TaxTips

Keeping You Informed ▪ Winter 2012

New Flexible Spending Account Limit

What does this mean for your wallet?

A flexible spending account (FSA) allows an employee to set aside a portion of their paycheck to pay for qualified medical, health and dependent expenses. Money placed into an FSA is not subject to payroll taxes, resulting in savings to the employee. The money not used in an FSA at the end of the year is lost to the employee.

A new 2013 contribution limit only allows employees to deposit a maximum of $2,500 into their account per tax year. Employer contributions to employee FSA accounts are not included in the $2,500 limit. The $2,500 limit does not apply for plan years that begin before 2013; therefore, if your company's plan year is July–June, the $2,500 limit will not begin until July 2013.

Some plans offer a grace period that gives you extra time to claim FSA money before losing it. The grace period might give you up to two months and 15 days after the end of the plan year. Unused contributions to the FSA for plan years beginning in 2012 or later that are carried over into the grace period for that plan year will not count against the $2,500 limit for the subsequent plan year.

Did You Receive an IRS Notice?

Talk to your tax professional right away

Every year the IRS sends millions of letters and notices to taxpayers. If one shows up in your mailbox, don't panic! The IRS may simply be requesting payment of taxes, notifying you of a change to your account, or requesting additional information. Regardless, any notice you receive will normally cover a very specific issue about your account or tax return.

If you receive a notice about a correction to your tax return, you should review the correspondence and compare it with the information on your return. Call your tax professional right away! In most cases, the IRS will require a response within 30 or 60 days, and your tax professional will need time to review the notice and determine the appropriate response. Be sure to keep copies with your tax records of any correspondence between you, your advisor and the IRS.

Adjusting Your Payroll Withholding

Is this a good strategy for you?

Reevaluating your payroll withholding at the end of each year is a good practice that you should consider adopting. If you typically owe a large amount or have a large refund when filing your taxes, adjusting your withholdings is especially important. While you may like the idea of receiving a large tax refund, in reality you're giving the government an interest-free loan.

Work with your tax advisor and spouse to determine how much income you expect to have for the year and consequently how much tax you may owe. Your tax professional can help you fill out a new Form W-4, *Employee's Withholding Allowance Certificate*, in which you will claim the number of allowances that correspond with the proper amount of withholding. Afterwards, you'll need to give the W-4 to your payroll department. The Form W-4 can be filed at anytime that makes sense for you and your family.

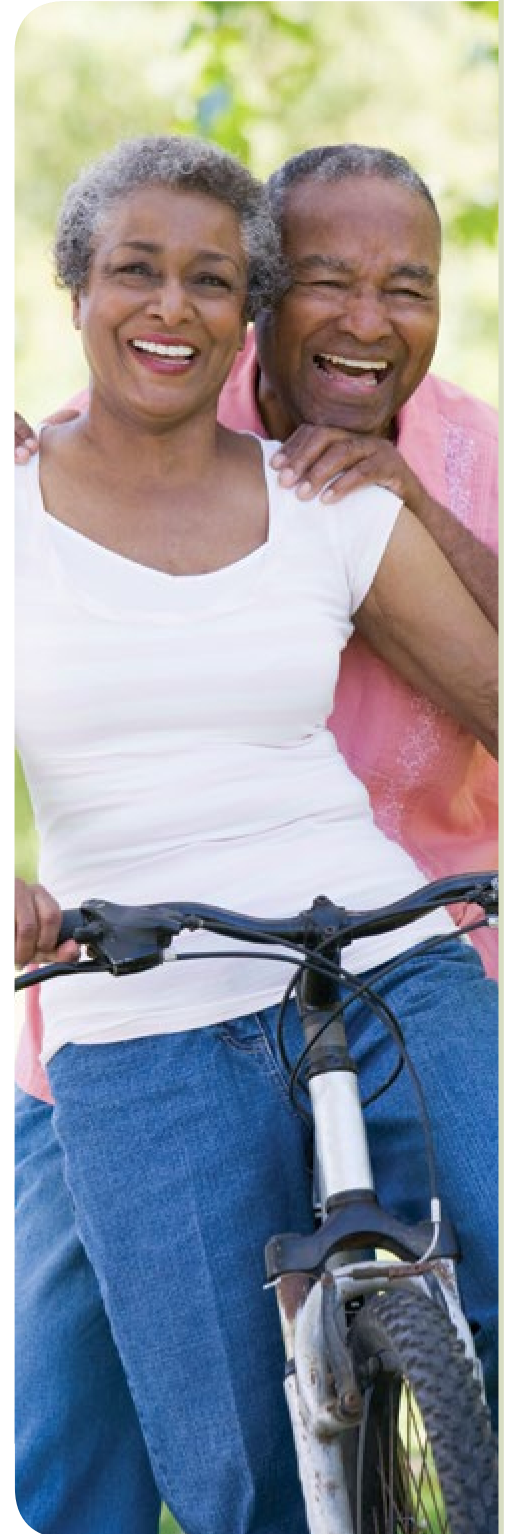
Getting Ready to Retire?

