2012 YEAR-END INCOME TAX PLANNING
FOR SMALL BUSNIESS ENTITIES

INTRODUCTION

It's that time of year when businesses should consider year-end planning strategies. Year-end planning for 2012 is a bigger challenge than in previous years because we are facing the most significant tax uncertainty in recent memory, largely caused by:

1. The scheduled expiration of the so-called *Bush-Era* tax cuts ***after 2012*** causing higher taxes on the business income of many business owners;
2. The scheduled increase ***after 2012*** of the tax rates on dividends and capital gains,
3. New "Medicare Surtaxes" ***starting in 2013*** that will apply to many higher-income employees, self-employed individuals, and business owners,
4. A host of popular business tax breaks that either ***expired*** or were ***reduced*** after ***2011*** which have historically been retroactively extended, **and**
5. A long list of business tax breaks scheduled to expire ***after 2012.***

It's possible that Congress may postpone the scheduled tax rate increases and reinstate many of the expired or expiring tax breaks. Some are predicting that Congress will at least address the expired or expiring tax breaks in an "extender's bill" during the lame-duck session after the November election. However, others believe Congress will not deal with these tax issues until early 2013. Due to this uncertainty, we believe the best approach for year-end planning in this volatile tax environment is to become familiar with the tax changes that are ***currently scheduled*** to occur ***after 2012,*** and to be ***prepared to act quickly near the end of 2012*** based upon the tax climate at that time**.** In addition, whether or not Congress takes action by the end of 2012, this letter outlines several "***traditional" year-end planning strategies*** that can save taxes for many businesses and business owners.

The purpose of this issue of ***PointSheet*** is to:

1. Identify potential year-end tax strategies for businesses and owners that exist in light of the major tax changes currently scheduled to take effect in 2013;
2. Suggest alternative considerations if Congress changes the law late in 2012; and,
3. Remind you of traditional year-end planning opportunities that could save taxes for businesses and business owners no matter what course Congress takes with future legislation.

To help you locate items of interest, we have divided planning ideas into the following sections:

A. Preparing For Potential Tax Rate Increases On Small Businesses
B. Expired, Expiring, And Scaled Back Small Business Tax Breaks
C. Maximizing Bonus Depreciation Deductions
D. Other Year-End Planning Opportunities For Small Businesses

Tax Planning Alert! Although this letter contains planning ideas, you cannot properly evaluate a particular planning strategy without calculating the overall tax liability on the business and its owners (including the alternative minimum tax) with and without the strategy. In addition, ***this letter contains ideas for Federal income tax planning only*.** You should also consider any state income tax consequences of a particular planning strategy. We recommend that **you call our firm before implementing any tax planning technique** discussed in this letter, or if you need more information.

A. PREPARING FOR POTENTIAL TAX RATE INCREASES ON SMALL BUSINESSES

Unless Congress changes current law, most businesses (regardless of form) are facing a significant increase in Federal income tax rates ***after 2012.*** For individual owners of pass-through entities (e.g., S Corporations, Partnerships, LLCs), the top individual income tax rate on the pass-through business income is generally scheduled to jump from 35% to 39.6%. Although there is no scheduled increase in the maximum 35% regular "income" tax rate for "C" corporations, the "accumulated earnings" and "personal holding company" penalty taxes that can be imposed on "C" corporations are scheduled to increase from 15% to 39.6%. Furthermore, the top tax rate on a "dividend" paid to a corporate shareholder generally increases from 15% to 39.6%.

Also, if a business entity (regardless of form) redeems or buys out an owner in a "capital gain" transaction, the top capital gains rate to the redeemed owner increases from 15% to 20%.

Finally, ***in addition to*** these tax rate increases, the *Health Care Act* imposes on ***higher-income employees*** and ***self-employed individuals*** a new ***.9% Medicare Surtax*** on their *compensation* and *earnings from self employment,* and a new **3.8% Medicare Surtax** on the net *investment income of higher income individuals.* The ***3.8% surtax*** applies not only to classic investment income (e.g., dividends, interest, capital gains), but also generally applies to *"rental"* income and to *"business income"* taxed to *"passive"* owners (if the income is not otherwise subject to the 2.9% Medicare Tax on self-employment income).

