

Enclosed please find your organizer for the 2012 filing season. The organizer will assist you in gathering your tax information by showing you what was reported on your 2011 return. Below we have highlighted some 2012 tax changes and year-end reminders. If you should have any questions, please don't hesitate to contact us. As this letter goes to press the fate of many important tax issues hang in the balance. **Most notably the "patch" for the alternative minimum tax (AMT) for 2012 has not been addressed by Congress. As currently configured the AMT will impact many taxpayers, potentially by thousands of dollars.** We are monitoring this situation closely and will provide an update on our website when new information becomes available. www.gillamzetzl.com. In addition it appears that 2013 will likely usher in numerous changes which are currently being debated in Washington as the threat of the "fiscal cliff" looms ever closer. We plan to highlight key provisions on our website as the details become available.

Important Tax Law Items - Individual

- The standard mileage rate for business use of a vehicle was 55.5 cents-per-mile for 2012; for 2013 the rate will be 56.5 cents-per-mile.
- Tax credits and deductions that are no longer available (expired 12/31/2011):
 - Federal credit for energy efficient appliances (furnaces, hot water heaters and air conditioners), insulation and storm windows have expired. Still available are incentives for solar, wind and geothermal units. However, Indiana still maintains an insulation deduction.
 - Deduction for unreimbursed expenses of elementary and secondary school teachers has been eliminated.
 - Premiums for mortgage insurance (typically a policy required by lenders when the borrower's equity is below 20%) are no longer deductible.
 - Deductions for state and local general sales taxes are no longer deductible (this is particularly important in states with no income tax like Florida and Texas).
 - Tax-free distributions from individual retirement plans for charitable purposes are no longer permitted.
- Alternative Minimum Tax (AMT) exemption amount decreased from \$74,450 to \$45,000 for married filing jointly. Other filing status options also saw dramatic decreases in automatic exemptions. See the discussion above.
- Distributions from 529 plans are tax-free when used for tuition, room and board, fees, books, computers and related software. Also keep in mind that Indiana "College Choice" plans are eligible for a credit of 20% of the contribution up to a maximum credit amount of \$1,000.
- Traditional IRA accounts may be converted to Roth type accounts regardless of income level; however, the option to spread the income over multiple years is no longer available. If you converted to a Roth account in 2010 and elected to defer reporting the income, half should have been reported in 2011 and the other half must be reported in 2012.
- Reminder – All charitable deductions of any amount must have a receipt. Any individual contribution over \$250 must also have an acknowledgement letter from the charity. Several recent court cases have emphasized the importance of documentation in this area.
- Reduced capital gains rates are set to expire 12/31/2012. The maximum rate for 2012 is 15%, but is currently scheduled to increase to 20% for 2013. Furthermore, dividend income qualifies for capital gain treatment in 2012, but will not in 2013. Planning point – it may be preferable to realize capital gains in 2012 as opposed to deferring until a later year.
- The gift tax exclusion amount of \$13,000 per donee remains unchanged from 2011.
- The federal estate tax exclusion is currently \$5,120,000 through 2012, but will drop back to \$1,000,000 (with no spousal portability feature) beginning in 2013 unless Congress acts.
- Reminder - beginning last year (for 2011 returns) Indiana allows a deduction of up to \$1,000 for K-12 dependents in private or home schools for expenses related to tuition, books, etc.

Business Deductions and Law Changes

The IRS has drastically stepped up their audit division in the last few years. We urge you to develop a mindset that you may be asked to produce your documentation when organizing your records this year end. That said, we thought it might be helpful to again review some of the basics. Please take a moment to review these items and please don't hesitate to contact us regarding specific questions about your business.

- The Code §179 expensing election for equipment decreased from \$500,000 for 2011 to \$139,000 in 2012. The Indiana limit remains only \$25,000. For 2012, qualified leasehold improvements are no longer eligible for §179 deductions (previously up to \$250,000 could be expensed). In addition, "bonus" depreciation deductions

have been reduced from 100% to 50% of the cost of the new items. We will discuss the various options with you to maximize your benefit.

- For 2012 the required employee wage withholding for Social Security taxes is 4.2% (down from 6.2% in previous years), but the employer share remains 6.2%. However, this reduction is scheduled to expire at the end of 2012 unless extended by Congress.
- Small employers providing health insurance to employees are allowed a credit for a portion of premiums paid, subject to certain limits. See "Health Care Bill : 2010" at our website for further details.
- All business expenses must be ordinary and necessary to be deductible. In addition, deductions reported on an income tax return must be verifiable. To corroborate an amount a taxpayer must have a receipt that indicates the vendor, amount, date and a description of the item or service purchased. Merely having a credit card statement (including American Express) that details the charges is not enough. You must have receipts. The backup documents must be maintained for as long as the statute of limitations remains in effect. **We recommend keeping the information for a minimum of six years.**
- Business meals with clients, customers or employees may be deductible only if the meal is (1) directly related to the active conduct of your business and (2) a substantial and bona fide business discussion takes place. Proof that these requirements were met must be documented on the receipt or in a separate journal. Meals where only business owners and their families are present are only deductible when traveling away from home. "Away from home" means requiring an overnight stay.
- Reimbursements to employees for business deductions must fall under an "accountable plan." This means that employees must provide receipts to their employer for the expenses. Reimbursing an employee without substantiating the expense will require treating the amounts as wages, subject to all the related payroll tax burdens.
- The personal portion of automobiles provided to employees must be included in their compensation unless they reimburse the employer for the personal usage. **Contemporaneous logs of automobile usage are required to validate the deduction.** The log should include dates, customers/vendors visited and the business purpose for each trip as well as the total miles driven on the vehicle during the year.
- The IRS will be looking to validate year-end inventories for this filing season. Therefore, if you have not done so before, we highly encourage you to **take a physical count of your inventory** items as of December 31, 2012. Reporting "about the same as last year" may well be a red flag to the IRS.

Other

In an effort to protect taxpayer personal information the IRS is now requiring that we obtain a written consent signed by our clients in order to release any information to a third party. We are happy to accommodate your request to release copies of tax returns, financial statements or other documents to banks, insurance companies and others, but keep in mind that we will need the consent form before processing your request.

Last year Gillam & Zetzl offered to provide clients with electronic copies of tax returns (in a PDF format). This option was very popular and we are pleased to continue this program. However, we will still provide a paper copy if you prefer. If the electronic option is chosen, we will email the returns to you, or provide them on a portable storage device. All electronic returns will be password protected, and can be read with a free Adobe PDF application. As electronic communication continues to proliferate in this modern era, we are advancing our capabilities in this arena. Many clients requested this option for their 2012 tax organizers and we have responded. If you received your organizer in paper form, but would prefer an electronic version, please contact our office.

Thank you for the opportunity to be of service to you!

Happy Holidays from everyone at Gillam & Zetzl, Inc.