Beware of Email Scams

IRS does not solicit tax payments through email

Emails said to be from IRS agencies are not new, however this year they seem to be more abundant. One of the newer scams sent to business owners are allegedly from the Electronic Federal Tax Payment System (EFTPS). The email is supposedly a notification letting you know that your tax payment has been rejected and needs to be re-submitted. Please be aware that the IRS does not solicit tax payments via email.

When you click the links in the scam emails, malware/viruses are loaded onto your computer. The malware sends information stored on your computer back to the scammer, putting you at risk.

What do you need to know to keep safe? The IRS will never request financial information, passwords, PINs or any other sensitive information from you via email. The IRS sends paper notices to taxpayers to discuss tax account information. Never provide your bank information to someone via email or click links that are suspicious!

If you ever receive one of these scam emails, do not reply. Do not open any attachments since they might contain malicious code that could infect your computer. Also, do not click any links provided in the email. These websites could also give your computer a virus or malware. Instead, forward the email to phishing@irs.gov.

Warm holiday wishes from our family to yours.

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Need a break from tax time? Bend your brain on a bit of Sodoku.

			8	6	5	2		
	2	3	7			9		5
		9	4				8	6
	1		6		3		7	
6	3				8	4		
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		4	3	8	7			

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UP *to-the* MINUTE
TIMELY TAX TIPS

FALL 2012

Are Divorce Payments Considered Alimony?

Determining the tax consequences of a divorce or marital separation can be vital for the financial protection and well being of you and your family. Figuring out whether a payment is alimony or child support can be confusing.

Generally, alimony is the amount paid to a spouse for his or her living expenses, education, health or life insurance, property taxes or mortgage payment. Alimony is not for providing child support. The person receiving alimony must pay taxes on the amount in the year it is received, and the paying spouse may deduct the amount in the year it is paid, provided the alimony meets all of the following conditions:

- The payment is made in a cash form, which includes checks, bank deposits, etc. Payments in the form of such things as bonds, stocks, money market shares or actual objects are not considered alimony for tax purposes.
- The payment is made as the result of a legal separation agreement or divorce decree.
- The spouses do not live in the same household at the time the payment is made and do not file a joint return.
- The divorce decree does not designate the payment as nontaxable.
- There can be no liability for payments after the death of the receiving spouse.

Child support, unlike alimony, is not taxable to the spouse who receives the payment, nor is it a tax deduction for the spouse who makes the payment. A divorce decree may specifically call the payment "alimony," but the payment may have the characteristics of child support.

One characteristic of a child support payment might be the designation in the divorce document that the payment be terminated if the child's situation changes.

Tax challenges during and following a divorce are common, but they can be minimized with some knowledge about tax laws and IRS procedures.

When Holidays Hit, Taxes Can Too

It's the time of year when you may be considering holiday gifts to employees. Maybe you're feeling generous and want to pay bonuses. Before you hand out those goodies, first consider the tax implications.

Giving a gift or award or bonus to an employee is almost always taxable to the employee unless the gift is very small. The small gifts are considered "de minimis" by the IRS; that is, they are small in comparison to the employee's total compensation. That holiday turkey is an example. But a gift card or gift certificate, no matter how small, is probably going to be taxable to the employee, because it can be convertible to cash.

Most gifts, bonuses, and awards to employees are deductible to you as a legitimate business expense. And bonuses to owner/employees of corporations are typically deductible. But you can't deduct a bonus to yourself if you have a sole proprietorship, partnership, or LLC.

$2,500 Illinois Small Business Job Creation Tax Credit

SMALL BUSINESS

Any-sized business that fills a newly created, full-time position with a former 2010 "Put Illinois to Work" worker trainee would eligible to receive credit.

Eligible if, as of July 1, 2012, you employed 50 or fewer full-time employees.

Not-for-profit and Professional Employer Organizations are eligible to receive credit.

ELIGIBLE JOBS

Newly created, full-time position.

Created between 7/1/12-6/30/16.

Position pays no less than $10/hour or the equivalent annualized salary of $18,200.

Position sustained for at least one year (not necessarily held by the same individual for the year).

Withholding tax goes to Illinois.

"Business owners can go online and register for their tax credits, provide substantiating data, and print out their credit certificates, without ever having to leave their office. This law gives employers a strong incentive to continue providing good jobs for workers who need it most."

~ Governor Pat Quinn

http://JobsTaxCredit.illinois.gov

Are You Planning to Sell Your Home?