Consequently, the Federal tax rates for business owners taxed in the highest income tax brackets ***in 2013*** who are also subject to these new Medicare surtaxes could be as high as: ***40.5%*** (up from the current 35%) for pass-through business income, wages, and self-employment income; ***43.4%*** (up from 35%) for certain "passive" pass-through business income; ***23.8%*** (up from 15%) for long-term capital gains; and ***43.4%*** (up from 15%) for dividend income.

Planning Alert! The uncertainty concerning the extension of the *Bush-era* tax cuts for individuals makes tax planning during 2012 extremely challenging for owners of S corporations, partnerships and proprietorships where the income of the business is passed through and taxed to the owners. It is uncertain at this point whether Congress will allow the scheduled rate increases to take effect in 2013, or continue 2012 tax rates at least for the short term. Therefore, we recommend that businesses and owners who will be significantly hurt by the scheduled 2013 rate increases begin planning now for strategies that take advantage of the current lower rates on dividends, capital gains, rental income, and pass-through business income. However, it seems prudent to postpone implementing any proposed strategy that would accelerate income into 2012 until later in 2012

when we will, hopefully, have a better handle on Congress's plans. In addition, please remember that the only way to determine the benefit from accelerating income into 2012 or deferring deductions until 2013 is by performing detailed calculations with and without such acceleration or deferral. With and without calculations will take into account regular Federal income taxes, the AMT, the new 2013 Medicare Surtaxes, and state income taxes.

The following are several basic tax strategies that businesses (and owners) should consider in anticipation of the scheduled 2013 tax rate increases:

1) **S Corporation Shareholders And Limited Partners Should Consider Taking Steps Before 2013 To Minimize Exposure To The New Medicare Surtaxes On "Passive" Business Income.**
Starting in 2013, the new 3.8% Medicare Surtax on "net investment income" applies to **married individuals filing jointly** with modified adjusted gross income (MAGI) **exceeding $250,000 (exceeding $200,000 if single).** For purposes of this 3.8% surtax, *net investment income* includes *operating* business income that is taxed to a ***"passive"*** *business* owner (unless the income is *self-employment* income subject to the 2.9% Medicare tax). For this purpose, an owner is considered *"passive"* in a business activity if the owner is "passive" under the *passive loss limitation* rules that have been around for years.

- **Special Rule For "Passive" Operating Income.** Business income reported by a ***"passive"*** owner is ***not*** *"net investment income"* ***if the income is otherwise subject to the 2.9% Medicare tax.*** Pass-through business income taxed to a ***"general"*** partner or a proprietor ***is*** subject to S/E tax (including the 2.9% Medicare tax and the new .9% Medicare Surtax).Therefore, business income of a partnership taxed to a ***"general" partner*** is ***exempt*** from the 3.8% surtax on *net investment income* as is business income of a proprietorship. However, business income taxed to an ***S corporation shareholder*** or a ***"limited"*** partner (other than "guaranteed payments") is ***not subject*** to S/E tax (neither the 2.9% Medicare tax nor the new .9% Medicare Surtax). Therefore, if you are a ***limited partner*** or ***S corporation shareholder,*** your pass-through business income will generally be ***net investment income*** (and, thus exposed to the 3.8% Medicare Surtax), ***unless*** you ***"materially participate"*** in the operations of the business.

  Planning Alert! If you are a "passive" ***S Corporation shareholder*** or ***limited partner*** and want to avoid exposure to the 3.8% Medicare Surtax on your share of the income of the S corporation or the partnership after 2012, you should consider taking steps to *"materially participate"* in the business of the entity ***after 2012.*** For example, one way to *materially participate* in the business would be to work *over 500 hours* each year in the business.

