March Topic: “IRS Tax Panel”

Speakers: Joe Calderaro, EA; Karen Brosi EA, CFP®; Sharon Krieder, EA, CPA
by Irene Moore, EA Program Chair

This month we will have our annual panel discussion on IRS tax issues. If time allows, questions will be taken during dinner, but they will be answered in the order received, with all the emailed questions going first. If your question is complex, PLEASE email it in early so the panel will have a chance to research it before the event.

It is crucial to email your questions to Mike Power (mike@PowerInvesting.Net) before 3pm on Monday, March 18th, if you want to have the best chance of having them answered. If Mike does not email you back within 24 hours of your submission confirming that he received your question, then please call him at (510) 366-8836 to ensure he received it.

As in years past, the session will be transcribed and the questions and answers will be emailed to everyone on the Chapter NEWS mailing list, so if you’re not subscribed to that list, go to

http://ebaea.org/cgi-bin/dada/mail.cgi

and select the NEWS list from the pull-down menu and follow the simple instructions to subscribe to that list.

You cannot get a more knowledgeable and fun panel of speakers. We have our long-time friend Joe Calderaro, EA, CSEA’s own “weapon of tax destruction”. We also have the dynamic duo of Karen Brosi and Sharon Kreider, two of the best-known and highest-rated speakers on the educational circuit. If you have never seen these three in action, you owe it to yourself (and your clients) to attend this meeting. If you have seen them before, well, then you’ve already signed up, haven’t you?

PRESIDENT’S MESSAGE

by Andrew Rogers, EA

I used to believe tax preparers should have very low Worker’s Comp rates. After all, how bad can the paper cuts be? Here in February, which is my most busy month (is it just that I do a lot of corporate returns, or is this true for everyone?), I remember that it’s not paper cuts, its Carpal Tunnel. Yes, I have the ergonomic keyboard and elevated dual monitors. I’ve tried those 3’ bouncy ball chairs, the completely adjustable ergonomic chair you need a consultant to help you set up, standing desks, sitting desks and the lap desk, and yes, I’m now at an age when I bump up the font on the email. Downside: these letters seem much longer if the font size is 16 or 20.

Do the Girl Scouts have a dastardly plan to catch me specifically during my vulnerable time? And really, in what world are 4 thin mints a serving? Did I mention they are “thin?” The good news is I can get my entire day’s RDA of saturated fat with only a single sleeve of Thin Mints. Leave one sleeve in the box for tomorrow’s saturated fats - very economical! (Right now my wife, who is reading over my shoulder is saying, “Wait a mi-
As a client gift, Girl Scout Cookies meet the rules - under $25 per person per year. Why, you could throw in a bottle of Charles Shaw wine and still be under the limit. I think it’s really more the clients who show up later in the season who need the wine and chocolate (you know, the ones that are going to owe) rather than the early birds who all expect refunds. One of the reasons I like business clients, is that they tend to be more stable in knowing what’s coming, rather than being surprised that they owe money. They’re less likely to burst into tears. It feels less like I’m giving a psychological session and more like actual accounting with business clients. I prefer it when my clients don’t use up all my Kleenex.

The good news is since I work at home, when I wake up at 3 am stressed out about some client’s issue, I can “work it off” until I get tired again. Yes, it messes up my circadian rhythm, but as long as I appear for my client meetings, I think it’s OK. What do I do in the ‘off season?’ I can’t remember at this point. Maybe not waking up at 3 am makes a difference.

My 5 year old son tells his teachers that I’m very busy right now, and that have ‘too many papers’ on my desk (so much for the paperless office). He seems to understand that this is my busy season, and fortunately also that it won’t last forever, which pleases him and me.

Still, it’s California, so the sun is shining (it’s 2 pm now), the orchids are blooming, and hummingbirds are flitting about the neighbor’s tree. And blueberries make a good snack. Since I was up at 3 am, maybe it would be OK if I took a little nap.

**COME SHRED WITH US!**

Chairperson Al Wise, EA

2nd ANNUAL EBAEA SHRED FEST 2013

Saturday, March 30th from 11-2

Control clutter and confidential information. Bring your documents and watch them be shredded on site. Tell your clients as they all want to do a little spring cleaning. This is a great opportunity to print out and give the “How long do I need to keep what records” brochure (available on NAEA website under “Membership”. You must log in as a member).

