April 2013

Key Tax Elections on 2012 Returns

These important choices are yours

In 2012 we elected the president of the United States and other government officials. But 2012 may also be an "election year" for your federal tax return. Here are several choices that can make a big tax difference on the tax return you must file by April 15.

State sales tax: In lieu of deducting state income tax, you can elect to write off the state sales tax you paid during the year. This optional tax deduction, which had technically expired after 2011, was extended by the American Taxpayer Relief Act (ATRA) through 2013, retroactive to the 2012 tax year. If you choose the state sales tax deduction, you can write off your actual expenses based on receipts or use the approved IRS table (plus amounts for certain "big-ticket items" such as cars and boats).

Section 179 deductions: Under ATRA, small-business owners (including self-employed individuals) can elect to currently deduct the cost of assets placed in service in 2012, up to a maximum of $500,000. Before ATRA, the limit was scheduled to be $139,000. The deduction is subject to a lofty phaseout threshold of $2 million. **Note:** Business assets placed in service may also be eligible for 50% bonus depreciation. Any remaining assets are deductible under the regular depreciation rules.

Higher education: If you qualify, you can take one of two tax credits for higher education or the tuition deduction, but you can't take both. Consider this:

♦ The maximum American Opportunity credit is $2,500 per student. For 2012, this credit phases out between $80,000 and $90,000 of modified adjusted gross income (MAGI) for single filers; $160,000 and $180,000 of MAGI for joint filers.

♦ The maximum Lifetime Learning credit is $2,000 per taxpayer. For 2012, this credit phases out between $52,000 and $62,000 of MAGI for single filers; $104,000 and $124,000 for joint filers.

♦ The tuition deduction, which is claimed "above the line," is $4,000 if your MAGI is $130,000 or less and $2,000 for a MAGI up to $160,000. Though this credit had expired after 2011, it was extended through 2013 by ATRA, retroactive to the 2012 tax year.

Investment interest deductions: Normally, you can deduct investment interest expenses up to the amount of your "net investment income" for the year. For this purpose, net investment income does not include capital gains. However, you can choose to include capital gains in the total as long as you forego the favorable capital gains rate on all your eligible gains. The maximum tax rate for long-term

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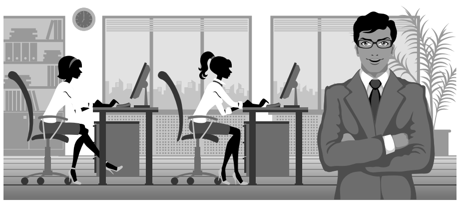
capital gains in 2012 is 15%. (ATRA increases this percentage to 20% in 2013 for certain high-income taxpayers.)

Filing status: Normally, a married couple will benefit from filing a joint return, despite the existence of the so-called "marriage penalty." But that's not always true. In some cases, you may fare better overall by filing separate returns. For instance, a married couple may save tax dollars by filing separate returns if one spouse has an unusually large portion of the couple's medical and dental expenses, miscellaneous expenses or casualty losses. In this case, filing separately may make sense, due to certain deduction "floors." **Caveat:** Filing separately may cost you other tax benefits, so consider all aspects.

This is a brief description of just five of the choices you might face on your 2012 tax return. Consult an experienced tax professional to derive the maximum tax benefits at tax return time.

Six Key Traits of a Great Boss

Advice for business owners and managers



If you are the owner or manager of a successful business, you probably consider yourself to be a good boss. But a few special characteristics can distinguish a good boss from a "great" one or someone who is truly extraordinary. Here are six ways you might set yourself apart:

1. **You don't create and coddle "superstars."** When you allow one employee to become the star of the team—with tons of recognition and attention—the rest of the staff gets shunted aside. This alienates everybody except the star and sends the message to others that their contributions are not valued. Extraordinary bosses coordinate the goals of individuals to intersect with collective goals of the company.

2. **You delegate properly.** When you constantly get involved in minor undertakings assigned to employees, you lower the motivation of those workers. This also sets you up as a bottleneck for work-through. Extraordinary bosses know to allow their people to do their jobs and provide supervision when necessary or requested. Otherwise, you will shut down creativity and strategic planning by others that can benefit the company.

