HAPPY NEW YEAR!!!

TAX SMART NEWSLETTER

Peoples Tax Service Inc is here for YOU!!!!

There are many tax guidelines, policy, and tax code changes this year. All of our preparers have completed the necessary requirements mandated by the IRS to render accurate and reliable service to you. If you have any questions or concerns, please call or come by our office. Our desire and goal will be to serve all of your tax, bookkeeping, payroll and other accounting needs.

What Does The Fiscal Cliff Mean To You?

The Fiscal Cliff involved the President and Congress negotiating tax rates for taxpayers and making decisions on which government programs to alter or eliminate. These decisions prevented an economical recession. Because of these decisions, the IRS requires time to implement the changes in their computer systems. Therefore, the official IRS filing date has now been pushed back to January 30 for most taxpayers. Some taxpayers will not be able to file until late February or mid March.

The following are some key points of the deal:

- **Income Tax Rates: Extends decade-old-tax cuts on incomes up to $400,000 for individuals, $450,000 for couples. Earnings above those amounts will be taxed at a rate of 39.6%, that's up from the prior 35%.**
- **Estate tax: Estates will be taxed at a top rate of 40%, with the first $5 million in value exempted for individual estates and $10 million for family estates.**
- **Alternative minimum tax: Permanently addresses the alternative minimum tax and indexes it for inflation to prevent nearly 30 million middle-and upper-middle income taxpayers from being hit with higher tax bills averaging almost $3,000.**
- **Other tax changes: Extends for five years Obama-sought expansions of the child tax credit, earned income tax credit, and an up to $2,500 tax credit for college tuition.**
- **Unemployment benefits: Extends jobless benefits for the long-term unemployed for one year.**
- **Social Security payroll tax cut: Allows a 2% point cut in the payroll tax first enacted two years ago to lapse, which restores the payroll tax withholding back to 6.2%. This means your take home pay will decrease 2% in 2013.**

No matter what is heard in competitors advertisement, this is the date set by the IRS for all tax preparers. WE ARE ABLE TO BEGIN COMPILING TAX RETURNS BUT THE IRS WILL NOT RECEIVE THEM UNTIL JANUARY 30, 2013.

2013 UPDATES & REMINDERS

Schedule C

Taxpayers are required to report all of their taxable income to the IRS. The IRS is now making it their duty to check all Schedule C's. These are primarily taxpayers with small businesses. Be advised that recordkeeping and logging all income, miles, and expenses are imperative. Remember, your expenses must be ordinary and reasonable expenses that pertains or relates to your business operation. Never commingle personal and business expenses or income. If the IRS suspects that you have been commingling, you have become an ideal audit candidate. Just ask yourself is this expense necessary to generate income in your business or is this an expense that other businesses in my industry would have. To avoid this you must use separate accounting procedures or methods.

SC Security Breach

This breach affected individual taxpayers, their dependents, and businesses who have filed any SC tax return since 1998. The types of personal information that has been exposed are taxpayer's Social Security Numbers, debit card numbers, credit card numbers and information that would be found on the front of a check like bank account and routing numbers. If you have filed a SC tax return since 1998, you should register with ProtectMyID free of charge. The benefits range from receiving a free copy of your Experian credit report, daily credit monitoring, identity theft resolution, identity theft insurance and Extend Care. The enrollment period to register for the one year of free identity theft protection with ProtectMyID ends March 31, 2013. The State is encouraging taxpayers to enroll all dependent minors for Family Secure coverage.

Health Care Premium Assistance

Beginning in 2014, most individuals will be required to have some form of health insurance, with a refundable tax credit available to some taxpayers whose household income does not exceed 400% of the federal poverty level and who do not have health insurance through an employer healthcare benefit plan. The new law amends the definition of household income to include all social security and tier 1 railroad retirements benefits.

SC Department of Revenue

The SC Department of Revenue is encouraging taxpayers and tax practitioners to file electronically whenever possible. There are various options available for filing electronically. Along with the filing of your personal tax return, taxpayers are encouraged to file their business Sales Tax and PT-100, corporate and payroll returns electronically. You can also pay your taxes online.

IRS Notification Letter

The CP-2000 letter is correspondence from the IRS indicating a propose change to a previous filed tax return. It is not necessary to panic when receiving this letter. Many IRS letters can be dealt with simply and painlessly. Review the letter and compare the proposed changes to the original return. The letter will break down what was originally reported and what additional information the IRS has received. Responding to the IRS letters is important to tax preparers. Many of theses letters are erroneous. However, many are factual and correct, and can be adjusted or workable. It is our duty to interpret and offer advice on how to handle a response to the service. Remember, a response on your part is imperative, for a non-response will generate future responses from them with possible higher taxes and penalties implications.

Worker Classification Issues

An important question for workers and businesses is whether workers are employees or independent contractors. If a worker is an employee, the employer is responsible for withholding income tax and paying a matching share of FICA taxes, plus federal and state unemployment taxes. An independent contractor is responsible for paying his or own income taxes (quarterly or annually) and self-employment (SE) taxes. Every individual is an employee if under the usual common law rules the relationship between him and the person for whom he performs services is the legal relationship of employer and employee. Generally, such relationship exists when the person for whom services are performed has the right to control and direct the individual who performs the services, not only as to the result to be accomplished by the work but also as to the details and means by which that result is accomplished.

Verifying Income

Informational returns are a significant part of the income tax reporting process. Business owners must file them in an accurate and timely manner or face penalties. The IRS continues to improve their computerized matching program to ensure that the information on the income tax return corresponds with the informational returns submitted for the individual taxpayer. Third party reporting of your income information is helping the IRS to decrease that "tax gap". The tax gap is defined as the amount of tax liability faced by taxpayers that is not paid on time.