This year the event is being held in the parking lot at the EBAEA Chapter Office at 30100 Mission Blvd in Hayward. The first file box is FREE, boxes 2-5 are $3 each, boxes 6-10 are $5 each, maximum of 10 boxes. For additional information please contact Al Wise, EA al@awisetax.com 707-634-4829 or contact Patty Pringle, EA capattypringle@sbcglobal.net.

**DINNER MEETING CE INFORMATION**

- IRS Program Number: WZA09-T-00082-13-I
- Qualifies for 1 Hour Federal Tax Law Update
- CTEC Course # 1001-CE-0154 Federal 1 Hour
- Enrolled Agents – NAEA/CSEA 1 Hour
- Target Audience: Enrolled Agents, Attorneys, CPAs, Unenrolled Preparers
- Learning Level: Level 2 (Intended to expand the working knowledge of the practitioner and exposes them to specialized areas of taxation and tax management. This level explores the details about more unusual tax situations or consequences and gives the practitioner the tools to assist clients in these areas).

**STAY HEALTHY THIS TAX SEASON**

This year’s tax season coincides with one of the worst cold and flu seasons in recent history. What can you do to stay healthy this season?

**AVOID GERMS**

Wash your hands frequently. Use warm water, soap and wash for several minutes for best results. Clean high-contact items, such as doorknobs, faucets and telephones, with soap and water.

**REDUCE STRESS THROUGH RELAXATION**

Practicing relaxation techniques such as progressive muscle relaxation and visualization can reduce stress symptoms by:

- Slowing your heart rate
- Lowering your blood pressure
- Slowing your breathing rate
- Increasing blood flow to major muscles
- Reducing muscle tension and chronic pain
- Improving concentration
- Reducing anger and frustration
- Boosting confidence to handle problems

**EXERCISE REGULARLY**

Web MD’s article, “Exercise at Your Desk,” at http://www.webmd.com/fitness-exercise/features/exercise-at-your-desk has examples of how you can do stretching, muscle-strengthening, and even short stints of aerobic exercises right at your desk (or maybe in a vacant conference room or stairwell). After all, since the latest health news has informed us that the benefits of exercise are cumulative, you don’t have to get a full day’s exercise in one serving - you can exercise in brief spurts throughout the day.

**STUCK ON A TAX QUESTION? CALL JOE!**

Check out CSEA’s Tax Research Service. You can rely on the knowledge and expertise provided by Joe Calderaro, EA, CSEA’s Tax Resource Specialist, to help you with the most complicated tax questions. Joe has more than 40 years of IRS examination, collection, and taxpayer service experience tackling the kinds of questions tax professionals address every day. This helpful service is available to CSEA Members at the discounted cost of $40 per incident and non-Members at the rate of $60 per incident. Call (916) 366-6646 to take advantage of CSEA’s Tax Research Service.
EBAEA EMAIL LISTS
EBAEA sends news to Members via two one-way (send-only) email distribution lists. Subscription is free and completely voluntary, and you can subscribe or unsubscribe to either list any time you wish. For more information and to manage your subscription, visit: http://ebaea.org/cgi-bin/dada/mail.cgi

BULLETIN ADVERTISING POLICY
by Duncan Sandiland, Bulletin Editor
To encourage more Members to use the Bulletin to fill their needs, we present the Bulletin advertising policy:
1) All Bulletin notices are run for a maximum of three months. If you wish to run a notice for a longer period, you must resubmit the notice.
2) Maximum notice size is 1.5 column inches. This equals a space one and one-half inches high by one column (3.5 inches wide). The standard Bulletin font is Times New Roman 11 point.
3) The Bulletin Editor reserves the right to edit any notice for style, content and length.
4) All notices must be submitted (and payment received) by the 25th of the month prior to initial publication. Send the desired text to: bulletin@ebaea.org
5) Member notices seeking or offering employment, clients or EA-practice-related matters are run at no charge as a Member benefit. This includes an ad run by a firm which employs a Member. Member notices offering other services or products, and all non-Member notices are run at the standard fee of $150 for the three-month insertion. The Bulletin Editor reserves the right to modify or reject any notice which, in the sole opinion of the Editor, violates any of the principles of EBAEA.