  Tax Tip. Depending on the specifics of your business operation, and the type of ownership interest you have in that business (e.g., S corporation shareholder vs. limited partner), there may be other ways you can *"materially participate"* while spending less than 500 hours working in the business.

Planning Alert! If you have other *"passive"* activities generating losses, you may prefer to remain *passive* so that your pass-through business income may be used to offset your *passive* losses from the other passive activities.

Caution! These rules are complicated and require a thorough review of your particular situation to develop the most tax-wise strategy.

2) Certain Owners Of Rental Real Estate May Be Able To Avoid The New Medicare Surtax.

Real estate rental income is generally:

1. presumed "passive" income, and
2. exempt from S/E tax (including the 2.9% Medicare tax). Consequently, ***real estate rental income*** is generally ***net investment income*** which may be hit with the new 3.8% Medicare Surtax ***starting in 2013.***

However, if you are a ***"qualified real estate professional"*** and you ***materially participate*** in your rental real estate activity, your real estate rental income:

1. is ***not*** "passive,"
2. is ***not*** subject to S/E tax (including the 2.9% Medicare tax), and
3. will presumably ***not*** be subject to the 3.8% Medicare Surtax on *net investment income*. Consequently, a ***"qualified real estate professional"*** should be able to avoid the 3.8% Medicare Surtax on real estate rental income by materially participating in the rental real estate activity.

Generally, a ***qualified real estate professional (QREP)*** is an individual

1. who performs ***more than 750 hours*** of services during the year in ***"real property"*** trades or businesses (e.g., real estate development, management, construction, rental, leasing, brokerage), **2)** who ***materially participates*** in those businesses, **and**
2. who spends ***more than 50%*** of his or her total working hours for the year performing services in *"real property"* trades or businesses.

Tax Tip. There are certain tax elections relating to your rental real estate activities that may enhance your ability to qualify as a QREP and to materially participate in your rental real estate activities.

3) Owners Of Closely-Held "C" Corporations Should Prepare For Late-Breaking Tax Rate Changes.

There are several techniques shareholders of closely-held "C" corporations can use to take money out of their corporation, including: paying ***compensation*** to the shareholder-employee; having the corporation ***redeem*** all or a portion of the shareholder's stock; and/or, paying the shareholder a ***dividend.*** If *"compensation"* is paid and is "reasonable," the corporation generally gets a deduction and the owner is taxed at maximum rate of 35% (scheduled to be as high as 40.5% after 2012). If a *"dividend"* is paid, the corporation gets no deduction, and the shareholder is taxed at a maximum rate of 15% (scheduled to be as high as 43.4% after 2012). If the corporation *"redeems"* all or a portion of the shareholder's stock in a transaction that qualifies for capital gains treatment, the corporation gets no deduction, and the shareholder's

long-term capital gain is taxed at a maximum rate of 15% (scheduled to be as high as 23.8% after 2012). If you are a shareholder, the technique that is most tax advantageous overall for taking money out of your corporation depends largely on **1)** your particular situation, and **2)** what ultimately happens with the various tax rates after 2012.

If the scheduled tax rate increases do in fact occur after 2012, then a shareholder who wants to take money out of his or her "C" corporation might save considerable taxes by paying compensation, redeeming stock, and/or paying a dividend ***before 2013.***

Planning Alert! Whichever technique or combination of techniques is used (i.e., compensation, redemption, or dividend), each technique should be properly structured and documented in order to be honored for tax purposes. So, if you are considering taking substantial funds from your closely-held "C" corporation at some point, please call us as soon as possible. We will help you determine a tax advantaged way to distribute the funds.

