

HUDSON POPE PLLC

CERTIFIED PUBLIC ACCOUNTANT

310 New Street, New Bern, NC 28560

252-635-1330 Fax: 252-634-2772

Year End News

As we approach the end of 2012, we first would like to take this opportunity to wish all of you and yours a joyous holiday season. It has been our privilege to work with you this year and we thank each of you for your continued support and allowing us to serve you.

As a reminder to our business clients, we need to furnish W-2's to employees by the end of January and to the Social Security Administration by the end of February. It is important that we have the correct names, social security numbers and addresses for your employees and would appreciate you furnishing us the information as soon as possible.

Several of our clients receive tax organizers to help in gathering their information to complete their

REMINDER:

Individual Estimated Income Taxes are due January 15, 2013. If you have been itemizing deductions in the past, you may want to consider paying your North Carolina estimate by December 31, 2012, in order to receive the deduction in 2012.

individual income tax returns. This year we would like to offer our clients the alternative of receiving their organizers by e-mail. If you would prefer to receive your organizer by e-mail, please e-mail Marilyn Reynolds at marilynhudsonpoppe@embarqmail.com and let her know by January 2, 2013. If we do not hear from you, we will mail your organizer as usual.

In this issue, we will be discussing some year-end acceleration/deferral techniques for income given the uncertain fate of many tax law provisions at year end 2012.

Year End Acceleration/Deferral Techniques

With the uncertain fate of many tax law provisions at year-end 2012, strategies to accelerate or defer income or deductions has become even more significant than in years past. Taxpayers using the cash method basis of accounting can defer or accelerate income using a variety of strategies. These may include: **Sell appreciated assets.** It is probable that the capital gains rate will not decrease meaning the risk of losing out on savings from a lower tax rate is essentially removed for sales completed before 2013. Starting in 2013, a 3.8 percent Net Investment Income surtax applies to the lesser of (1) an individual's net investment income (NII) or (2) the excess of the individual's modified adjusted gross income (MAGI) over the threshold amount. The thresholds are \$250,000 for married taxpayers filing a joint return and surviving spouses; \$125,000 for married taxpayers filing a separate return; and \$200,000 for all other taxpayers. Therefore, accelerating income into 2012 in general can also lower the threshold AGI amounts for 2013 as well as reduce the NII

subject to the tax. **Receive bonuses before January.** If an employer goes against custom and pays a bonus in the year of service (2012) rather than up to 2½ months into 2013 to get the same deduction, the employees can take the bonus into income in 2012. Employees at certain "higher-income" levels may not only likely pay at lower 2012 income tax rates, but also most certainly avoid the new 0.9 percent additional Medicare Tax on earned income. **Complete Roth conversions in 2012.** For a Roth conversion to be effective for 2012, the transfer from the regular IRA to the Roth IRA must take place no later than December 31, 2012 (unlike for regular contributions, there is no grace period until the due date of the 2012 tax return). **Maximize retirement distributions.** Withdrawals planned for 2013 and 2014 from IRAs over and above required minimum distribution (RMD) amounts might be accelerated into 2012 by withdrawing those amounts now. For those turning age 70½ in 2012, making the first RMD in 2012 rather than waiting until April 1, 2013, might also make sense.

PLANNING TECHNIQUES (CONT'D)

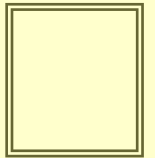
Sell outstanding installment contracts. Income on a sale reported under the installment method is realized pro-rata over the years in which the installment payments are made. To accelerate income realization, the taxpayer simply sells the remainder of the installment contract to a third party for a lump sum. **Redeem U.S. Savings Bonds.** For cash-basis taxpayers, interest on series E, EE and I bonds is generally taxed at the earliest of disposition, redemption or final maturity of the bond (however, the taxpayers can elect to report the interest as it accrues). **Accelerate debt forgiveness income.** Determination of the time of debt forgiveness requires a practical assessment of the facts and circumstances relating to the likelihood of payment. Convincing the lender to issue a Form 1099-C, Cancellation of Debt, for the 2012 tax year, should also form part of the process. Also to be considered is application of the bankruptcy and insolvency exceptions to recognizing discharged debt, as well as the exclusion related to mortgage debt on a principal residence that expires at the end of 2012 unless extended by Congress. **Avoid mandatory like-kind exchange treatment.** Taxpayers may also avoid tax deferred, like-kind exchanges by taking steps to disqualify the transaction from Code Sec. 1031 treatment. Such steps might include delaying identification of replacement property, transferring cash to an intermediary, or switching to a sale-and-reinvestment arrangement.

Deduction acceleration/deferral Fiscal cliff negotiations include a proposed cap on deductions starting in 2013. This generally would make it important to accelerate deductions into 2012 to offset income dollar-for-dollar, even if the income tax rates are higher in 2013. If a general 28% value

cap were placed on deductions in 2013, those currently in the 33 and 35 percent brackets for 2012 generally would derive more benefit from accelerating deductions in 2012. Likewise, a cap on particular deductions, for example, the home mortgage deduction or the charitable deduction, would call for acceleration of those expenses or contributions into 2012 where possible. The taxpayer generally deducts an expense in the year it is paid, although prepayment of an expense generally will not accelerate a deduction. There are exceptions, however, including: **Package payment.** An agreement for services or other deliverables that require full upfront payment may gain a full, immediate deduction, depend upon the circumstances (for example, payment up front for an orthodontia program). However, a pledge made to a charity in advance of actual payment is never deductible. **Tuition prepayment.** Payments made in 2012 for tuition for an academic period beginning in 2012 or during the first three months of 2013 qualifies for an education credit taken in 2012. **Estimated state taxes.** Although the deadline is generally not until January 15, 2013, payment of fourth quarter state and local estimated taxes made in 2012 is deductible for 2012. **Business vehicle purchases.** Should Congress not extend bonus depreciation into 2013, a vehicle purchased for business use and placed in service by year end 2012 receives an additional \$8,000 first year depreciation deduction over and above what a vehicle purchased in 2013 would be allowed. Heavy, business use SUV's (over 6,000 pounds and on a truck frame) would be able to gain even more favorable treatment based on sunseting Code Sec. 179 limits.

IRS Releases 2013 Standard Mileage Rates

The business standard mileage rate for 2013 will be 56.5 cents-per-mile, which is raised by 1 cent per mile from 2012. The standard mileage rate for medical and moving expenses will be 24 cents-per-mile. The statutorily-determined rate for the charitable deduction remains unchanged at 14 cents-per-mile for 2013.



Customer Name
Street Address
City, ST ZIP Code