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Newsletter

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Tax Alert: Plan now for changes coming in 2013

What's the summertime forecast? From a tax perspective, the outlook calls for planning now to prepare for changes gathering on the horizon – specifically, provisions currently expected to take effect in January 2013. Here are four new rules to think about during your mid-year tax review.

1. A decrease in tax-free contributions to your flexible spending account. Starting in January 2013, the maximum you can contribute to your FSA will be $2,500. In addition, the "use it or lose it" feature of FSAs means you won't be able to carry any 2012 excess remaining in your account into 2013 (unless your plan provides a 2½ month grace period for using prior-year funds).

Planning move: Schedule elective medical procedures during the last half of 2012.

2. An increase in the threshold for claiming the itemized medical expenses deduction. Do you itemize? For 2012, you can claim a deduction on your federal income tax return for qualified medical expenses that exceed 7.5% of your adjusted gross income (AGI).

Beginning in 2013, if you're under age 65, your medical expenses will have to exceed 10% of your AGI to be deductible. This is the same percentage applied to qualified medical expenses when calculating the alternative minimum tax.

Planning move: Review your itemized deductions for 2012 to determine whether accelerating or delaying deductions makes the most sense for you. What to keep in mind: phase-outs and other limitations to itemized deductions that were in effect in prior years, as these may return in 2013.

3. An increase in Medicare tax on certain wages. The amount of Medicare tax you pay on wages and self-employment income is scheduled to go up next year. When you're single and your wages are greater than $200,000, your employer will withhold an additional .09% of Medicare tax from your paycheck. Are you self-employed? The tax applies when net self-employment income exceeds the threshold. The income threshold is $250,000 for married couples.

Planning move: If you're self-employed, review the way your business is organized. While you always want to pay yourself a reasonable amount of compensation, some entity types can allow for flexibility in the timing of wages or salary.

4. A new Medicare tax on unearned income. You probably associate Medicare tax with earned income – that is, the 1.45% tax your employer deducts from your pay. But a provision in the 2010 health care laws extends the Medicare tax to certain unearned income, beginning in 2013.

The new surtax is a flat rate of 3.8%, and will apply to interest, dividends, capital gains, annuities, royalties, and rents. It kicks in when your AGI exceeds $250,000 (for married filing jointly). When you file as single, the AGI threshold is $200,000.

Planning move: Consider adding tax-exempt bonds to your portfolio. The interest is not subject to the new tax. Roth conversions and selling assets with capital gains may also be a wise move in 2012.

Many other tax law changes are expected in 2013. Timely planning is essential for preserving tax-saving opportunities. Please give us a call to discuss strategies to put in place now to maximize your benefits.

To avoid identity theft, think before you click

The e-mail from your bank gets your attention right away. It says you need to log into your account in the next 48 hours to continue your online privileges. Something about a system upgrade. You wonder, is it legitimate? How can you know for sure?

Bogus e-mails designed to steal your identity, also known as *phishing*, are becoming a bigger problem these days. While they can take many different forms, most scams are designed to trick you into revealing personal information such as your social security number or online account password. Through clever use of logos and familiar-looking web addresses, these e-mails often appear to be an urgent message from your bank, mortgage lender, or e-mail provider.

You may not realize it, but thieves are especially eager to gain access to your web e-mail account. Why? Once a scammer has access to your e-mails, he or she can often figure out where you bank and detect clues to passwords you might use.

So what can you do to protect yourself? Take a moment and think before you click. Never respond to an e-mail asking for your social security number or birth date. You can almost bet that it is a scam. If an e-mail contains a website link that you are not familiar with, do not click on it. Instead, either go directly to the company's trusted website, or contact them by phone.

Also remember that e-mail scams become more prevalent following a significant public event, such as a natural disaster or sudden stock market drop. Thieves will prey on your sympathies or fears during these times, so be extra careful when responding to appeals for charity or notices to update your financial records. Be further leery of e-mails with demanding language or incorrect grammar – both are potential signs of a counterfeit e-mail. Don't respond to e-mail appeals for charity.

For preventive measures, try to use a different password for every online account, and change your passwords regularly. Make your passwords stronger by using combinations of letters, symbols, and numbers. Also, keep your computer anti-virus software up to date.

Finally, do your part to thwart these crimes by reporting any suspected scam e-mails to *reportphishing@antiphishing.org*. If you receive a bogus tax-related e-mail, forward it to the IRS at *phishing@irs.gov*. And of course, feel free to contact our firm if you need a second set of eyes on any suspicious-looking e-mail.

Filing reminder for tax-exempts

Tax-exempt organizations are required to file annual reports with the IRS. Those with gross receipts below $50,000 can file an E-postcard rather than a longer version of Form 990.

The deadline for nonprofit filings is the 15th day of the fifth month after their year-end. For calendar-year organizations, the filing deadline for 2011 reports is May 15, 2012.