B. EXPIRED, EXPIRING, OR SCALED BACK SMALL BUSINESS TAX BREAKS

In addition to the overall tax rate increases scheduled for individuals reporting business income, dividends, and long-term capital gains, there is also an ever-expanding list of temporary ***targeted*** business tax breaks that expire every few years. Although often waiting until the last minute, Congress has historically extended most of the more popular provisions. Unfortunately, as we finalize this letter, Congress has yet to extend many important tax breaks ***that expired at the end of 2011.*** To help you determine the status of tax breaks you may have used in the past, we list below selected business tax breaks that ***expired or were scaled back after 2011,*** and those that are scheduled to ***expire or to be reduced after 2012.***

Selected Business Tax Breaks That Expired Or Were Reduced After 2011.
The following is a list of the more popular business tax breaks that either ***expired or were scaled back after 2011:***

1) 15-Year (instead of 39-Year) Depreciation Period for "Qualified Leasehold Improvements" (Expired);
2) 15-Year (instead of 39-Year) Depreciation Period for "Qualified Restaurant Improvement Property" (Expired);
3) 15-Year (instead of 39-Year) Depreciation Period for "Qualified Retail Improvement Property" (Expired);
4) Section 179 Deduction up to $250,000 for *Qualified Leasehold Improvements*, *Qualified Restaurant Property*, and *Qualified Retail Improvement Property (*Expired);
5) Overall §179 Deduction Cap (Reduced From $500,000 for 2011 tax years to $139,000 for 2012 tax years);
6) 100% First-Year §168(k) Depreciation (Generally Reduced from 100% to 50% for 2012);
7) 7-Year Depreciation Period For Motorsports Entertainment Complexes (Expired);
8) Research and Development Credit (Expired);
9) 5-Year (Instead of 10-Year) Recognition Period For S Corporation Built-In Gains Tax (Reverts to 10 Years After 2011);

10) Increased Charitable Deduction Limits for Qualifying Conservation Easements (Reverts to Regular Limits After 2011);
11) Employer Differential Wage Credit for Payments to Military Personnel (Expired);
12) Various Tax Incentives for Investing in the District of Columbia (Expired);
13) Various Business Tax Incentives for Gulf Opportunity Zone (Expired);
14) 100% Qualified Small Business Stock Gain Exclusion (Reverts to 50% Exclusion for Stock Acquired After 2011);
15) Work Opportunity Tax Credit (Expired – Except for "Qualified Veterans");
16) Favorable S Corporation Charitable Contribution Provisions (Expired); and
17) Enhanced Charitable Contribution Deduction for Qualifying Business Entities Contributing Computer Equipment and Book or Food Inventory (Expired).

Planning Alert! If recent history is a guide, Congress may retroactively extend many of these provisions eventually, but there is no guarantee. Our firm will monitor the status of these expired provisions.

Selected Business Tax Breaks That Are Scheduled To Expire Or To Be Reduced After 2012. The following is a list of the more popular business tax breaks that are currently scheduled to ***expire or to be scaled back after 2012:***

1) Overall §179 Deduction Cap (Reduced From $139,000 to $25,000 after 2012);
2) 50% §168(k) First-Year Depreciation (Generally Eliminated after 2012);
3) Accumulated Earnings and Personal Holding Company Penalty Tax Rates of 15% (scheduled to return to 39.6% after 2012);
4) Work Opportunity Tax Credit (Expires for any Worker Hired After 2012);
5) Employer-Provided Educational Assistance Tax-Free Fringe (Expires); and
6) Credit For Employer-Provided Child Care Facilities (Expires).

C. MAXIMIZING BONUS DEPRECIATION DEDUCTIONS

The "§168 Deduction":
Perhaps the most significant "targeted" business tax break ***scheduled to expire (for most qualifying property) after 2012*** is the ***50% §168(k) first-year bonus depreciation*** deduction. Although the amount of the §168(k) depreciation deduction has fluctuated from 30% to 100% of the property's cost over the last several years, *qualifying* property ***placed-in-service during 2012*** generally qualifies for ***50% first-year bonus depreciation.***

