

# INDIVIDUAL TAX TIPS

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## **IRA CONTRIBUTION LIMITS REMAIN UNCHANGED FOR 2012**

You may contribute up to \$5,000 to an IRA (\$6,000 if age 50 or older ) for 2012. The deadline for 2012 contributions is April 15, 2013. Depending on your income and whether you participate in a retirement plan you may be able to deduct these contributions. Keep in mind if you do not participate in an employer retirement plan then you could fully deduct your IRA contribution no matter the level of your income providing you have enough earned income to qualify the deduction.

Roth IRA's continue to be an effective retirement planning tool. While contributions to these IRAs are not currently deductible, distributions from these IRAs down the road are not subject to tax. There is also no requirement that you have to take distributions from Roth IRAs when you turn 70 ½. Even if you participate in your employer's retirement plan you can still contribute to your own Roth IRA as long as the adjusted gross income (AGI) on your tax return is less than \$169,000.

## **BACK DOOR ROTH IRA**

If your adjusted gross income is greater than \$169,000 then you are not allowed to contribute to a Roth IRA directly. However, there is a loophole that exists in today's tax code that would enable you to, in effect, contribute to a Roth IRA even if your income is over \$169,000.

Here is how you do it. You make a non-deductible contribution to a traditional IRA. Immediately after making this contribution then you convert this traditional IRA to a Roth IRA. If you have made deductible IRA, SEP or SIMPLE contributions in the past then this may not work for you and some of this conversion would be taxable in that case. If your income is over \$169,000 and you are interested in establishing a Roth IRA to work for you then please give me a call and we can discuss how this might work for you.

## **HEALTH SAVINGS ACCOUNTS (HSA's) STILL ADVANTAGEOUS**

Health Savings Accounts can be worthwhile elements in our health care and investment portfolio. Not only are contributions to the accounts deductible, but, as long as you use the funds in the account for eligible medical purposes, you can withdraw the funds tax free as well. You don't have to itemize to deduct your contribution to an HSA and you keep what you don't spend in the account. Like IRA's you have until April 15<sup>th</sup> of the following year to make HSA contributions for the current year.

You can choose not to use HSA funds currently, but use the HSA as an investment account. Tax-free withdrawals from an HSA can be made at any time; the account holder needs to retain receipts for the expenses. Medicare recipients are not eligible to make contributions to an HSA, but they are still able to draw on the account to reimburse for qualified medical expenses.

## **STANDARD MILEAGE RATES FOR 2012**

Business miles	55.5 cents per mile
Charitable miles	14 cents per mile
Medical & moving miles	23 cents per mile

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## **MORTGAGE INTEREST DEDUCTION – EQUITABLE OWNERS**

Deductible interest can generally be claimed only by the taxpayer liable for the debt obligation. However, the legal borrower on a loan does not always make the loan payments. The Tax Court recently allowed an individual to deduct home mortgage interest even though he did not legally own the home and was not liable on the mortgage. The individual was considered to be an “equitable owner” because he was living there and making the mortgage payments.

## **REQUIRED FOREIGN ASSET REPORTING**

If you are a U.S. citizen and you own foreign financial assets such as a bank account or investment account then you may have a reporting requirement to the Treasury Department. If the value of the asset is over \$10,000 at any time during the calendar year then you may have a filing requirement. Give us a call and we can help you determine this.

## **IRS INTEREST RATES WILL REMAIN THE SAME FOR SECOND QUARTER OF 2012**

For individuals IRS will charge 3% on overdue taxes as well as pay 3% on overdue refunds.

## **THE IMPORTANCE OF A LOGBOOK TO SUPPORT BUSINESS USE OF A CAR**

A couple who used their vehicles in the sole proprietorships found this out the hard way. Their logbooks were riddled with mistakes, questionable entries and other irregularities ... so much, so that the Tax Court was unable to rely on them. As a result, the Court upheld IRS’ disallowance of all mileage expenses for the vehicles, even though they were used partially for the business.

## **ADOPTION CREDIT CHANGES FOR 2012**

The limit for the adoption credit in 2012 is \$12,650. Also the adoption credit is no longer refundable.

## **STANDARD DEDUCTIONS FOR 2012**

To itemize deductions (deduct taxes, mortgage interest, charitable contributions, etc.) you want to have your total itemized deductions exceed the standard deduction the government gives you. For 2012 the following standard deductions are in place:

Married Filing Joint	\$11,900
Heads of Household	\$8,700
Single	\$5,950
Married Filing Separately	\$5,950

## **SUMMER CAMP EXPENSES MAY QUALIFY FOR A TAX CREDIT**

Parents may be able to claim the Child and Dependent Care Credit for costs incurred during the summer and throughout the rest of the year for the care of their children under age 13. This would include the cost of day camp during the summer. Costs for overnight camp do not qualify. Whether your childcare provider is a sitter at your home or a daycare facility outside the home, you’ll get some tax benefit if you qualify for the tax credit.

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## **PROTECT YOUR PERSONAL INFORMATION. BEWARE OF PHISHING.**

Phishing is a scam typically carried out by unsolicited e-mail and/or websites that pose as legitimate sites and lure unsuspecting victims to provide personal and financial information. In the past year I have seen more and more phishing scams using the IRS as their lure, so please don't bite on that lure. **The IRS does not initiate taxpayer communications through email.** If you receive an e-mail claiming to be from the IRS that contains a request for personal information; do not reply, do not open any attachments, do not click on any links. Forward the e-mail as-is to the IRS at [phishing@IRS.gov](mailto:phishing@IRS.gov). After forwarding, delete the original email.

## **RESIDENTIAL ENERGY EFFICIENT PROPERTY CREDIT**

This credit is available to individuals who install qualified residential alternative energy equipment, such as solar hot water heaters, solar electricity equipment, wind turbines and geothermal heat pumps to their homes. The credit, which runs through 2016, is 30% of the cost of the qualified property.

## **DEPENDENCY EXEMPTION FOR DIVORCED PARENT**

If you are the non-custodial parent and entitled to the dependency exemption then you must have your ex-spouse sign a properly completed Form 8332 and include it with your tax return. It is no longer good enough to attach a copy of the court document.

## **SEVERAL KEY CEILINGS ON RETIREMENT PLANS WILL BE HIGHER IN 2012**

The maximum 401(k) contribution is \$17,000 in 2012. Individuals who are 50 or older in 2012 can defer as much as \$22,500.

The ceiling on SIMPLE plan contributions is \$11,500. Individuals who are 50 or older can defer as much as \$14,000 in a SIMPLE plan.