GORGEOUS OFFICE AVAILABLE
Class A building with two professional offices, work area, kitchen/storage room and lobby area. Second story suite with elevator close by. Floor-to-ceiling windows overlook park. Twenty restaurants and Starbucks and Peets, all within a five minute walk. Two blocks from I-680 freeway exit in downtown Pleasant Hill. Call Duncan at (925) 691-1040.

COPIER/SCANNER FOR SALE
Canon Image Runner 2800 digital copier, perfect condition. Sorts, feeds, and staples. $850. Ethernet port, network printer and scanner. Superior to desktop scanners. Also has fax board. 22” W X 26 ¼” D X 43” high. Scanner setup will need to be done by IT guy, 1 hr. service call. Prints to all OS, scans to all except Win 7 64-bit. OK for 32-bit. Contact Phil at 510-530-1174.

HELP WANTED
Fremont firm, providing business services for 27 years, looking for a year-round, part-time tax professional to start with our team mid-January. Minimum 3 years experience preparing and reviewing individual, corporate, LLC and partnership returns required. Must be experienced in QuickBooks and the use of tax software. Enrolled Agent with degree preferred. View our website at www.TotalBizCare.com Please send resume to info@totalbizcare.com.

TAX PRACTICE OR CLIENTS WANTED
I am an EA located in SF looking to buy a tax-only practice within about 30 miles of the City. In addition, I am seeking to purchase clients in bulk. Please contact Alan Steger at alsteg1@yahoo.com or 415-387-3057. Apr

HELP WANTED
Busy Pleasanton office looking for an EA or licensed tax professional with several years experience in tax and Lacerte. Please send a cover letter and resume with references to: info@cataxservices.com, Dec

Small Group Tax Meetings

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<th>Location</th>
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<tbody>
<tr>
<td>Antioch/Brentwood</td>
<td>Fridays</td>
<td>8:00am</td>
<td>Ken Seamann EA (925) 634-8297</td>
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<tr>
<td>Danville Area</td>
<td>4th</td>
<td>Tue 9:30am</td>
<td>Michael Power EA (510) 366-8836</td>
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<td>Oakland Area</td>
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<td>Andy Rogers EA</td>
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<td>Livermore Area</td>
<td>Fridays</td>
<td>8:45am</td>
<td>Jerrilynn Krebs EA (925) 606-8181</td>
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<td>Castro Valley</td>
<td>3rd</td>
<td>Tue 8:00am</td>
<td>Dagmar Bedar EA (510) 537-3883</td>
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<tr>
<td>South Alameda County</td>
<td>1st  Wed</td>
<td>9:30am</td>
<td>Sal Romo EA or Walt Thomas EA (510) 487-1691</td>
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<td>Email-only Group</td>
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<td>Peggy Hall EA (925) 388-1040</td>
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Email:
Send an email to halloftaxes@gmail.com

Prints to all OS, scans to all except Win 7 64-bit. OK for 32-bit. Contact Phil at 510-530-1174.
MEMBERS SPEAK
For EBAEA members to list speaking engagements next month, please email details to Andy@TaxBuddha.com

Starting Up Your Business and Introduction to Rental Real Estate (Schedule E) on Saturday mornings, for 5 weeks starting Feb 23 at Castro Valley Adult School. Michele Zimmerman, michele.zimmerman@comcast.net

Mar 5: “Basic Payroll” in San Francisco, 9am-3pm, Andy Rogers EA, Andy@TaxBuddha.com

Apr 23: “Basic Payroll” in Concord, 9am-3pm, Michele Zimmerman EA, michele.zimmerman@comcast.net

Apr 30: “Basic Payroll” in Oakland, 9am-3pm, Mark Bole EA, mark@MarkBoleTax.com

CALENDAR OF EVENTS

March 2013
20 EBAEA Dinner Meeting: “IRS Tax Panel” @ Holiday Inn, Dublin

April 2013
No Dinner Meeting – have a nice nap!
19 CSEA SuperSeminar registration deadline

May 2013
14-16 CSEA SuperSeminar @ Bally’s Las Vegas, NV
15 EBAEA Annual Meeting: “Tax Fraud” @ Holiday Inn, Dublin
30-6/1 CSEA SuperSeminar @ Grand Sierra Resort, Reno, NV
?? Duncan’s Practical Management seminar (see flyer for details)

HUMOR

While my parents were making their funeral arrangements, the cemetery salesman pointed out a plot that he thought they would like. “You’ll have a beautiful view of the swan pond,” he assured them. Dad wasn’t sold: “Unless you’re including a periscope with my casket, I don’t know how I’m going to enjoy it.”