Caution! The deduction ***expires*** altogether for property placed-in-service ***after 2012*** (after 2013 for certain long-production-period property and qualifying noncommercial aircraft). If you plan to acquire property qualifying for the §168(k) deduction for your business and you do not want to miss out on this deduction, your business must generally ***"acquire"*** and ***"place-in-service"*** qualifying property ***no later than December 31, 2012.***

Planning Alert! In order to qualify for the 50% deduction, the deadline for *acquiring* and *placing in service "qualifying property"* (described below) is generally **December 31, 2012,** whether your business has a ***fiscal tax year*** or ***a calendar tax year.***

The "§179 Deduction":
For the last several years, Congress has temporarily increased the maximum §179 up-front deduction for the cost of qualifying "new" or "used" depreciable business property (e.g., business equipment, computers, etc.). For tax years beginning in 2010 and 2011, the overall cap was increased to **$500,000.** Although the §179 deduction traditionally applied only to depreciable ***"personal"*** property, for tax years beginning in 2010 and 2011, the deduction was temporarily expanded to "qualifying real property."
Caution! For ***tax years beginning in 2012,*** *qualifying real property* ***no longer qualifies***, and the overall §179 cap is ***$139,000*** (this overall cap phases out as your total purchases of §179 property for 2012 increase from $560,000 to $699,000).

Planning Alert! For tax years ***beginning after 2012,*** the maximum §179 deduction is currently scheduled to drop ***to $25,000,*** and the deduction will phase-out as qualifying §179 acquisitions go from ***$200,000 to $225,000.***

Summary:
Although the §168(k) bonus depreciation and the §179 up-front deduction for 2012 are reduced from 2011 levels, both deductions are still significant. To ensure that your capital expenditures qualify for these deductions before they expire (or are reduced) after 2012, please review the following:

1) **Qualifying 50% §168(k) Bonus Depreciation Property.** Property qualifying for the §168(k) bonus depreciation deduction is generally ***new property*** that has a depreciable life for tax purposes of *20 years or less* (e.g., machinery and equipment, furniture and fixtures, cars and light general purpose trucks, sidewalks, roads, landscaping, modern golf course greens, depreciable computer software, farm buildings, "qualified motor fuels facilities", and "qualified leasehold improvements").

   Tax Tip. Make sure you properly classify "land improvements" as "15-year property" (and not as part of the building) since land improvements qualify for the 50% §168(k) bonus depreciation deduction, and buildings (other than "qualified leasehold improvements," farm buildings, and qualified motor fuels facilities) generally do not.

   Planning Alert! These are only *examples* of qualifying property.

2) **Newly-Constructed Or Renovated Buildings And Cost Segregation Studies.** Depreciable components of buildings that are properly classified as depreciable *personal* property under a ***cost segregation study*** are generally depreciated over 5 or 7 years. Since these non-structural components have a depreciable life of 20 years or less, they should qualify for the 50% §168(k) bonus depreciation if either the building or the newly-constructed building improvements are **placed-in-service** in 2012.

3) **Interplay Of The 50% §168(k) And §179 Depreciation Deductions.** The 50% §168(k) deduction and the §179 deduction can apply to the same property (e.g., new business equipment). If both deductions are taken on the same property, the §179 deduction must be

taken first. ***For example,*** let's assume that you are a small business owner who paid $239,000 for a qualifying asset (e.g., new equipment) that was placed- in-service in 2012. Assuming that you want maximum deductions, you would first "elect" to deduct the maximum §179 deduction of $139,000. That leaves a remaining basis of $100,000. Next, you would take the 50% §168(k) bonus depreciation deduction on the remaining $100,000 for an additional deduction of $50,000. That leaves $50,000, for which you can take regular MACRS depreciation. Assuming the asset is 5-year property, you would generally deduct 20% of the remaining $50,000 basis in the first year, for an additional $10,000 depreciation deduction. So, for 2012, you could deduct a total of $199,000 ($139,000 + $50,000 + $10,000), or approximately 83% of the $239,000 cost of the equipment.