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3. **You remove the weakest link.** When you put an employee in a key spot and that person does not perform well, it can be damaging to the entire team. In this case, the worst thing you can do is what many average bosses do: nothing. It is acceptable to give someone the chance to work things out, but there comes a point of no return. At that point, you should reassign the employee to another job or encourage him or her to leave.

4. **You put your employees first.** Below-average bosses focus all of their attention on customers or clients, investors, other managers, themselves—anyone else but their employees. And it is easy for the workers to pick up on this attitude. Why should they care about the company if you don't care about them? You will create a better workplace environment by putting employees first. What's more, the public (including your customers or clients) will see it and appreciate it.

5. **You pay more attention to people than numbers.** That is not to say that financial data is not important to running a successful business. But it is only part of the story. The best way to post great numbers is to make sure the job gets done. If you focus on getting the most out of your people, the numbers will likely take care of themselves.

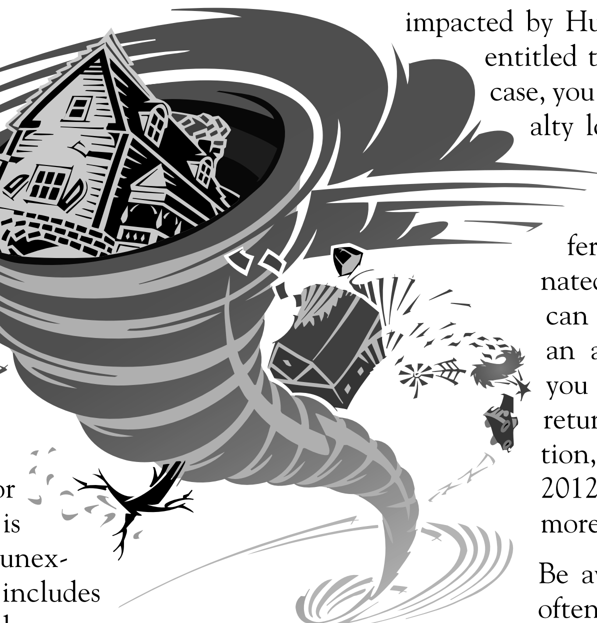
6. **You ask questions instead of giving all the answers.** Don't think it is your job as a manager to know what to do in any given situation. Give your employees a chance to find the best ways to do things by asking them questions. Turn the conventional give-and-take on its head. This can spark the thought processes and ideas that will make an employee successful and more productive.

Can you honestly look in the mirror and say that you are a "great" boss? If so, it is likely that you possess at least some of these traits. If not, search for ways in which you can improve.

A "Perfect Storm" of Tax Deductions

When you can claim casualty losses

Disaster often strikes quickly, with little or no warning, as in the case of Hurricane Sandy last year. The occurrence of a "perfect storm" or some other event—such as a tornado, flood or fire—can cause severe damage to your personal or business property. **Small consolation:** At least you may be entitled to deduct a casualty loss on your tax return.



Current rules: A taxpayer qualifies for a casualty loss deduction if damage is caused by an event that is "sudden, unexpected or unusual." This not only includes natural disasters like the ones already mentioned, but also automobile collisions and frozen pipes' bursting. The same basic rules also apply to theft of property. However, you cannot claim a deduction for damage occurring over a long period of time, such as damage occurring from a drought.

The deductible amount depends on whether the property damaged is personal or business property. For personal property, the deduction is limited to the excess greater than 10% of your annual adjusted gross income (AGI) after subtracting $100 per each casualty event.

Example: Let's say that your AGI for 2012 was $100,000 and you suffered a loss to your home of $20,100. In that case, your deduction is limited to $10,000 ([$20,100 – $100] – [10% of $100,000]). If your loss amounted to $10,100 or less, you are not entitled to any deduction.

In contrast, there are no such limits for business property. The full amount of the eligible loss may be deducted on your company's 2012 tax return.

The amount of the loss eligible for the deduction is the lesser of (1) the difference in the property's value before and after the casualty or (2) the adjusted basis in the property. But you must reduce the deductible amount by any proceeds you receive from your insurance or the government.

Special tax break: If you own damaged property located in an area that is officially declared to be a "federal disaster area," like many areas on the eastern seaboard impacted by Hurricane Sandy, you could be entitled to a quick tax refund. In that case, you can elect to deduct your casualty loss on the tax return for the prior year.