Travel Expenses

Ordinary expenses incurred for business travels are generally deductible, whereas commuting expenses are nondeductible personal expenses. Commuting is defined as travel between a taxpayer's home and his or her workplace.

Accountable Plan

Reimbursements for business expenses made under an accountable plan are not included in the worker's gross income. To qualify, the plan must meet specified rules and requirements. If the requirements are not met, then the reimbursement is taxable compensation (wages for an employee).

Retirement Benefits Basics

For individuals born in 1929 or later, the key to qualifying for retirement benefits is having 40 work credits. This amount is attainable through as few as 10 years of work. Individuals can accumulate up to four credits during the year, which is based on a minimum amount of earnings during the year. The benefit amount payable depends on the individual's earnings record and their age when starting or receiving benefits.

Gifts Tax Exclusion

Gifts can have tax implications for both the donor and the recipient. In general, a gift is not taxable income to the recipient at the time the gift is made because gross income "does not include the value of property acquired by gift, bequest, devise, or inheritance".

The law provides an annual exclusion from gift taxes. A donor can give this amount to a beneficiary each year with no tax implications. The gift tax exclusion is $13,000 per recipient.

Adoption Credit

The credit for adoption expenses was a nonrefundable credit for 1997-2009 and a refundable credit in 2010 and 2011. After 2011, it reverted to being a nonrefundable credit. For 2012, the maximum nonrefundable credit for expenses incurred in adopting any eligible child is $12,650. For tax year 2013 the credit may drop to $6,000 for special needs adoptions and will be eliminated for other adoptions.

Cancellation of Debt Discharge

Taxpayers who mortgage holders discharged acquisition debt for their principal residence in tax years 2007-2012 could exclude up to $2,000,000 of such canceled debt from their gross incomes. This provision expired at the end of 2012.

Retirement Distributions Before Age 59 1/2

Contributions to qualified retirements plans are generally excludable or deductible from the account owner's current-year income, as are certain contributions to IRAs. Whether or not the contributions are currently taxed, any growth in value of these retirement accounts is tax exempt until the funds are withdrawn. Once the funds are withdrawn, taxpayer must consider whether the funds are subject to the 10% penalty withdrawal penalty. However, there are some exceptions to the penalty.

Identity Theft and Phishing

Taxpayers must be proactive when they suspect identity theft. Identity thieves can use a stolen identity outside the tax system to file a tax return and claim a refund, or to obtain employment using the victim's SSN, creating the appearance that the victim has unreported income. Thieves obtain personal information through many different means, including stealing wallets or purses, posing as someone who needs information through a phone call or e-mail, looking through trash for personal information, and accessing information to an unsecured Internet site.

***Phishing* is a scam typically carried out by an unsolicited e-mail (or through a website that poses as a legitimate site) that lures unsuspecting victims to provide personal and financial information. Your personal information and the personal information of your family must be protected at all costs.**

The IRS is taking a number of steps to prevent, detect and stop identity theft attempts.

2008 Homebuyer Credit Recapture

The original first time homebuyer credit that was available for 2008 purchases was a refundable credit equal to 10% of the home's purchase price, up to a $7,500 limit. A homebuyer who received the full $7,500 credit generally must repay $500 per year. The IRS will reject your tax return if the repayment is not included on it. You can pay more than the required amount if you should desire. If you cease to use the home as your main home, the outstanding credit is recaptured in full on the tax return for the year of the change, although some limits may apply.

Earned Income Credit (EIC) Due Diligence Requirements

Paid preparers must meet four due diligence requirements on returns with EIC claims or face a penalty. New expanded regulations clarify these requirements and set a performance standard for the knowledge requirement.

When preparing EITC returns and claims for refund, paid preparers must:

1. **Evaluate information received from clients.**
2. **Apply a consistency and reasonableness standard to the information.**
3. **Ask additional questions if the information appears incorrect, inconsistent, or incomplete.**
4. **Document and retain the record of inquiries and client responses.**

EIC Qualifying Child

A "qualifying child" may enable a taxpayer to claim several tax benefits, such as head of household filing status, the exemption for a dependent, the child tax credit, the child and dependent care credit, additional child tax credits, and the earned income tax credit. In general, to be a taxpayer's qualifying child, a person must satisfy four tests:

1. **Relationship - the taxpayer's child or stepchild (whether by blood or adoption), foster child, sibling or stepsibling, or a descendant of one of these**
2. **Residence – the child must have the same principal residence as the taxpayer for more than half the tax year. Exceptions apply to, children of divorced or separated parents, kidnapped children, temporary absences, and for children who were born and died during the year.**
3. **Age – the child must be under the age of 19 at the end of the tax year, or under the age of 24 if a full-time student for at least five months of the year, or be permanently and totally disable at any time during the year.**
4. **Support – the child did not provide more than one-half of their own support for the year.**

If a child is claimed as a qualifying child by two or more taxpayers in a given year, the child will be the qualifying child of:

1. **The parent**
2. **If more than one taxpayer is the child's parent, the one with whom the child lived with for the longest time during the year, or, if the time was equal, the parent with the highest AGI.**
3. **If no taxpayer is the child's parent, the taxpayer with the highest adjusted gross income (AGI) will qualify for the dependency exemption.**

EIC Qualifying Relative

A qualifying relative includes a child who does not qualify as a qualifying child. However, a qualifying relative can be a brother, sister, parent, grandparent, stepbrother, stepsister, half brother, half sister, or descendents of them such as a niece or nephew. They must live in the house for more than six months. Qualifying relative does not include cousins. Any person who is a qualifying relative only because they meet the member of the household test is not a qualifying person for Head of Household purposes.