

# The Consultant

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December 2012 Newsletter

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## **TWO TAX HIKES THAT WILL APPLY IN 2013** “Kiplinger Tax Letter”

Regardless of the outcome of the current negotiations, IRS has issued guidance on these Medicare surtaxes for upper-income taxpayers...a 3.8% tax on unearned income and a 0.9% levy imposed on their earned income.

Start with the 3.8% Medicare surtax. It applies to unearned income of single filers with modified adjusted gross incomes above \$200,000 and of married filing jointly over \$250,000. Married filing separately get a \$125,000 threshold. Modified AGI(Adjusted Gross Income) is AGI plus any tax free foreign earned income. The surtax is levied on the smaller of the filer's net investment income or the excess of modified AGI over the thresholds. Investment income includes interest, dividends, payments of substitute interest and dividends by brokers, capital gains, annuities, royalties and passive rental income.

Now turn to the 0.9% Medicare surtax on earned income(wages and income from self-employment). Singles will owe the levy once total earnings exceed \$200,000, married filing jointly over \$250,000, or married filing separately will be over \$125,000. So for earnings over the thresholds, the effective Medicare tax rate will be 3.8%...the usual 2.9% rate plus an extra 0.9%. The surtax applies only to the employee's share of Medicare tax. Employers don't owe it. Employers will withhold the surtax once an employee's wages exceed \$200,000. Employees will then calculate the actual tax due on their 1040s. So married filing jointly couples who each make below the \$200,000 threshold, but expect their total wages to top \$250,000 in 2013 should consider having more income tax withheld on their pay.

## **CHILD TAX CREDIT**

After 2012, the \$1,000.00 child tax credit is scheduled to revert to \$500.00 per qualifying child. President Obama campaigned on the promise to make permanent the \$1,000.00 child tax credit and is expected to support legislation that will do so.

## **MEDICAL DEDUCTION THRESHOLD**

For tax years beginning after December 31, 2012, the Affordable Care Act increases the 7.5 percent threshold for itemizing medical expenses to 10 percent. Taxpayers (or their spouses) who are age 65 or older before the close of the tax year may continue to apply the 7.5 percent threshold for the tax years ending before 2017.

## **INCREASE YOUR TAX DEDUCTIONS**

1. Pay your January mortgage payment in December, this will allow the interest for the month of January to be deducted this year. You need to make sure that the payment is in before December 25<sup>th</sup> so it is posted for this year.
2. Prepay any type of cash charity contribution before December 31<sup>st</sup>, or donate your unused items to a qualified charity and bring in all official donation receipts.
3. If you have a year-end bonus coming, ask your employer if you can take it in January.
4. Prepay any state or local tax estimated payments due in January before the end of the year. State and local taxes are deductible in the year paid on your federal return.

## **REQUIRED MINIMUM DISTRIBUTION**

If you were 70 1/2 before July 1<sup>st</sup>, you must take a required minimum distribution out of your IRA before December 31<sup>st</sup>, 2012. If you don't take the required minimum distribution, you can be charged a fifty percent tax on the amount that should have been withdrawn.

## **INCORPORATING**

If you are currently in business, or thinking of starting up one, now is the time to possibly incorporate and start operating as a corporation starting in January of 2013. If you would like to find out the advantages, or if it makes sense for your business call and ask to speak with Mr. Piermani or Mr. Bearoff.

## **INVESTMENTS**

Interest rates are still at an all time low and it makes it very difficult to earn any money on your investments. There are many safe stocks that pay a dividend. Many of the utility stocks and some of the oil stocks are not volatile and pay a dividend that exceeds 5%. If you are interested in learning more about your options to receive dividends, call and ask to speak with Mr. Piermani.

## **CREDIT LINES**

We have several banks that we work with to obtain a personal line of credit. We even have a bank that is willing to do an unsecured business line of credit up to one hundred thousand dollars at a very reasonable rate. Call the office and ask to speak with Mr. Piermani or Mr. Bearoff for more details.