Tax Tip. If you have both new and used §179 property acquisitions for 2012 and your total acquisitions of §179 property are more than $139,000, you should generally elect §179 for the *used* property first. Any §179 depreciation taken on used property will not reduce the 50% §168(k) bonus depreciation deduction for the year since the 50% depreciation deduction is not allowed for used assets.

4) Passenger Automobiles, Trucks, And SUVs. The maximum annual depreciation deduction (including the §179 deduction) for most *business automobiles* is capped at certain dollar amounts. For a business auto first placed-in-service in **calendar year 2012,** the maximum first-year depreciation deduction is generally capped at $3,160 ($3,360 for trucks and vans not weighing over 6,000 lbs). However, if the vehicle otherwise qualifies for the 50% §168(k) bonus depreciation (i.e., the vehicle is new) the maximum depreciation deduction is increased by $8,000.

Tax Tip. If you purchase a passenger auto, truck, or SUV in 2012, to qualify for the 50% §168(k) bonus depreciation deduction or the §179 deduction, your business mileage **through December 31, 2012** must ***exceed 50% of*** the total mileage. By keeping your personal use to a minimum, you will maximize your business percentage for 2012 which could significantly increase your 2012 depreciation deduction.

Heavy Vehicles (i.e., > 6,000 lbs.) Trucks and SUVs with loaded rated vehicle weights over 6,000 lbs are generally exempt from the annual depreciation caps discussed above. These "heavy vehicles," if used more than 50% in business, will also qualify for the 50% §168(k) bonus depreciation deduction (if new), and the §179 deduction (whether new or used). However, the §179 deduction for an *SUV* is limited to $25,000 (instead of $139,000).

For example, let's assume that ***in 2012*** you purchase a new "over-6,000 lbs" SUV ***for $50,000*** used entirely for business. If you elect to take the §179 deduction on the vehicle, for 2012 you could deduct: **1)** up to $25,000 under §179, **2)** 50% of the remaining balance as §168(k) first-year bonus depreciation, and **3)** 20% of the remaining cost as regular MACRS depreciation. Thus, for a $50,000 new heavy SUV placed-in-service in 2012, you could write off $40,000 (assuming 100% business use) in 2012.

Planning Alert! Pickup trucks with loaded vehicle weights over 6,000 lbs are exempt from the $25,000 limit under §179 (imposed on SUVs) if the truck bed is at least six feet long.

Caution! If you take the §179 deduction and/or the §168(k) first-year bonus depreciation deduction on your business vehicle, and your business use percentage later ***drops to 50% or below,*** you are required to bring into income a portion of these depreciation deductions taken in previous years.

D. OTHER YEAR-END PLANNING OPPORTUNITIES FOR SMALL BUSINESSES

1) Self-Employed Individuals, Partners, And S Corp Owners Should Take Maximum Advantage Of Deduction For Health Insurance Premiums.
Generally, if you are self-employed, a partner in a partnership, or a more-than-2% shareholder of an S corporation, you may qualify for an "above-the-line" deduction (i.e., unrestricted by the limitations on "itemized deductions") for health insurance premiums you pay for yourself, your spouse, your dependents, and your children under 27 at the end of the year (even if the child is not your dependent). Until recently, there was confusion as to whether Medicare premiums paid by a self-employed individual, partner, or S corporation shareholder qualified for this "above-the-line" deduction. The IRS has now confirmed that if you otherwise qualify for an *above-the-line* deduction for health insurance premiums, you may deduct your Medicare premiums (including ***Part B*** and ***Part D***).

Planning Alert! If you are a partner in a partnership or an S corporation shareholder, and you are paying your 2012 health insurance premiums directly (including Medicare premiums), the IRS says that you should have the partnership or S corporation reimburse you for those premiums ***before the end of 2012*** to qualify for the *above-the-line* deduction. The IRS also says that, if you are an S corporation shareholder, the premium reimbursement must be included in your W-2. For partners, the premium reimbursement must be treated by the partnership as a "guaranteed payment."