Boss, to four of his employees: “I’m really sorry, but I’m going to have to let one of you go.”
Black employee: “I’m a protected minority.”
Female employee: “And I’m a woman.”
Oldest employee: “Fire me and I’ll hit you with an age discrimination suit so fast it’ll make your head spin.”
They all turn to look at the helpless young, white, male employee, who thinks a moment, then responds: “I think I might be gay...”

Taking his seat in his chambers, the judge faced the opposing lawyers. “So,” he said, “I have been presented, by both of you, with a bribe.” Both lawyers squirmed uncomfortably. “You, attorney Leon, gave me $15,000. And you, attorney Campos, gave me $10,000.” The judge reached into his pocket and pulled out a check. He handed it to Leon. “Now then, I’m returning $5,000, and we’re going to decide this case solely on its merits.”

Four workers were discussing how smart their dogs were. The first was an engineer who said his dog could draw. His dog’s name was “T-Square”, and he told him to get some paper and draw a square, a circle and a triangle, which he did with no sweat. The accountant said he thought his dog, “Balance”, could do better. He told him to fetch a dozen cookies and divide them into piles of three, which he did with no problem. The chemist said that was a very good stunt, but that his dog, “Apothecary”, could do better yet. He told his dog to get a quart of milk and pour seven ounces into a ten ounce glass. Apothecary did this without a hitch. All three men agreed their dogs were equally smart.

They turned to the civil servant and asked him what his dog could do. The civil servant called his dog, whose name was “Coffee break”, and said, “Show the fellows what you can do, old buddy.” Coffee Break then strolled over and ate the cookies, drank the milk, crapped on the paper, molested the other three dogs and claimed he injured his back while doing so. He then filed a grievance for unsafe conditions, applied for Workers Compensation, and left for home on sick leave.

It’s strange how a person with no sense of humor can come up with such funny answers on his/her tax return.

An income tax return is like a girdle. If you put the wrong figure in it you are likely to get pinched.
2012 - 2013 Board of Directors and Committee Chairs

President: Andy Rogers EA 510-332-0401
1st VP: Gail Nanbu EA 925-943-3993
2nd VP: Eva Konigsberg EA 510-928-5067
Treasurer: Marjorie Williams-Jones EA 510-482-6204
Secretary: Carrie Kroeger EA 510-912-1682
Immed Past Pres: Patty Pringle EA 510-912-1682
Director 2012-2013:
  Mark Bole EA 925-287-0366
  Irene Moore EA 510-791-8962x16
  Sal Romo EA 510-471-9492
Director 2012-2014:
  Clare Ashby EA
  Jan Bridges EA 510-505-0818
  Al Wise EA
CSEA Director: Gail Nanbu EA 925-943-3993

Communication Committee, (1st VP)
Chair: Gail Nanbu EA 925-943-3993
Bulletin: Duncan Sandiland EA, etc 800-617-1040
Disaster Services: Janet Bridges EA 510-505-0818
Legislative: Morris Miyabara EA 650-867-4507
Membership: Peggy Hall EA 925-388-1040
Membership: Gail Nanbu EA 925-943-3993
Practice Preservation: Linda Fox EA 925-846-5913
PIA: Eva Konigsberg EA 510-928-5067

PIA: Peggy Hall EA 925-388-1040
Quickfinders: Diann Gross EA 925-736-3853
Social Affairs: Dan French 510-299-2764
Website: Eric Rheinheimer EA 510-893-3601
IRS Practitioner Panel: Phil Fiegler EA 510-530-1174

Education Committee
Chair: Margie Hines EA 510-247-9255
Continuing Ed: Margie Hines EA 510-247-9255
Mini Seminar Team: Mark Bole EA 925-287-0366
Program: Irene Moore EA 510-791-8962x16
SEE Class: Thomas Johnston EA 925-828-4500
Tax Talk: Patty Pringle EA 510-912-1682
Town Hall: Linda Koziol EA 925-449-1204
VITA Team: vacant

