



UPDATE

Margaret McDeed, Editor

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MANY TAX BENEFITS TO INCREASE DUE TO INFLATION ADJUSTMENTS

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The IRS recently released its annual revenue procedure announcing the inflation adjustments to the income tax tables, many tax credits, and other items for the 2012 tax year. The 2012 increases were greater than those made for the 2011 tax year. By law, the dollar amounts for a variety of tax provisions must be revised each year to keep up with inflation, but due to low inflation in recent years, many items saw little change or remained unchanged for 2011 from their 2010 dollar amounts. New amounts affecting 2012 returns include the following:

- Each personal and dependent exemption will be \$3,800, an increase of \$100 from 2011.
- The new standard deduction will be \$11,900 for married couples filing a joint return, an increase of \$300; \$5,950 for singles and married individuals filing separately, an increase of \$150; and \$8,700 for heads of household, an increase of \$200. However, the additional standard deduction for senior citizens and the blind will remain at \$1,150 for married individuals and \$1,450 for singles and heads of household.
- Tax bracket thresholds will increase for each filing status. For example, for a married couple filing a joint return, the taxable income threshold separating the 15% bracket from the 25% bracket will be \$70,700, the threshold is \$69,000 for 2011.

Changes to credits, deductions, and related phase outs include:

- An increase in the maximum Earned Income Tax Credit (EITC) for low and moderate income workers. The maximum credit will be \$5,891, up from \$5,751 for 2011. The maximum income limit for the EITC will rise to \$50,270, up from \$49,078.
- The Foreign Earned Income Deduction will jump to \$95,100, an increase of \$2,200 from the maximum deduction for the 2011 tax year.
- The modified adjusted gross income threshold at which the Lifetime Learning Credit begins to phase out will be \$104,000 for joint filers, up from \$102,000 for 2011. For singles and heads of household, it will be \$52,000, up from \$51,000.
- The \$2,500 maximum deduction for interest paid on student loans will begin to phase out for married taxpayers filing a joint return at \$125,000 and phase out completely at \$155,000, an increase of \$5,000 from the phase out limits for tax year 2011. For single taxpayers, the phase out range remains at 2011 levels.

Estate and Gift Tax changes include:

- For the estate of a decedent dying during 2012, the basic exclusion from estate tax amount will be \$5,120,000; the exclusion is \$5,000,000 for 2011.
- If the special use valuation method is chosen for qualified real property, the aggregate decrease in the value of the property resulting from the choice cannot exceed \$1,040,000, up from \$1,020,000 for 2011.
- The annual exclusion for gifts will remain at \$13,000.

(Continued on the next page)

Many Tax Benefits to Increase Due to Inflation Adjustments (Continued)

Other recent announcements for the 2012 tax year:

- The elective deferral limit for employees who participate in Section 401(k), 403(b) or 456(b) plans and the federal government's Thrift Savings Plan will increase from \$16,500 for 2011 to \$17,000 for 2012. The catch-up contribution limit for those that are age 50 and over will remain at \$5,500.
- The Social Security Administration announced that the wage base for 2012 will be \$110,100, up from \$106,800 in 2011.

YOUR 401(k) ACCOUNT INVESTMENTS- TO CHANGE OR NOT TO CHANGE

Kathy Tushaus

During times of drastic stock market ups and downs, should you cash in your equity positions for less risky positions, such as a bond or money market fund or fixed account?

Fidelity Investments analyzed 7.1 million 401(k) accounts and identified approximately 117,000 participants who sold all of their investments in stock between October 2008 and March 2009, when there was a huge market downturn. Of the approximately 50% who had not reinvested in stocks by July 2011, there was only an average account balance increase of 2%. However, for those who kept some of their investments in stock during the same period, there was an average increase of 50% in their account balances.

This shows, according to Fidelity investments, that staying the course can have a dramatic long-term effect.

A recent article by Martin J. Burke, Esq., in *401(k) Advisor*, comments that many participants sell their stock investments because they are predicting even further drops in the stock markets, telling themselves that they will be able to time the market bottom, buy back in, and ride the upside of the business cycle to even greater returns. This practice is not statistically very likely to happen. Mr. Burke suggests that while market volatility can be a frightening thing to watch, the best defense an investor can have against loss of investment value is time, patience, and a good asset allocation.

TAX THE RICH? 10 FACTS YOU MIGHT WANT TO CONSIDER

Bill Dennison

If you don't have much money, it can sound very appealing when politicians say they want to "tax the rich." Unfortunately, things are just not that simple.

When you raise taxes on the rich, the ultra-wealthy and the largest corporations are generally not affected, but you absolutely crush small businesses. When you crush small businesses, you crush job growth in the country. Small businesses do not have the resources to set up shell companies in the Cayman Islands or in Switzerland.

If you want to tax the rich, you would need to completely throw out our current tax system and develop something totally different. The solution is to change the rules of the game, so that money and financial power does not become so concentrated in the hands of just a few. Our founding fathers never intended for gigantic mega-corporations to dominate everything.

