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CLIENT NEWSLETTER

WINTER 2011-2012

Happy New Year!

Due to Congressional gridlock, there have been very few tax law changes in 2011. The chart at the end of this Newsletter lists the items that are set to expire at the end of 2011 or 2012, as well as the annual inflation adjustments for various tax items.

For the second year in a row, on December 22, Congress has enacted a new tax law (if you want to call it that). This law extends *for two months until February 29, 2012* the 2% reduction in Employee Social Security Taxes (from 6.2% to 4.2%). It also extends Unemployment Benefits for two months, as well as the annually postponed 27% reduction in Medicare payments to health care providers. The entire fight over these 3 issues will re-commence in January with a February 29 deadline looming. More dysfunctional soap opera to follow.

Tax Planning beyond 2012

This is a most perplexing subject since no one has any idea what the tax law will be in 2013 and beyond. Income tax rates could rise or fall, deductions could be eliminated or added, estate and gift taxes could change radically or not at all. Stay tuned during 2012.

New Form 8949 for 2011

Starting in 2011, securities brokers and managers are required to keep track of the cost basis of all securities purchased by their customers. In the past when a security was sold, the broker reported (on Form 1099-B) the date of sale, security name, and gross selling price. Form 1099-B for 2011 will now also require the broker to report the cost basis and date acquired for any security sold. Furthermore, if you move your account from one broker to another, the information travels along with your securities. Sales price *minus* Cost Basis = Gain or Loss.

Since the requirement to track cost basis only started on 1/1/11 (and starts on 1/1/12 for mutual funds), the broker may not know the cost basis of securities acquired before 1/1/11, unless you have told them, or you bought the securities through them. Therefore, the IRS has invented Form 8949 to categorize all sales of securities into 3 classes: Class A sales are those where the broker has reported cost basis on Form 1099-B. Class B sales are those where the broker has *not* reported cost basis on Form 1099-B. Class C sales are those for

which there is no Form 1099-B (for sales of things other than securities). The result is that all sales will now be reported *twice* on your tax return: Once on good old Schedule D, and again in Form 8949.

Thinking About Abandoning or Short-Selling Your Home or Timeshare?

The November issue of the Journal of the Arizona Society of CPAs has an excellent article on this subject with important "Do's and Don'ts". You can read the entire article at http://issuu.com/ascpa/docs/az_cpa_nov_2011_web/15.

Here's a Scary One

The IRS now takes the position that it can compel taxpayers to turn over their complete electronic accounting records, including data files created by programs such as Quicken and QuickBooks. The IRS says it will ignore irrelevant data and confidential information, but this claim is not realistic since the rules of evidence do not protect the taxpayer in this situation.

Handing over an entire data file can expose you to an expanded audit. Most software is not designed to block portions of your data from view. However, QuickBooks does allow you to create a file containing just a single year's worth of data, so at least you can show the IRS only the year they are auditing, and not other years (which they could then decide to audit).

As always, never deal with the IRS yourself. If you get a letter, call us immediately. And remember: The IRS or the Social Security Administration *never* communicate by e-mail, and very rarely by telephone. All such e-mails you may receive are phony; they are attempts to get you to reveal personal information. If you ever get a telephone call from IRS or SSA (which is very rare), tell them to call us since we represent you.

2012 Changes are summarized on the following pages.

Our best wishes to all for a great New Year.

Watch for many more tax changes in 2012. Our News Flashes and Newsletters are posted on our website www.famtax.com.

Please feel free to call or write if you have any questions.