Administration Committee (IPP)
Chair: Thomas Johnston EA 925-828-4500
Bylaws/SOP: Sal Romo EA 510-471-9492
Budget & Finance: Walt Thomas EA 510-725-8356
Chapter Office: Dagmar Bedard EA 510-537-3883
Financial Review: Tim Hintzoglou EA 925-930-7737
Nominating: Thomas Johnston EA 925-828-4500
Volunteer Coordinator: Gail Nanbu EA 925-943-3993

EAST BAY ASSOCIATION OF ENROLLED AGENTS
30100 Mission Blvd, Suite 6, Hayward CA 94544
(800) 617-1040 or (510) 487-2063  fax (510) 487-1501  email: ebaea@ebaea.org
Mark Your Calendars

CSEA Annual Meeting Comes to the East Bay

Chairperson for East Bay Chapter Patty Pringle, EA

It’s time to mix business with pleasure. This year the CSEA Annual Meeting will be held in the East Bay at the Four Points by Sheraton Pleasanton. The East Bay Association of Enrolled Agents and the Big Valley Association of Enrolled Agents are joining forces to host the 37th Annual Meeting “Bits to Bytes”.

Events are kicked off on Wednesday, July 10th at The Jim Reed Memorial Golf Tournament at Las Positas Golf Course followed by Bocce Ball at Campo de Bocce and then we close the day with a Classic Car Show. If you want to show your “cool side” and are interested in showing off your classic car email Jamie Peterson at Jamie@flavinea.com by July 1st.

Thursday, July 11th we get down to some serious business at the General Session where CSEA Members elect next year’s Officers and vote on Bylaws changes, followed by the Town Hall Meeting. Then it’s time to get all glammed and glitzed up for the Grand Banquet. The installation of Officers and Awards Ceremony are followed by a night of dinner and dancing. This year we have a great band so dust off the dancing shoes.

Friday, July 12th events include The President’s Workshop, Directors Orientation, Executive Committee Meeting and the Chairs Council. Friday afternoon features a fundraiser for the CSEA Education Foundation. We are hosting an e-waste event. This is a great opportunity to get rid of those old items you longer need (computers, cell phones, copiers, monitors etc.). Proceeds from this event will be donated to the foundation. We can also arrange to pick up items if needed. Please contact Patty Pringle, EA capattypringle@sbcglobal.net for East Bay donations or Connie Flavin, EA connie@FlavinEA.com for other areas.

More great fun on the evening of Saturday, July13th. Come join in on the fun by attending the Member Dinner featuring Family Feud. Groups of EAs team up for a competition sure to be fun and entertaining. Those planning to participate should form “families” of four tEAm members with a theme and common attire, and be ready to answer questions about the EA profession. For additional information or to submit your tEAm name email Peggy Hall, EA halloftaxes@gmail.com by May 29.

This is also a great opportunity to attend a CSEA Board of Directors Meeting and CSEA Committee Meetings. This is your chance to see what goes on behind the scenes and meet your newly elected Officers.

Thank you to the following members of the East Bay Chapter for the wonderful volunteer work they are doing to help make this a successful event. Dagmar Bedard, EA Grand Banquet, JoAnne Anderson, EA Registration, Peggy Hall, EA Membership Dinner. If you are interested in volunteering please contact one of us.

Stay tuned for more information from the CSEA Magazine and CSEA e-blasts.
What will you do on April 17th?

Some EAs will say “Thank goodness that’s over for another year. Only __ more seasons until I can retire!” - if this is you, skip this and head for the jokes on the last page.

Some EAs will say “There were some rough spots this year. What can I do to make it easier for me next year?” - if this is you, read on...

Think about all those clients you try to teach important lessons, and how few of them actually “get it”. Think of all the practice management tips you’ve learned, and how few of them actually worked out for you. Would you like to listen to even more ideas that probably won’t work for you…

Would you like to learn WHY and HOW you’ve been subconsciously sabotaging your practice?

Seven years ago, Duncan Sandiland cut his tax practice in half without hurting his profits. Four years ago, a lucky group of EAs got to see how he did it. “In my 24 years in practice, this was the best seminar ever” – previous class attendee

Now, you have ONE CHANCE to learn those lessons – And this is your ONLY CHANCE because Duncan is moving to Texas soon.

“HOW TO MANAGE YOUR PRACTICE INSTEAD OF YOUR PRACTICE MANAGING YOU”

This is a full day, 9:30am til 5pm seminar. No CE will be offered as we will be focusing all our efforts on improving your practice.