Certain tax issues may affect your social security benefits

Many individuals start thinking about retirement at age 63 and wonder how social security will work once they are no longer working.

Some people have to pay federal income taxes on their social security benefits. This usually happens only if they have other substantial income such as wages, self-employment, interest, dividends and other taxable income that must be reported on their tax return in addition to their benefits. Based on IRS rules, no one pays federal income tax on more than 85 percent of their social security benefits.

Each January retirees will receive a Form SSA-1099, *Social Security Benefit Statement*, showing the amount of benefits they received in the previous year. If they do have to pay taxes on their social security benefits, they can make quarterly estimated tax payments to the IRS or choose to have federal taxes withheld from their benefits. Your tax professional can help you determine how retirement will impact your tax situation.



Good News for Armed Forces Personnel

Five special benefits that can help ease the burden

Military personnel face unique challenges that most other Americans don't. The IRS allows active members of the U.S. Armed Forces certain tax benefits that may help, including:

1. Moving Expenses. If you are a member of the Armed Forces on active duty and you move because of a permanent change of station, you may be able to deduct some of your unreimbursed moving expenses.

2. Combat Pay. If you serve in a combat zone as an enlisted person or as a warrant officer for any part of a month, all your military pay received for military service during that month is nontaxable. For officers, the monthly exclusion is capped at the highest enlisted pay, plus any hostile fire or imminent danger pay received. You can also elect to include your nontaxable combat pay in your earned income for purposes of claiming the Earned Income Tax Credit.

3. Deadline Extensions. The deadline for filing tax returns, paying taxes, filing claims for refund and taking other actions with the IRS is automatically extended for qualifying members of the military.

4. Uniform Cost and Upkeep. If military regulations prohibit you from wearing certain uniforms when off duty, you can deduct the cost and upkeep of those uniforms. However, you must first reduce your expenses by any allowance or reimbursement you receive.

5. Travel to Reserve Duty. If you are a member of the U.S. Armed Forces Reserves, you can deduct unreimbursed travel expenses for traveling more than 100 miles away from home to perform your reserve duties.

Quik *Tips*

1	In 2012, you can gift up to $13,000 to as many individuals as you wish without having to worry about any gift tax consequences to you or your gift recipients. Your spouse can also gift up to $13,000 to the same individuals with no additional tax consequences.
2	For calendar year 2013, the annual limitation on HSA contributions for an individual with family coverage under a high deductible health plan is $6,450, up from $6,250 in 2012. For an individual with self-only coverage under a high deductible health plan, the annual limit is $3,250, up from $3,100 for 2012.
3	An online version of the Social Security Statement is now available at socialsecurity.gov. The new online statement provides eligible workers with access to their social security earnings and benefit information.
4	The Additional Medicare Tax goes into effect for taxable years beginning after December 31, 2012. The statute requires an employer to withhold Additional Medicare Tax of 0.9 percent on wages or compensation it pays to an employee in excess of $200,000 in a calendar year.

The Affordable Care Act

How does the Supreme Court decision affect your taxes?

At the end of June, the Supreme Court upheld the *Patient Protection and Affordable Care Act of 2010*. The Supreme Court's decision stated the government cannot force the public to have health insurance, but the government can tax the public if they don't. What does this mean for you?

Beginning January 1, 2014, under the new law, most individuals who can afford it will be required to obtain basic health insurance coverage or pay a fee to help offset the costs of caring for uninsured Americans. If affordable coverage is not available to an individual, he or she will be eligible for an exemption. Those who can afford health care and are not covered will be assessed a penalty on their tax return.

To help the government determine who has health care coverage, employers have been required to report the cost of coverage under an employer-sponsored group health plan on the employee's Form W-2. Reporting the cost of health care coverage on the Form W-2 does not mean that the coverage is taxable. The value of the employer's contribution to health coverage continues to be excludable from an employee's income, and it is not taxable. This reporting is for informational purposes only and will provide employees useful and comparable consumer information on the cost of their health care coverage.

Overseas Bank Accounts

Do you know what special reporting is required?

If you have a bank account, brokerage account, mutual fund, trust or other type of foreign financial account, you may need to file Form TD F 90-22.1, *Report of Foreign Bank and Financial Accounts* (FBAR).

The IRS requires certain tax-payers to file an FBAR because foreign financial institutions may not be subject to the same reporting requirements as domestic financial institutions. The FBAR is a tool to help the United States government identify persons who may be using foreign financial accounts to circumvent United States tax law. Investigators use FBARs to help identify or trace funds used for illicit purposes or to identify unreported income maintained or generated abroad.

In general, you must file an FBAR when the total value of all foreign financial accounts that you own or have signature authority over exceeds $10,000 at any time during the calendar year. The FBAR is not filed with your federal income tax return; it is an annual report that the Department of the Treasury must receive on or before June 30 of the year following the calendar year being reported. Your tax professional can help you with this filing if required.