## **MORTGAGES**

All the economic indicators for the last few months have shown that the real estate market has been improving. This is still the best time for someone to buy a new home or even an investment property with the prices and the interest rates at all time lows. You may also be able to refinance your current mortgage to lower your payment or even go from a thirty year mortgage down to a fifteen. If you are interested in seeing about a refinance or a mortgage call and speak to either Chuck Piermani or Robyn Brody NMLS #144894 at 610-275-7544.

## **GROSS PROCEEDS**

Your brokerage firm will give you a Gross Proceeds form at the end of the year if you have sold stock. All individual transactions now must be placed on the Schedule D of your tax return. We are no longer allowed to input totals. When you receive your year-end statement, contact your broker and ask them to export the "Realized Gain/Loss Report" into an excel format and then email it to our office. We are able to upload this report onto our system allowing you to avoid an additional charge for the time to key punch all the individual transactions manually. If you or your brokerage firm have any questions about this process please call our office.

## **TAX APPOINTMENTS**

Please remember that our policy **is not** to allow children in the office at the time of the tax consultation since it can be disruptive. If they are old enough, they may sit in the waiting room. However, we **are not** responsible for watching them. We are very aware of how hard it may be to find a sitter; however, we simply cannot allow children in the appointment.

## **CANCELLATIONS**

Tax season appointments are at a premium. Our policy is that we require a six hour notice to cancel an appointment unless there is an emergency or there will be a \$90.00 cancellation fee incurred. This policy is strictly enforced.

## **ELECTRONIC FILING FOR 2012**

**ALL TAX RETURNS MUST BE FILED ELECTRONICALLY FOR 2012.** Our firm will handle the filing of both Federal and State returns however, local taxes **cannot** be e-filed. These forms will still have to be signed and **mailed by you** on or before April 15<sup>th</sup>. Please note that no tax returns will be e-filed until payment for our services is made in full, so keep this in mind and **make arrangements to pay at the time of your consultation.** There will be no exceptions.

## **CORPORATE RETURNS**

If you keep your own records please submit your profit & loss and balance sheet in the cash basis no later than January 31<sup>st</sup> for us to do the corporate return. This includes LLC's, C-Corporations and Sub-Chapter S Corporations. Remember, the balance sheet should include all accounts in the corporation's name, such as checking, savings, money markets, all lines of credit and credit card balances. If you do not have a computer program that can print these financials, contact our office and we can send you forms to fill in. You cannot file your personal return until your corporate return is filed.

## **PHILADELPHIA AND BUSINESS PRIVILEGE RETURNS**

We prepare your Federal, State and Local Tax Returns. If you are operating a business out of or have a rental property located in Philadelphia or a municipality that has a Business Privilege Tax, it is your responsibility to pay a Business Privilege License fee and file a Business Privilege Return each year. Our firm is equipped to handle the preparation of these returns for you in compliance with the tax codes. If you need help filling out these forms, we can prepare them for a small fee. If we prepared it for you last year we will automatically prepare it again for 2012.

## **BUSINESS IN OTHER STATES**

If you are operating a business in another state, you are required to register in that state and will have to file a tax return as an individual, partnership or corporation. Computerization is now allowing states to track down those of you who have not registered. States will assess high penalty and interest on the taxes due. If you fall into this category, we can help you with the registration process.

In addition, if you have a rental property in another state, you will also need to file a non-resident tax return. We also are equipped to prepare these returns as well.

Keep in mind you are taxed on your total profit in your home state location. You will also receive credit against this tax for any taxes paid to another state for the work completed in them.

## **MAIL RETURNS**

If you normally drop off or mail your return information to us, please contact the office and request a Tax Organizer before sending your information. After receiving the completed organizer and your information, you will be contacted and asked a list of questions before we finalize the return.

If you have moved out of our area or even to another state we still are able to complete your return using this service. Please call to see about arrangements.

## **QUOTES**

“Everyone wants to go to heaven but no one wants to die.” Joe Lewis

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***We at Piermani & Bearoff, P. C., & Charles J. Piermani Associates  
would like to extend our wishes to you for a happy holiday Season!!***