI deduction.
 - Tuition paid as an AGI deduction (if not qualify for other education credits)
 - Mortgage Insurance Premiums paid as related to home mortgage.
 - Cancellation of debt as related to home mortgages. So if you're going to 'let go' of your house because it remains underwater, do so before year end.

Notes for the Self Employed

- Standard mileage rates: For 2012 was 55.5 cents per mile. 2013 will 56.5 cents per mile. (Mileage logs required.)
- Code section 179. Allows for expensing of equipment purchased rather than depreciating it over time. The maximum amount of write off is \$500,000.
- Business vehicles can qualify for section 179 but are subject to specific limitations. Maximum for a vehicle weighing over 6000 pounds is \$25,000. If under 6000 pounds, then it's considered a 'luxury' vehicle – max depreciation of \$3,000 in the 1st year.
- Bonus Depreciation of 50% on new equipment purchased for 2012 has been extended to end of 2013.
- Home office. If using a room in the house exclusively for business, then can deduct a percentage of household expenses as business expenses.
- Form 1099-K. To match up income received via credit cards and paypal.
- Independent Contractors. Required to prepare tax form 1099-MISC for individuals receiving greater than \$600.
- Maintain accurate records for all of your ordinary and necessary business expenses. The strongest argument for a deduction is documentation, so it's to your own benefit to be organized.
- Have a separate credit card for business. The less personal and business are comingled the better.

IRA Deduction & Elective Salary Deferrals Increased

- **Maximum Traditional IRA or Roth contribution - \$5,000 or \$6,000 if age 50 or over. Must be paid by 4/15/2013.**
- **Maximum SEP contribution is 25% of Self Employed wages or 20% of Self Employed income. Must be paid by the filing of the tax return including extensions (10/15/2013).**

Health Care Reform Act starts to kick in:

New Tax on Investment Income

- Starting in 2013, a potential 3.8% medi-care tax. If earnings were greater than \$250,000 joint or \$200,000 single, then may be subject to this tax on the tax return. If wages in excess of \$200,000, the employer must with hold an additional .9% medi-care tax. These two figures will 'inter play' on the return. Can't wait!
- Small businesses. If have more than 49 employees, then will be required to provide basic health insurance. Potential penalty of \$2,000 per employee. Hmm – seems to me that annual health insurance is greater than \$2,000. Will some employer's choose to pay the penalty rather than insurance?
- Can choose to provide insurance if less than 25 employees, and potentially receive a credit on premiums paid for.
- Individual mandates. Not until 2014.

IRS & Colorado Letter and Notices

- There has been a large increase in notices, which may have already affected some of you. Many of these notices are automatic by computer, by matching up forms and information. This is an automated system, which means that it needs to be dealt with immediately because the 2nd notice is almost already to go by the time you get the first notice. I predict that this type of correspondence will only increase, because of lower staffing at IRS and Colorado, and ease of initiation from the computer. Seems ‘Orwellian’ don’t it?
- What to do: Don’t panic!
- Try and figure the problem and respond quickly. IRS can be helpful over the telephone, but you must have ample time to be on hold.
- A written response is fine. Include back up information in the response.
- Contact me! Sometimes it can be easier and faster, because we speak the same ‘language’ and I’m experienced on how to respond. I may need a power of attorney (form 2848) for that tax year to talk with some one and to act of your behalf. It only authorizes me talk with tax agencies regarding your specific tax information.

Tax Return Fraud

- A growing problem. Thieves are e-filing fraudulent tax returns for the quick refunds to auto deposit into bank accounts. Estimates from IRS suggest that bogus refunds from last filing season was in the billions. It can easily happen and I have already seen it.
- How to avoid. Thieves need 3 things to file a false return. Your name, SSN, and date of birth. I advise keeping your date of birth hidden on all social media sites! And perhaps your last name too...
- What to do. Contact IRS immediately and file form 14039 ASAP.

Identity Theft

Tips to protect your selves from the fastest growing crime in the U.S.:

- Review your Credit report at least once a year for any inaccuracies.
- Monitor your bank and credit card statements. Monitor your account statements on a monthly basis to ensure they arrive at the scheduled time and there are no discrepancies. Consider going paperless!
- Secure your mail. Remove mail from your mailbox quickly. Consider having a locking mailbox or PO Box. If you have payments to send, consider mailing them at from the local post office. This is still the easiest way to steal your information! Consider going paperless!
- On the computer: Have virus and spyware protection. Do not open attachments from strangers (nor emails). Do not keep credit card numbers, passwords, etal on the hard drive. Use only secure sites! Look for https, that means it’s a ‘secure’ site.
- Keep items that contain your personal information in a safe place, locked filing cabinet or safety deposit box.
- Be very wary giving out information on a telephone or e-mail solicitation - it could be a scam, even if they claim to be from company you may be doing business with. Be defensive about giving out your information. If someone is being aggressive about obtaining your information don’t hesitate to hang up. Ask for their phone number to call them back.
- Watch for solicited requests for information on “IRS” forms or account verification forms - it’s bogus to get your information. IRS does NOT send out emails.
- Make front and back copies of everything in your wallet or purse so you know exactly what is in your wallet in case your wallet is lost or stolen. Plus, credit card phone numbers are on the back of the card.
- Shred all documents with personal information before throwing them away (tax returns, bank & credit card statements, etc).
- Think like a thief when it comes to your personal information so to prevent it getting stolen!

Our Office Policy: We shred all of our recycle/trash that has your social security number on it. We will not disclose any information about a client unless specifically directed by the client. Any disclosure or forwarding of any tax returns, requires signed written approval per IRS circular 230. I will password protect all tax docs from email.

Best wishes and prosperity in 2013!!

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Sources: National Center of Professional Education, Internal Revenue Service