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Newsletter – Summer 2012

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### **The not even close to summer Newsletter of 2012**

I'm continuing my trend of getting the first newsletter out later and later. I finally have completely blown past summer before getting the first one out. Well it had to happen eventually as last year's went out about a week before summer ended. I do have an excuse and it has nothing to do with golf. This year was my year to renew my license and I had to get all of my credits done so I could get that little piece of paper that allows me to sign those tax returns and point out to the IRS where they made their mistakes in that very nasty notice they send out to you for what turns out to be no reason. But I am rambling. I guess the good news is I went to all of the seminars (most were on-line to be honest) and now I am official again for another 3 years. The problem is I already knew most of what the courses were trying to teach me. I don't know if that is good news or that I did already know the material is bad news in that I don't have any more tricks to keep that money in your pocket.

Anyway.....There is one thing we would like feedback about. We have been able to link our office up so we do everything we do remotely and not come into the office. We have been forwarding phones and staying home and working. We have been coming into the office at 527 Illinois Ave about 2 days a week for appointments and we have put in a drop box on the front porch that we check every time we do drive to 527 but we want to know how this has been working for you. Normally in the summer we are not very busy although for whatever reason we have been busier this summer than any we can remember. So we do want to know how this has worked out for you so please let us know. Also we are still experiencing problems with the mail in St. Charles. Mostly they return letters and packages that are addressed to 527 Illinois Ave St. Charles. When we ask the post office about it they tell us it has to do with the bar code on the bottom of the envelope. I have no idea what that means but please know 527 is the right address. If you have a problem, feel free to use the drop box.

Now for what is happening in the world of taxes...

### **Yes I am going here again**

By now you have seen the very accurate ads on TV (I really can't wait until they all are over) where our deficit has climbed to over 16 trillion. Well the deficit was only 1.1 trillion for 2012, which is 200 billion less than 2011 (I remember when a president-I think the last one we had got blasted by the media if his total budget deficit was 200 billion). The decrease this year was mostly due to increase in tax revenues. But don't get excited the increase in corporate tax receipts were due to the elimination of write offs and the increase in individual receipts were due to the elimination of credits. No, we didn't do better or make more money-we just got taxed more.

### **It “Bears down” repeating**

One of the tax tips I gave the most during last year’s tax planning appointments was in charitable contributions. More specifically do you know if you donate property and this property has gone up in value you get the charitable deduction for the value of the property donated NOT what you pay for it. A caveat of this is if you have property you think will continue to go up in value and don’t want to donate this property-take the cash you were going to donate-buy this property and then donate the original property you purchased to charity. Yes this does include stock shares in the definition of property.

### **Bulls make money bears make money but pigs get slaughtered**

One of the highest occupations I have in my firm, are those of you in the ministry. Must be something about being drawn to hopeless causes or something but anyway one of the neatest and best deductions those in the ministry get is the parsonage allowance. This allows the church to pay for the ministers housing expenses tax free. And let’s face it people most of the client’s I have in the ministry make teachers I have as clients look like Rockefellers (or is that now Romney). So anyway, ordained minister Phil Driscoll of Phil Driscoll Ministries (this is a matter of public record so I am not disclosing anything that I should not be disclosing) not only decides to declare his home as a parsonage but he also declared his family’s lakeside cottage as a parsonage. Most of the people in the ministry don’t make enough to have a lakeside tool shed let alone a cottage. So yes this most likely did look just a tad suspicious. IRS thought so too and said no way. Old Phil took it all the way to the Supreme Court, which tells you right there is way too much money in this ministry’s coffers if he is able to fund a Supreme Court care. Well the Supreme Court said Phil come on get real. I guess Phil could go up to one higher court but I am not so sure the answer would be so as kind as what he has received so far.

### **To those that travel**

For as long as I can remember you are allowed to deduct a per diem rate when you travel. Many of my clients in the transportation industry have used this method. However the rules have changed. Before part of this rate have included the term “incidentals” which was to cover all of those little cost you incur while traveling. Now it has been published that certain items that used to be included as incidentals are no longer and can be deducted IN ADDITION to the per diem rate. They are transportation cost from the hotel to business location to the place where you have your meals and back, mailing cost and paying credit card charges as a result. Hey the more money in your pocket-the more you like me at tax time.

### **What newsletter be without**

The Congressional Research Service (CRS) has said that horrible tax we all hate Alternative Minimum Tax is going to get a lot worse. The CRS has said a tax that affected 605,000 taxpayers in 1997 and affected 3.8 million in 2009 now impacts over 30 million taxpayers. This number is expected to increase to 58 million by the year 2020, unless of course the Mayans were right. What is even worse to just patch the problem now would cost around 2 trillion dollars. To fix it would cost more than any deduction currently on the books. Soon you will no longer be filing a 1040 to calculate your taxes but to calculate how much AMT you will have to pay.