**WHEN:** June 10, 11 or 12 (tba)
**WHERE:** Somewhere on the I-680 corridor (tba)
**PRICE:** between $350 and $399, depending on venue

HUH? No definite date, place or price? Correct - Duncan has limited time before he moves and he’s focusing on the lesson plan. If you know a good restaurant, hotel, or other venue, let Duncan know.

**IF YOU WOULD LIKE A SPOT AT THIS SEMINAR,**
Send an email to Bulletin@ebaea.org, and include any venue suggestions
When the venue is finalized, we’ll confirm details with you.

This seminar is sponsored by EBAEA.
All registration will be handled through the usual 123Signup page.
2013 Tax Updates

By Mary Geong CPA, EA

As you no doubt have heard, the U.S. was set to plunge over the “fiscal cliff” on New Year’s Day if Congress failed to act. In the early morning hours of New Year’s Day, a deal was made that averted the crisis and made permanent the majority of the Bush-era tax cuts. The President signed the American Tax Relief Act of 2012 into law on January 2, 2013. It will prevent many of the tax hikes that were scheduled to go into effect this year for middle-income people and retain many favorable tax breaks that were scheduled to expire, but will also increase income taxes for some high-income individuals. The following highlights the new tax changes most likely to affect you and your clients.

High Wage Earners
For individual income exceeding $400,000 or joint filings exceeding $450,000, the top tax rate will rise from 35 percent to 39.6 percent this year. The 10%, 15%, 25%, 28% and 33% marginal rates remain the same after between the top of the 33 percent rate (projected to be at $398,350 for most taxpayers) and the $400,000/$450,000 threshold at which the 39.6 percent bracket now begins.

Capital Gains & Dividends
Just like before, any qualified dividends and long-term capital gains that fall in the 15% tax bracket or below will not be taxed. And, just like before, any qualified dividends and long-term capital gains that fall in the 25%-35% tax brackets will be taxed at a 15% rate.
What’s new in 2013 is that any qualified dividends and long-term capital gains that fall in the new 39.6% tax bracket (which kicks in when your taxable income is above $400,000 if single and $450,000 if married filing jointly) will be taxed at a 20% rate.

When accounting for the Obama Medicare 3.8% surtax on investment-type income and gains for tax years beginning after 2012, the overall rate for higher-income taxpayers will be 23.8%.

Increased Medicare tax for high-earning workers and self-employed taxpayers
Right now, the Medicare tax on salary and/or self-employment (SE) income is 2.9%. If you’re an employee, 1.45% is withheld from your paychecks, and the other 1.45% is paid by your employer. If you’re self-employed, you pay the whole 2.9% yourself.
Starting in 2013, an extra 0.9% Medicare tax will be charged on: (1) salary and/or SE income above $200,000 for an unmarried individual, (2) combined salary and/or SE income above $250,000 for a married joint-filing couple, and (3) salary and/or SE income above $125,000 for those who use married filing separate status. For self-employed individuals, the additional 0.9% Medicare tax hit will come in the form of a higher SE bill.

Alternative Minimum Tax
By passing the “fiscal cliff” deal, Congress has finally found a permanent patch to the Alternative Minimum Tax, a piece of tax code that has morphed from provision to make sure the rich paid their taxes to a trap that has threatened to ensnare the millions of middle class Americans. The problem was inflation. What Congress considered rich thirty years ago is solidly middle class now.
The “fiscal cliff” deal will help millions of Americans avoid paying the dreaded alternative minimum tax—while making it harder for many upper-middle class taxpayers to escape it. The fiscal cliff deal does two things: it permanently adjusts AMT income exemption levels to inflation while giving lower-income taxpayers bigger exemptions and new credits to take them out of the AMT.
The losers are higher-income Americans, who will likely continue to be hit by the AMT because they won’t get the same tax breaks from the deal. Among the tax breaks lost for higher incomes are itemized deductions for mortgage interest. Those will now be capped for individuals making more than $250,000 and couples making more than $300,000.

Child tax credit
The popular $1,000 child tax credit was scheduled to revert to $500 per qualifying child after 2012. Additional enhancements to the child tax credit also were scheduled to expire after 2012. The
American Taxpayer Relief Act makes permanent the $1,000 child tax credit.