The following are 10 statistics about taxation in the United States for you to consider:

1. The top 1% of all income earners already pays 39.5% of federal taxes.
2. The top 20% of income earners pay 86% of federal taxes.
3. Approximately 45% of U.S. households pay absolutely no income tax.
4. Fifty-nine percent of Americans now receive a government payout of one form or other.
5. It is estimated that a third of the ultra-wealthy keep much of their wealth outside of the U.S., so that the government cannot tax it.
6. Thanks to new corporate tax cuts in Japan, the U.S. now has the highest corporate tax rate in the developed world.
7. Large corporations have become masters at avoiding taxes. Back in the 1950s, corporate taxes accounted for about 30% of all federal revenue, but in 2009 corporate taxes accounted for just 6.6%.
8. According to the New York Times, General Electric made a total of \$14.2 billion in profits last year. So how much did they pay in taxes to the U.S. Treasury? According to the Times, not one penny was paid.
9. Boeing receives billions in federal subsidies every year and has many juicy government contracts, but it did not pay any federal corporate income taxes from 2008 to 2010.
10. Exxon-Mobil paid \$15 billion in taxes in 2009, none was paid to the U.S. government.

TIPS FOR DEALING WITH IRS TAX NOTICES

Susan Ghaly

Have you ever received a dreaded IRS tax letter or notice? Believe it or not, such a letter can actually be good news for you. Sometimes letters are sent out when the IRS believes that you are due a refund. In other cases, there may simply be a question about your tax return or the need for additional information. Then, unfortunately, there are the cases where the IRS is writing to inform you of additional tax owed.

With the IRS sending out millions of letters and notices to taxpayers annually, virtually everyone will receive a notice at some point during their lifetime. If you do receive one, relax and take a deep breath. In most cases, there is no need to panic. Here are some tips to handle such notices.

Every letter will offer specific instructions on what you need to do to satisfy the inquiry. In cases where the IRS has made a correction to your tax account, compare the correspondence with your tax return. If you agree with the correction, usually no reply is necessary unless a payment is due.

If you do not agree with the correction, respond to the IRS as soon as possible. Sometimes just a phone call to the IRS office can clear up the issue. There should be a phone number in the upper right corner of the notice. If you do need to write, be sure to include any documents and information that you wish the IRS to consider, along with the bottom tear-off portion of the notice. Mail the information to the IRS address shown in the lower left part of the notice and allow at least 30 days for a response. Be sure to keep copies of any correspondence with your tax records.

If you are unsure what to do, give us a call. We deal with these types of things frequently and will be happy to help. Whatever you do, don't ignore the notice and hope that the issue magically goes away. Additional interest and penalties can be costly, if tax matters are not addressed promptly.



BANK LENDING IS ON THE RISE

Pam Mattox

We are still bombarded with bleak economic news. But, there is a positive thing happening in the financial industry over the last few months. Banks have quietly increased lending.

Loan growth is modest and is due largely to the strongest corporate and consumer borrowers. The nation's biggest banks are reporting increases in their loan portfolios after several quarters of having their loan balances plunge or flatten out.

Citigroup and Wells Fargo are experiencing loan growth, compared with a year ago. New loan commitments to small businesses are up 8%, while lending to bigger companies has been growing for 14 months in a row at Wells Fargo. Across the industry, analysts expect credit card loan balances will start increasing before the end of the year.

"The narrative that banks aren't lending is incorrect," Timothy J. Sloan, Wells Fargo's chief financial officer, said in an interview. "Lending is strong, and based on what we're seeing," he added, "it will continue to grow."

Consumers and businesses confidence remains positive, even with a fragile economy. "It hasn't really strengthened, but it looks like the recovery is still here," Jamie Dimon, JPMorgan Chase's chairman and chief executive, said after heralding his bank's lending data.

The opinions are varied as to why this increase is occurring. Some believe the gloomy headlines in recent weeks are exaggerated; and, if we removed the Europe and United States confidence clouds, the lending figures would be stronger, analysts and bankers say.

Housing remains weak. Federal Reserve data reflects a 6.2% decline in mortgage and home equity loans since their peak in late 2007 and early 2008. Banks have increased the underwriting criteria so that fewer new borrowers qualify for a loan, especially in the housing markets along the coasts that were hit hard by the recession.

But there has been a modest increase in lending elsewhere. Overall, corporate lending has rebounded 7.2% after bottoming out in October 2010. Consumer lending, with the exception of housing-related loans, turned positive during the second quarter and has been gradually increasing since then, data shows. All told, total loan balances are near where they stood in mid-2007.

"The banks want to lend," said Gerard Cassidy, a longtime banking analyst at RBC Capital Markets. "After all," he said, "more than 70% of their income is tied to that activity." The Federal Reserve survey of loan officers shows that banks have been gradually relaxing their underwriting requirements.

STAY ORGANIZED!

