

February 2013 Monthly Newsletter

IRS plans a late start to the 1040 filing season

The delayed passage of the *American Taxpayers Relief Act of 2012* has put the IRS behind schedule. Due to several provisions of the law affecting 2012 tax returns, the IRS could not open the Form 1040 filing season for the majority of taxpayers until late January.

Those taxpayers filing Form 5695 (Energy Credit), Form 4562 (Depreciation), and Form 3800 (General Business Credit) will not be able to file until late February or possibly not until March. Apparently a large percentage of taxpayers in this group typically file later in the season because they have more complex returns.

The IRS must complete the updating of forms and computer programming and testing before it is ready to accept any filings either on paper or electronically. The IRS said that taxpayers will receive refunds faster by e-filing and using direct deposit.

If we can be of assistance to you in preparing any of your 2012 tax filings, please contact us.

Straight talk on carrybacks and carryforwards

The timing of taxable income and deductions for federal income tax purposes is relatively straightforward. Generally, income is taxable in the year it is earned and received. Likewise, deductible expenses incurred and paid this year can offset taxable income on this year's return. The Internal Revenue Code is riddled with exceptions, but these basic rules usually apply, especially for calendar-year taxpayers.

The tax law also includes several provisions commonly referred to as "carrybacks" and "carryforwards" (or "carryovers"). As their names imply, the tax item can be carried back to a prior year or carried forward to a succeeding year.

Two items that are often carried forward by individuals are capital losses and excess charitable deductions. For instance, capital losses realized in 2012 offset capital gains plus up to \$3,000 of ordinary income for the year. If you have an excess capital loss of \$10,000, you can carry forward \$7,000 to 2013 after offsetting \$3,000 of ordinary income in 2012.

Similarly, your current deduction for charitable donations may be limited by one or more percentage thresholds in the law. For example, donations of appreciated property are generally limited to 30% of your adjusted gross income (AGI). If you exceed the 30%-of-AGI limit this year, you may carry over the excess for up to five years.

Carrybacks aren't as common, but may also be available in certain situations. Take a "net operating loss" (NOL) sustained by your small business. If you have an NOL in 2012, you can carry back the loss for two years. Thus, you're effectively able to reduce your tax liability for

one or two of the previous years for a refund of taxes already paid. Then you can carry forward any remaining NOL for up to 20 years. If it suits your purposes, you can elect to waive the NOL carryback. For more information on carrybacks and carryforwards, give us a call. We can help you make the best tax return choices for your situation.

Dependents can be a complicated tax issue

Most taxpayers believe that a “dependent” is a minor child that lives with them. While that is essentially correct, dependents can include children and parents, other relatives and nonrelatives, and even children who don’t live with you. There is really much more to the dependent deduction than you might at first imagine.

* Exemptions and your taxable income. For 2012, each dependent deduction is worth \$3,800, reducing your taxable income by this amount. In 2013, the deduction increases to \$3,900 and is phased out for high income taxpayers.

* Dependents defined. It’s impossible to present all of the rules relative to dependents here, since they are so complicated. Generally speaking, if somebody lives with you and you provide more than half of that individual’s support for the entire year, there is a good chance that person is a dependent. There are many exceptions. For example, parents don’t have to live with you if they otherwise qualify, but some other relatives do. A child of divorced parents doesn’t necessarily have to live with the noncustodial spouse for the dependent deduction to apply.

* People who can’t be claimed. Generally, you may not claim a married person as a dependent if that person files a joint return with a spouse. Also, a dependent must be a U.S. citizen, resident alien, national, or a resident of Canada or Mexico for part of the year.

* One dependent deduction per individual. If you claim yourself as your own dependent, anybody else who can truly meet the tests and claim you as a dependent will lose out. This is common for college students who file their own tax returns for their part-time jobs, while mom and dad really meet all of the qualifications to claim the dependent exemption.

While the dependent deduction might seem relatively minor, it can lead to other deductions on the tax return. In order to claim the child tax credit, the education credits, the dependent care credit, for example, you must claim the dependent deduction for the child that qualifies for the deduction or credit.

Finally dependent deductions can be negotiated, which is especially important for divorced taxpayers. In the past, the IRS would accept the language of the divorce decree to allow the noncustodial parent the dependent deduction. However, under the current rules, the IRS will no longer accept a divorce decree in lieu of IRS Form 8332 (Release of Exemption).

February tax filing reminders

- February 28 – Payers must file information returns, such as Form 1099s, with the IRS. This deadline is extended to April 1 for electronic filing.
- February 28 – Employers must send Form W-2 copies to the Social Security Administration. This deadline is extended to April 1 for electronic filing.
- March 1 – Farmers and fishermen who did not make 2012 estimated tax payments must file 2012 tax returns and pay taxes in full.

This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.