In other words, if you suffered a loss in a federally designated disaster area last year, you can obtain tax relief by filing an amended return for 2011. If you have already filed your 2012 return without making the election, you can file an amended 2012 return to recoup your losses more quickly.

Be aware, however, that the IRS often challenges casualty loss deductions. The best proof you can offer is photographs or videotapes of your property as it currently exists. In other words, obtain documentation before a casualty occurs. The visual proof can be compelling when coupled with snapshots of the property immediately after a casualty occurs.

To further support your position, you should obtain an independent appraisal of the damage. The appraisal itself is deductible as a miscellaneous itemized deduction (subject to a 2%-of-AGI floor).

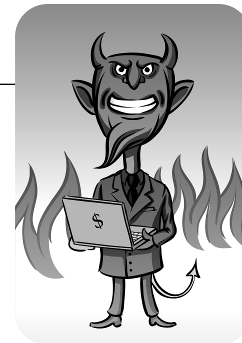
Final words: Your professional tax advisers can help you maximize the casualty loss deductions claimed on your 2012 return. Do not hesitate to ask for assistance.

Do You Need More Time to File?

Are you having trouble getting all your tax return information together in time for the April 15th deadline? Don't despair.

You can request an automatic six-month filing extension—no questions asked by the IRS. This gives you until October 15, 2013, to file your 2012 return.

Caveat: A filing extension is not an extension for paying taxes. A reasonable estimate must be made of the amount you owe, and the IRS should be paid by April 15.



Don’t Commit the Seven Financial Sins

Avoid common mistakes that plague investors

The “seven deadly sins” often referred to in religious literature are wrath, greed, sloth, pride, lust, envy and gluttony. Although it usually does not involve the same soul-searching, you may be guilty of some other “financial sins” in the way you handle your personal affairs, particularly as it relates to your investments.

Fortunately, redemption does not have to be difficult. Here is a list of seven common mistakes you may be guilty of making that may be rectified with relative ease. If you have not committed any of these “sins” before, continue to avoid them.

1. **You are overly emotional.** Do not let your emotions dictate financial strategies. For instance, when the stock market is booming, greed can lead you to make bad decisions. On the flip side, if you are faced with a declining market, you cannot let fear overtake your financial sensibilities. Try to maintain an even keel.

2. **You are too optimistic.** Back in the 1990s, investors took it for granted that they would generate annual returns averaging 10% or even higher. But that is no longer a realistic outlook. If you lower your expectations slightly, you can better position yourself for what might happen.

3. **You pay excessive fees.** Of course, you usually “get what you pay for,” but that does not mean you should pay exorbitant fees in connection with investments. Rely on trusted financial advisers to steer you in the right direction.

4. **You do not have enough insurance.** Insurance is a key component of most financial plans. This includes various forms such as life insurance, health insurance, disability income insurance, etc. Try to have your needs quantified based on your current and future objectives.

5. **Your risk exposure is too great.** It’s been said often that there is an inherent risk in making investments. Recognize that it is possible to make money, lose money or stay in the same basic position. Do not risk more than you can reasonably afford to lose. Consider your “risk tolerance” as part of your investment decisions.

6. **You do not have emergency funds.** It is generally recommended that you keep enough financial “cushion” to sustain your family through six to 12 months if financial disaster should strike. Consider an emergency fund that will last even longer if you are contemplating retirement or already retired.

7. **You refuse professional guidance.** This does not mean you are unqualified to manage your own financial affairs. But almost everyone needs a little help. As mentioned in #3, you should not pay excessive fees, but you should still obtain guidance when the situation calls for it.

Do not let your pride get in the way. Otherwise, this could turn out to be the “deadliest” financial sin of all.

Facts and Figures

Timely points of particular interest

➡**Misclassified Workers**—The IRS recently announced it will give employers until June 30, 2013, to sign up for the “Voluntary Classification Settlement Program” (VCSP). This program reduces the penalties an employer must pay if it misclassified employees as independent contractors. Normally, an employer must have provided workers with Form 1099s for the prior three years, but this three-year requirement is waived for the extension.

➡**Staying Linked In**—Social media should not be a get-it-and-forget-it proposition. For instance, whether you’re touting your small business or hunting for a job, it’s important to update your status on a regular basis. The idea is to position yourself to be able to strike quickly when you need to. How often do you need to update a profile? There’s no “right” or “wrong” answer, but at least once a year appears to be the bare minimum.