**Exclusion Of Cancellation Of Indebtedness On Principal Residence**
Cancellation of indebtedness income resulting from loan modification, foreclosure or short sale is includible in income, unless a particular exclusion applies. This provision excludes from income cancellation of mortgage debt on a principal residence of up $2 million. The American Taxpayer Relief Act extends the provision for one year, through 2013.

**Impact**. Homeowners have struggled to keep up with their mortgage payments and have also faced declines in the value of their principal residence. This provision avoids further financial penalties.

**Higher threshold for deducting medical expenses**
Right now, you can claim an itemized deduction for medical expenses paid for you, your spouse, and your dependents, to the extent the expenses exceed 7.5% of AGI. Starting in 2013, the hurdle is raised to 10% of AGI. However, if either you or your spouse is age 65 or older at year end, the 10%-of-AGI threshold will not take effect until 2017.

**Other 2013 deductions & exclusions**
The following deductions and exclusions are extended through 2013:
- Mortgage insurance premiums treated as residence interest
- The American Opportunity tax credit, which provides up to $2,500 in refundable tax credits for undergraduate college education.
- Above the line deduction for college tuition
- The Section 179 deduction limitation is $500,000 with a $2 million investment limit for 2012 & 2013. Section 179 permits businesses to deduct the full purchase price of qualifying equipment and/or software purchased or financed during a tax year instead of depreciating such qualifying equipment and/or software over a period of years.

**Estate/Gift Tax Rate & Exclusion**
The American Taxpayer Relief Act permanently provides for a maximum federal estate tax rate of $40% with annually inflation-adjusted $5 million exclusion for estates of decedents dying after Dec 31, 2012.
For decedent's estate & gifts made between 1/1/11-12/31/12, the gift tax and the estate tax rate is 35% with $5 million exclusion. Effective January 1, 2013, the maximum federal estate tax rate was scheduled to revert to 55% with an exclusion amount of $1 million (going back to 2001 level). All of these changes have now been made permanent by the 2012 Taxpayer Relief Act, except that the Act has changed the top estate/gift tax rate to 40%.

**Obamacare tax**
The Affordable Care Act, passed by Congress in 2010 and known commonly as Obamacare, delivers another blow to upper-income Americans by increasing their 2.9 percent Medicare payroll tax to 3.8 percent. The increase applies to individual earnings above $200,000 and earnings for joint filers above $250,000. A new 3.8 percent surtax on investment income will also hit the same taxpayers.

**Example 1: Capital Gain: Sale of a Principal Residence**
John and Mary sold their principal residence and realized a gain of $525,000. They have $325,000 Adjusted Gross Income (before adding taxable gain).

The tax applies as follows:

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<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>AGI before Taxable Gain</td>
<td>$325,000</td>
</tr>
<tr>
<td>Gain on Sale of Residence</td>
<td>$525,000</td>
</tr>
<tr>
<td>Taxable Gain (Added to AGI)</td>
<td><strong>$25,000</strong></td>
</tr>
<tr>
<td>New AGI</td>
<td>($525,000 – $500,000)</td>
</tr>
<tr>
<td>Excess of AGI over $250,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>Lesser Amount (Taxable)</td>
<td>$25,000</td>
</tr>
</tbody>
</table>

(Taxable gain of $25k is lesser than AGI excess of $100k)
**NOTE:** what happens if this was a vacation home instead of a principal residence? Using the same facts, this is how the tax will apply:

- AGI before Taxable Gain: $325,000
- Gain on Sale of Residence: $525,000
- Taxable Gain (Added to AGI): **$525,000** (No $500,000 exclusion allowed)
- New AGI: $850,000 ($325,000 + $525,000 taxable gain)
- Excess of AGI over $250,000: $600,000 ($850,000 – $250,000)
- Lesser Amount (Taxable): $525,000 (Taxable gain of $525k is lesser than AGI excess of $600k)
- **Tax Due:** $19,950 ($525,000 x 0.038)

**Example 2: Purchase and Sale of Investment Property (Residential or Commercial)**

Ethan has purchased an investment property for $900,000. During his period of ownership, he takes $230,000 in depreciation deductions. He has also made some improvements to the property. At the time of sale, his adjusted basis in the property is $760,000. He subsequently sells the property for $1.2 million.