### **To convert or not to convert-that is the question**

One of the biggest topics of late is the converting of IRA's. While I have written about that in the past I did want to mention the story is not over when you do end up converting. Let me take an example. You convert an IRA to a Roth for \$100,000 then the stock market crashes and that IRA is only worth 60,000. Well if you reconvert to a regular IRA then reconvert back you would save the tax on the 40,000. So don't put it out of your mind when you make the decision to convert. There still may be ways to save tax \$.

### **And if we did that**

Let me state that if we ran our personal finances like the government runs theirs, we would all be in bankruptcy. Now it has come to light if we all ran our businesses like the government does- we would all be in jail. The treasury department audit group has blown the whistle on over 70 federal government agencies that are over 14 million dollars behind in paying their payroll taxes. 18 of those agencies just didn't bother filing any return at all. Are not these people supposed to be our leaders? Early on in my life a very wise man told me if you want to be a leader you have to put yourself in a position like the group is a plane. In order for a plane to fly level the leading nose of the plane has to be a little bit higher than the rest of the plane. If we are to follow our current leaders we would all have to learn how to fly a plane with the nose stuck in the ground.

### **Please note**

There were articles in the September issue of Practical Tax Strategies that I thought worth mentioning. The first said to deal with divorce and this unfortunately covers a lot of us. I have said this many times to many clients as they are going thru a divorce. Divorce attorney's are great in helping you with the legal aspect of you divorce but many attorney's are not very well versed in tax situations. The results could cost you plenty in a divorce so don't let the subject of this article happen to you. The results for this person that did not bother to consult his CPA cost him millions in taxes he never should have had to pay. The second article was a case in the 7th circuit which is our circuit in Illinois. Freda won a lawsuit and received a settlement for 15.2 million dollars. Because Freda did not pay attention to the tax issues involved- after 10 years of court battles with the IRS and the attorney fees for that and a huge chunk of taxes the IRS took after it was all done' Freda actually lost \$700,000 because of the lawsuit she won. Now most of us are never going to get 15.2 million handed to us by a court but let it be said taxes follow you everywhere in everything you do. The original attorneys were obviously great in the courtroom but horrible in protecting those winnings from Uncle Sam. If you don't plan for this the only loser as in this case, will be you.

### **Why not this too?**

In light of the supreme court ruling on healthcare which by the way the supreme court did declare it a tax so yes-one of the biggest tax bills ever , the Congressional Budget office now says over 30 billion of us are going to be subject to the penalty clause of this bill. Now granted some will get exempted from the rules of the law but 30 billion-that's a new AMT. Really.

### **And the sun sets**

Many of the Bush tax cuts are going to disappear if congress does not do something and right now congress is not doing very much. Not only is AMT going to be affected but things as basic as tax brackets-capital gains and dividends are about

to cause taxes to go up. Education tax breaks-student loan interest deduction and many others too many to mention are going to either disappear or get changed drastically to worse. (Is there really any other way taxes go?) The tax waters ahead do not look that inviting.

### **Plan ahead**

I am going to finish this newsletter with some tax planning advice. I know I have mentioned this earlier but I am going to say this again. We are afraid the favorable capital gains rate is going to change however I can tell you this that the capital gain rate is already set in law to go up 3.8% starting in 2013. This is another reason for you to consider selling capital gain assets in 2012. Also the rate for capital gain in 2013 will increase to 20% (18% if the asset is held for 5+ years) so this is an 8.8% increase. Pulling the trigger in 2012 may be the best play. The reason I put this 5% increase is an afterthought is both sided of the aisle want to continue with the current rates but if they don't act...

Because of this complicated issue with this new tax it may be better to roll your IRA to a ROTH in 2012 rather than 2013. Also if you have the option of starting your IRA distribution in 2012(turning 701/2) or take 2 distributions in 2013 you may want to start in 2012. For those of you that have been with me a long time know I never say to take income early and therefore pay taxes on it. BUT these are dark times and the winds they are a changing.

### **And Finally**

One of largest whistleblower awards ever has been handed out to the guy who blew the whistle on all of the UBS investing in the Swiss accounts. Since whistleblowers are also a matter of public record we now know. Bradley Binkenfield a FORMER (you mean they canned him???) UBS employer got a total of 104 million dollars as the IRS collected over 5 billion in taxes and penalties because of him. What I find most interesting is the IRS used 9/11/12 to make this announcement. And you thought the IRS had no sense of humor.

That's all for now,  
Tom and Dorothy