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and

Expiring Tax Provisions for 2011 — 2012	Expires
Individual Tax Rates	
Reduced rates for individual income tax brackets. 10%, 15%, 25%, 28%, 33%, and 35%.	12/31/2012
Marriage penalty relief for the 15% tax bracket for married filing joint taxpayers (MFJ).	12/31/2012
Reduced long-term capital gain rates of 0% and 15%.	12/31/2012
Qualified dividends taxed at Long-term capital gain rates, rather than as ordinary income.	12/31/2012
Individual Deductions	
$250 deduction for certain expenses of elementary and secondary school teachers.	12/31/11
No phase-out of itemized deductions for high income individuals.	12/31/2012
No phase-out of personal & dependency exemptions for high income individuals.	12/31/2012
Marriage penalty relief for the standard deduction for married filing joint taxpayers (MFJ).	12/31/2012
Choice to deduct state and local general sales taxes if greater than state income tax.	12/31/2011
Itemized deduction of mortgage insurance premiums as qualified residence interest.	12/31/2011
Alternative Minimum Tax (AMT)	
Increased AMT exemption. $48,450 for Single or Head of Household, $74,450 for Married Filing Jointly, and $37,225 for Married Filing	12/31/2011
Refundable long-term unused minimum tax credit	12/31/2012
Exclusions from Income	
Up to $100,000 tax-free treatment of qualified charitable distributions from IRAs for individuals age 70½ or older.	12/31/2011
$2,000,000 exclusion for qualified forgiveness of principal residence indebtedness.	12/31/2012
Individual Tax Credits	
Ability to use certain nonrefundable personal credits against both regular tax and AMT.	12/31/2011
Increased maximum qualifying expenses for the dependent care credit of $3,000 ($6,000 for 2 or more children), maximum credit percentage of 35%, and beginning phase-out range of $15,000.	12/31/2012
Child tax credit of $1,000 per child.	12/31/2012
$1,500 maximum personal energy property tax credit.	12/31/2011
45% earned income credit percentage for taxpayers with 3 or more qualifying children and increased phase-out threshold for Joint filers.	12/31/2012
Education Deductions & Credits	
Deduction for up to $4,000 of qualified tuition and related expenses.	12/31/2011
Student loan interest deduction.	12/31/2012

American opportunity credit.	12/31/2012
$2,000 Coverdell Education Savings Accounts contribution limit and other changes.	12/31/2012
Depreciation, Amortization & Other Business Deductions	
15-year straight-line cost recovery for qualified leasehold improvements, qualified restaurant buildings and improvements, and qualified retail improvements.	12/31/2011
50% bonus depreciation - additional first-year depreciation for qualified property.	12/31/2012
Revocation of Section 179 expense election without IRS consent.	12/31/2012
Qualified property for Section 179 expense includes computer software.	12/31/2012

2011-2012 Inflation and Other Adjustments:

	2011	2012
Auto mileage rate for business	51.0¢ per mile; 55.5¢ per mile after June 30.	55.5¢ per mile
Auto mileage rate for medical & moving expenses	19.0¢per mile; 23.5¢ after June 30.	23.0¢ per mile
Auto mileage rate for charity	14¢ per mile	Same
Maximum IRA & Roth IRA contribution	$5,000 plus extra $1,000 if over age 50	Same
Maximum SEP & other defined contribution plans	Lesser of $49,000 or 25% of compensation	Lesser of $50,000 or 25% of compensation
Maximum 401(k),403(b),457 Plan contribution limit	$16,500 plus extra $5,500 if over age 50	$17,000 plus extra $5,500 if over age 50
Maximum wages taxable for Social Security	$106,800. Maximum employee tax = $4,485.60	$110,000. Maximum employee tax = $4,620 *if rate extended to 12/31/12.*
Social Security Tax Rate	Employee: 4.2%; Employer: 6.2%	Employee: 4.2% *if rate extended to 12/31/12.*; Employer: 6.2%
Annual Gift Tax Exclusion (per person receiving gifts)	$13,000 ($26,000 if married)	Same
Estate Tax Exemption	$5,000,000	$5,120,000
Personal & Dependent Exemption	$3,700	$3,800
Standard Deduction	Married: $11,600; Single: $5,800; Head of Household: $8,500	Married: $11,900; Single: $5,950; Head of Household: $8,700
Additional Standard Deduction for Age 65 or Blind	Married: $1,150 per spouse Unmarried: $1,450	Same
Alternative Minimum Tax Exemption	Married: $72,450; Single or Head of Household: $47,450; Married filing Separately: $36,225	Married: $74,450; Single or Head of Household: $48,450; Married filing Separately: $37,225
Foreign Earned Income Exclusion	$92,900	$95,100