Know the tax consequences

If you are planning to sell your home, there are a couple of things you need to do in addition to packing and cleaning. For tax purposes you'll need to determine whether or not the home you are selling is your main residence. Your main home is usually the one that you live in most of the time.

You should determine whether or not you have a gain on the sale of your home. To determine this, you will need to figure out your adjusted basis. Your adjusted basis is the original purchase price of the residence, purchase expenses, improvements, additions, assessments and more. Consult with your tax professional for help in determining the items that may affect your home's adjusted basis. Take the final selling price and reduce it by your adjusted basis to calculate your gain or loss from the sale.

If you have a gain from the sale of your main home, you may qualify for an exclusion of income for all or part of the gain. In general, if you have owned and used your home as your main residence for two out of the last five years, you are eligible to exclude $250,000 of gain from income ($500,000 for married taxpayers filing jointly). You are not eligible for the exclusion if you excluded the gain from the sale of another home during the two-year period prior to the sale of your home

Example for married taxpayers filing jointly selling home:

If you received the first-time homebuyer credit and within 36 months of the date of purchase you no longer use the property as your principal residence, you may be required to repay the credit. Repayment of the credit is due with the income tax return for the year the home ceased to be your principal residence. The repayment amount is determined by the gain associated with the sale; if there is a loss the credit may not be required. Consult with your tax professional to determine if a repayment is required.

Sales Price	$2,000,000
Adjusted Basis*	($1,000,000)
Exclusion	($500,000)
Taxable Gain	$500,000

*(Original cost $750,000 plus $250,000 of improvements)

Should You Harvest Gains Now to Save Taxes Later?

As you probably know, the Bush tax cuts are scheduled to expire at the end of 2012. Assuming that Congress does nothing in the meantime, tax rates on long-term capital gains will increase substantially in 2013.

One strategy suggests that taxpayers should harvest long-term capital gains on publicly traded stock in 2012 before rates go up, and reinvest the sale proceeds in the same stock, thus triggering the gain in 2012.

However, deciding whether to use this strategy is not as simple as it might first appear for two reasons. First, the lower rates must be weighed against the loss of tax deferral. The taxpayer is paying tax at a lower rate but paying it sooner. In addition, the economic substance doctrine might apply, delaying the repurchase or requiring the taxpayer to buy different stock.

IRC Section 7701(o), enacted in 2010, provides that a transaction has economic substance only if (1) it changes the taxpayer's economic position in a meaningful way, and (2) the taxpayer has a substantial, nontax reason for entering into the transaction. The statute imposes a 20% penalty on any underpayment of tax due to a transaction that does not pass the test. The penalty increases to 40% if the transaction is not adequately disclosed on the return.

For high income taxpayers, most capital gains will also be subject to a 3.8 percent Medicare surtax in 2013, raising the rate for high income taxpayers to 23.8 percent.

Thus, the capital gains rate for taxpayers in the lowest ordinary income tax bracket would increase by 10 percentage points (0% to 10%); the rate for middle income taxpayers would increase by 5 percentage points (15% to 20%); and the rate for high income taxpayers would increase by 8.8 percentage points (15% to 23.8%).

Long-term capital gain harvesting in 2012 can produce extraordinary investment returns for many taxpayers. Because the returns are highly sensitive to changes in the time horizon, tax rate differential, growth rate of the stock to be harvested, and the taxpayer's opportunity cost of capital, a thorough quantitative analysis is necessary before proceeding with the strategy.

Want more Up to-the Minute tax information?
http://pktaxservices.com/blog

Pat's Pick

Years ago I was bitten hard by the scrapbooking bug and I never turned back.

So what is it about scrapbooking that captures so many people's devotion and attention?

Focus - You forget the world exists for a few moments and you focus on nothing but the scrapbook page in front of you.

Creativity - It only takes a sheet of paper and a few ideas to get your creative juices flowing. Whether the ideas are from a magazine, your surroundings, or the scrapbook supplies in front of you; the end result is pure enjoyment.

History - A scrapbook is the history of the day, moment, or event. Future generations will learn of their family from the pages you create.

Expressing myself - There is a sense of pride when completing and sharing the scrapbook you have finished. It is an expression of you, your family and your life.

People have a variety of reasons for creating their own scrapbooks and sharing them with others. We want to be remembered and through a scrapbook our lives are shared with future generations.

Let's Connect

Blog Articles

Read these posts plus many others on my blog

1. Do your children have investments
2. Protect yourself from identity theft
3. Safeguarding your tax records when natural disasters hit
4. Employee business expenses