In the year of sale, he is single and reports self-employment income of $315,000.

The tax applies as follows:

- Gain on Sale: $440,000 ($1.2 million less adjusted basis of $760,000)
- Depreciation Recapture: $230,000
- Total Gain: $670,000 (Gain on sale plus depreciation recapture)
- Schedule C Income: $315,000
- New AGI: $985,000 ($315,000 + $670,000)
- Excess AGI over $200,000: $785,000 ($985,000 – $200,000)
- Lesser Amount (Taxable): $670,000 (Capital gain of 670k is lesser than Excess AGI of $785k)
- Obamacare Tax Due: **$25,460** ($670,000 x 3.8%)

**STATE UPDATE:**

**LLCs could be hit with new $2,000 penalty**

Effective January 1, 2013, the FTB will begin imposing a $2,000 failure-to-file penalty for foreign or suspended LLCs that fail to file a return.

An out-of-state LLC will be presumed to be doing business in California if the single member/owner is a California resident. So, according to the FTB, an LLC is doing business in California, and subject to registration and filing, even if the managing member hires a non-California manager, because the owner has the authority to hire and fire the property manager.

Caution:

A single-member LLC with a California managing member will now be subject to not only the $800 annual tax, but also the $2,000 penalty for failing to file and register.

**EXAMPLE:** Ben is a California resident. He is the single member of a Texas LLC whose only asset is a rental property in Texas. He hires a property manager to run the property.

Because he is the managing member, he is considered by the FTB to be doing business in California and must file a California return for the LLC and pay the $800 annual tax.

If he fails to file a return, the FTB will assess:

- The $800 annual tax;
- A 25% penalty for failure to file a return;
- The $2,000 penalty for failing to file and register as a foreign LLC; and
- Interest.

**Income tax increase affects withholding-at-source**

For taxable years beginning on or after January 1, 2012, and prior to January 1, 2019, the maximum California personal income tax rate increased to 12.3%.
**Real estate withholding**

Buyers of California real property must withhold California tax from the proceeds of the sale when the seller is a resident or nonresident individual and for certain business entities, unless exceptions are met. The rate of withholding is 3 1/3% of the gross sales price, unless the seller makes an election to use an alternative rate based on the amount of gain from the sale. Specifically, the law allows a seller of real estate to elect to have tax withheld in an amount not less than the maximum tax rate multiplied by the reportable gain. Because California’s maximum personal income tax rate has increased to 12.3%, the new withholding rates are:

- **12.3%** for personal income tax purposes, including non-California partnerships and LLCs;
- **8.84%** for corporations; and
- **13.8%** for S corporations (you must combine the S corporation’s 1.5% and the individual’s 12.3% tax).

LLCs are subject to withholding according to their classification for tax purposes.

**EXAMPLE:** Gail sold an apartment building in 2013 for $1 million. Her basis was $800,000. If she files FTB Form 593-E, Real Estate Withholding — Computation of Estimated Gain or Loss, the escrow company will withhold $24,600 ($200,000 × 12.3%).
FOR THOSE OF US WHO REMEMBER…..

Hollywood Squares:
These great questions and answers are from the days when the Hollywood Squares game show responses were spontaneous, not scripted, as they are now. Peter Marshall was the host asking the questions, of course.

Q. As you grow older, do you tend to gesture more or less with your hands while talking?
A. Rose Marie: You ask me one more growing old question Peter, and I'll give you a gesture you'll never forget.

Q. Paul, why do Hell's Angels wear leather?
A. Paul Lynde: Because chiffon wrinkles too easily.

Q. Charley, you've just decided to grow strawberries. Are you going to get any during the first year?
A. Charley Weaver: Of course not, I'm too busy growing strawberries.

Q. In bowling, what's a perfect score?
A. Rose Marie: Ralph, the pin boy.

Q. It is considered in bad taste to discuss two subjects at nudist camps. One is politics, what is the other?
A. Paul Lynde: Tape measures.

Q. During a tornado, are you safer in the bedroom or in the closet?
A. Rose Marie: Unfortunately Peter, I'm always safe in the bedroom.

Q. Can boys join the Camp Fire Girls?
A. Marty Allen: Only after lights out.

Q. When you pat a dog on its head he will wag his tail. What will a goose do?
A. Paul Lynde: Make him bark?

(more next month)