2) S Corporation Shareholders Should Check Stock And Debt Basis Before Year End. If you own S corporation stock and you think your S corporation will have a tax loss this year, you should contact us as soon as possible. These losses will not be deductible on your personal return unless and until you have adequate "basis" in your S corporation. Any pass-through loss that exceeds your "basis" in the S corporation will carry over to succeeding years. You have basis to the extent of the amounts paid for your stock (adjusted for net pass-through income, losses, and distributions), ***plus*** any amounts you have personally loaned to your S corporation.

Planning Alert! If an S corporation anticipates financing losses with funds borrowed from an outside lender (e.g., a financial institution), the best way to ensure the shareholder gets ***basis for the loan*** is to:

1) have the shareholder personally borrow the funds from the outside lender, and

2) then have the shareholder formally (with proper and timely documentation) loan the borrowed funds to the S corporation. It also may be possible to *restructure* (with timely and proper documentation) a pre-existing loan from an outside lender directly to an S corporation in a way that will give the shareholder debt basis.

Caution! A shareholder cannot get debt basis by merely guaranteeing a third-party loan to the S corporation. **Please do not attempt to restructure your loans without contacting us first.**

3) **Work Opportunity Tax Credit (WOTC) Extended Through 2012 Only For "Qualified Veterans."**
The popular Work Opportunity Tax Credit (WOTC) for hiring workers from certain disadvantaged groups ***expired for individuals hired after 2011, except for "qualified veterans".*** Congress continued the WOTC for "qualified veterans" to encourage employers to hire certain military veterans. To qualify for the credit, the new employee must be *a **"qualified veteran"*** who is hired ***after November 21, 2011*** and ***before 2013.*** Depending on the "tax" classification of the *"qualified veteran,"* the maximum credit runs from $2,400 to $9,600. In addition, unlike previous WOTC credits, tax-exempt employers (other than government agencies) that hire *"qualified veterans"* may qualify for a *"refundable"* credit of 65% of the credit allowed for taxable employers.

Tax Tip. To qualify for the credit, all employers (including tax-exempt employers) must have the veteran complete IRS ***Form 8850*** "Pre-Screening Notice and Certification Request for the Work Opportunity Credit" on or before the day the veteran is offered employment and must submit that form to the state employment security agency ***no later than 28 days*** after the veteran begins work. You can locate Form 8850 at www.irs.gov. The instructions to the form provide detailed information on the definition of a *"qualified veteran*" and additional information for claiming the credit.

4) **Take Advantage Of The Expiring 2% Social Security Tax Holiday.** Last February, Congress extended ***through December 2012*** the temporary 2% reduction in the Social Security tax for employees and for self-employed individuals. However, since Social Security taxes apply only to the first $110,100 of compensation or self-employment income in 2012, your maximum savings for 2012 will generally be **$2,202** (i.e., $110,100 x 2%). If you are married, and you and your spouse each earn at least as much as $110,100 of wages and/or self-employment income, your maximum combined savings will be $4,404.

Tax Tip. You and/or your spouse should consider accelerating compensation (e.g., by accelerating a bonus, commission, etc.) or self-employment income (e.g., encouraging a customer or client to pay early) into 2012 in order to save the 2% Social Security tax. However, accelerating compensation or self-employment income into 2012 will not save Social Security taxes to the extent your compensation and self-employment income exceeds the $110,100 cap.

Caution! Before accelerating income into 2012 to save the 2% Social Security tax, we should first evaluate the impact on your overall 2012 and 2013 "income" tax liability (state and federal).

FINAL COMMENTS

Please contact us if you are interested in a tax topic that we did not discuss. Tax law is constantly changing due to new legislation, cases, regulations, and IRS rulings. Our firm closely monitors these changes. In addition, please call us before implementing any planning ideas discussed in this letter, or if you need additional information.

Note! The information contained in this material represents a general overview of tax developments and should not be relied upon without an independent, professional analysis of how any of these provisions may apply to a specific situation.

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