

Tax Tips

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Additional Medicare Tax Goes Into Effect in 2013

Some wealthier taxpayers will pay more

The Additional Medicare Tax goes into effect for taxable years beginning after December 31, 2012. An additional tax of 0.9 percent applies to individuals' wages, other compensation and self-employment income over certain thresholds (see below table).

Filing Status	Threshold Amount
Married filing jointly	\$250,000
Married filing separately	\$125,000
Single	\$200,000
Head of household (with qualifying person)	\$200,000
Qualifying widow(er) with dependent child	\$200,000

All wages that are currently subject to Medicare tax are subject to Additional Medicare Tax if they are paid in excess of the applicable threshold for an individual's filing status. There are no special rules for nonresident aliens and U.S. citizens living abroad for purposes of this provision.

Employers are responsible for withholding the tax on wages and other compensation in certain circumstances. The statute requires an employer to withhold Additional Medicare Tax on wages or compensation it pays to an employee in excess of \$200,000 in a calendar year. An employer has this withholding obligation even though an employee may not be liable for the Additional Medicare Tax because, for example, the employee's wages or other compensation together with that

of his or her spouse (when filing a joint return) does not exceed the \$250,000 liability threshold.

There is no requirement that an employer notify its employee when the business begins withholding Additional Medicare Tax. The employer is required to withhold Additional Medicare Tax on total wages, including noncash fringe benefits, in excess of \$200,000. There is no employer match for Additional Medicare Tax.



Fraudulent Mail

New scams target business owners

The IRS has reported that businesses are being misled by individuals trying to collect money to settle bogus IRS tax liens. One of the latest scams comes through the postal mail and poses as an official IRS Notice of Tax Lien. The fake notice includes a toll-free telephone number that does not connect to the IRS. The scam requests money to settle unpaid back taxes to avoid IRS enforcement action. If you receive a notice from the IRS, or individuals posing as the IRS, be sure to consult with your tax professional before responding.

1099-K Reporting

Keep this form handy

Depending on your type of business, you may receive a 1099-K form in your mailbox. Don't throw it out! Your tax professional will need it to prepare your taxes. The Form 1099-K, *Merchant Card and Third-Party Network Payments*, will arrive early in 2013, because it is due to merchants by January 31.

Merchant acquirers and third-party settlement organizations, as payment settlement entities (PSE), must report the proceeds of payment card and third-party network transactions made to you on Form 1099-K. You'll receive the form if you have either accepted credit cards for payments or received payments through a third-party network (like PayPal) that exceeded \$20,000 **and** the total number of such transactions exceeded 200 for the calendar year.

Note: Starting in 2013 there will be a backup withholding requirement similar to other 1099 forms. Merchants and third parties will be required to withhold 28 percent of gross proceeds when a tax identification number has not been provided. Starting with the 2013 tax year, this backup withholding applies for sellers with more than 200 transactions at any income level.

Personal Cell Phones

Do you know what's taxable?

When an employer provides an employee with a cell phone primarily for noncompensatory business reasons, the business and personal use of the cell phone are generally nontaxable to the employee as an excludable fringe benefit. Excludable fringe benefits are not included in wages. If the cost of an item is deductible by an employee as a business expense, it may be excludable from the employee's wages as a working condition fringe benefit if provided by the employer. The IRS will not require recordkeeping of the phone's business use from individuals who receive this tax-free treatment.

When a business provides the employee with a cash allowance or reimbursement to pay for a personal cell phone used for business purposes, the amount is also considered an excludable fringe benefit and nontaxable. However, the employee must maintain the type of cell phone coverage that is reasonably related to the needs of the employer's business. Plus, the reimbursement must be reasonably calculated so as not to exceed expenses the employee actually incurred in maintaining

the cell phone. Additionally, the reimbursement for business use of the employee's personal cell phone must not be a substitute for a portion of the employee's regular wages.





Starting a Business?

Plan ahead

A business plan is an essential roadmap for business success. A well thought-out plan helps you to think objectively about the key elements of your business venture and prioritize your decision-making. Following are some tax items you should consider when writing your business plan.

- **Decide on a Business Structure.** Are you starting this business by yourself or do you have a partnership? Should you be incorporated? Have you thought about becoming a limited liability company (LLC)? Your decision will affect the business's future tax structure.
- **Get a Tax ID.** Not every business needs an employer identification number (EIN) from the IRS, but if you have employees, run a partnership or meet certain IRS criteria, you must obtain one. You also may be required to start paying estimated taxes.
- **Register with Tax Authorities.** Employment taxes, sales taxes and state income taxes are handled at the state-level. You'll need to learn more about your state's tax requirements and how to comply with them.
- **Hiring Employees.** When hiring employees, you'll need to set up records for withholding taxes, reporting to federal and state governments, as well as verifying employee eligibility. You'll also need to obtain workers' compensation insurance and pay the required unemployment insurance taxes.

Meeting with your tax professional before developing a business plan is a great strategy on your part. A tax advisor can help you make the tough decisions that make the most sense for your business.

Quik Tips

- 1 The 2012 business standard mileage rate is 55.5 cents per mile.
- 2 The first year depreciation limit is \$11,160 for passenger automobiles placed in service during 2012 for which 50% first-year bonus depreciation applies. For trucks and vans with bonus depreciation, the first-year depreciation limit is \$11,360.
- 3 The first-year depreciation limit is \$3,160 for passenger automobiles placed in service during 2012 for which bonus depreciation does not apply. For trucks and vans with no bonus depreciation, the first-year depreciation limit is \$3,360.
- 4 Effective in 2012, the IRS began issuing only one employer identification number (EIN) per responsible party per day, a change from the previous limit of five per day.
- 5 Paper coupons may no longer be used for federal tax deposits.
- 6 Through 2013, the maximum Business Health Care Tax Credit for small business employers is 35%.

Accrued Bonuses

Deduct these expenses before they are paid

The IRS has ruled in favor of accrual-method businesses deducting unpaid bonuses at the end of the year. The company must pay the accrued bonuses within 2½ months of the end of its tax year.

There are other caveats with this deduction as well. The employee must be employed on the date the bonuses are paid and the company must be using an incentive-based bonus plan of which the employees are aware. The bonus plan must have an aggregate amount of the bonus payable fixed across a group of employees. However, the

company does not need to know the identity of any particular bonus recipient and the amount payable to that employee until after the end of the taxable year.

If this sounds like a feasible option for your company, talk with your tax professional.

Commuter Benefit Programs

Reward your employees with this unique tax-free benefit

Looking for a new benefit to give your employees? Consider offering a commuter benefit program. This program not only makes your business look more appealing, but it is environmentally friendly and a

tax-free benefit for your employees. Here's how it works. Your company can provide:

- \$125 per employee per month for public transportation (car pool, bus, ferry, rail, etc.).
- \$240 per employee per month for qualified parking.
- \$365 per employee per month for both public transportation and qualified parking.

Alternatively, you can provide your employees \$20 each month for regularly commuting to work via bicycle, as long as they don't receive any other qualified transportation benefits.