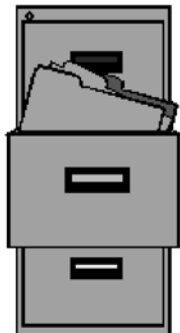
Cherilyn Herzhauser

Although it takes a little effort, there are numerous benefits to good record keeping. Procrastinating throughout the year only adds to the already stressful and hectic feeling of tax season. It is difficult to remember everything that happened during the year, whether it's your personal finances or your business records. Having organized records makes it easy to reference items and keep track of your deductible expenses. This could mean more tax savings for you!

Sometimes it is hard to decide what is important to hold on to and just how long you should keep it. It is definitely a good idea to hang on to supporting documents throughout the year. This includes important invoices, paid bills, receipts and canceled checks. In addition, a summary of your transactions (both personal and business) is also a handy back-up. A good rule of thumb for how long to keep records is 3-7 years. If you are audited by the IRS, you will be relieved that you kept such great records!

Good record keeping also pays off in emergency situations. Suppose you need to borrow money from the bank as soon as possible. If your records were in order, you wouldn't be scrambling for specific documents that the bank or lender is requesting. Good record keeping will become automatic over time and won't feel like much of a hassle after awhile. Organized record keeping is also a great tool to monitor your business financial health over the years. Your tax return will also be completed faster and more efficiently, if you have organized and adequate records.

Travel, entertainment and transportation expenses are all perfect examples of why you should keep your receipts and it can help save you money when it comes to tax time. It doesn't take much time to get organized. You would be amazed at what a few manila folders and a file cabinet can do to save yourself from future panic. It is funny how it never seems like an important document, until you need it or wish you had it!



HOLIDAY SPIRITS

Christina Winters

With the Holidays around the corner, here are some drink recipes that will spice up any holiday party, or perfect as an after dinner drink after a long day of shopping.

Candy Cane

- 1 shot of vanilla rum (I prefer vanilla Stoli Vodka)
- 1 shot of white chocolate liqueur (Godiva is best)
- Splash of peppermint schnapps

Shake over ice and drain into chilled martini glass. I also like to crush up candy canes and coat the rim for an extra festive touch, or place a mini candy cane in glass as a garnish. YUM, YUM!!

For those nights you need a little warm up, a simple spiced coffee does the trick for me:

Spiced Coffee

- 1 shot of Baileys Irish Cream
- coffee
- and I like to top it off with just a sprinkle of nutmeg on the top

For a nice twist on the old classic eggnog, add a shot of Kahlua and sprinkle of nutmeg.

ARE YOU USING THE WRONG VERSION OF THE I-9?

Dawn Lopez

Many employers are unaware that the federal government published an updated version of the Employment Eligibility Verification (I-9) form. Using the old edition could trigger penalties. Penalties can cost the employer \$1,000 per worker and even steeper, if you knowingly hire an illegal immigrant.

The U.S. Citizenship and Immigration Services (USCIS) has increased their audits looking specifically at I-9s. The focus of the audits is on employers and determining their involvement in illegal immigration.

The new form can be located on the USCIS website at www.uscis.gov. The updated form has an 8/31/12 expiration date indicated in the top right corner and revision date in lower right hand corner of 8/7/09. Also located on the website is Form M-274, Handbook for Employers. It is important that you follow the guidelines indicated to limit your exposure.

Notables

Kathy Tushaus, Partner attended the University of South Florida St. Petersburg College of Business Executive Forum in September. Discussions focused on issues facing today's companies.



Dawn Lopez, Partner was recently accepted into the AutoCPA Group during their September meeting in Boston. Dawn was a speaker along with Robert Vogel, Vice-President of ProGroup, a captive management company, on the subject of forming a captive insurance company for auto dealers. The AutoCPA Group is a nation-wide association of Certified Public Accounting firms, each of whom specializes in providing professional services to automobile dealerships. The primary objective of the AutoCPA Group is to provide a professional forum for the confidential presentation and exchange of technical information relating to all aspects of dealer operations.

Cherilyn Herzhauser, Staff (left), and Margaret McDeed, Senior (right), were guest speakers at the University of South Florida St. Petersburg for Dr. Katherine Barker's auditing class in October. The presentation included helpful information for students preparing to graduate with their new accounting degree as well as a Q & A session.



CLOSING ENTRIES



ANNIVERSARIES

The following Dwight Darby & Company employment anniversaries have occurred since our last newsletter:

Carol Shepherd - 19 years in October
Karen Sellars - 10 years in September
Margaret McDeed - 5 years in September

HOLIDAY OFFICE HOURS

The office will be closed Friday, December 23rd and Monday, December 26th for the Christmas holiday. Also, we will be closed Friday, December 30th and Monday, January 2nd for the New Year's holiday.

Dwight Darby & Company sends Holiday Wishes to All!

This newsletter is published for our clients and other interested persons. Since this information may be of a technical nature, no final decision should be made without first consulting our office.

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