



To: Clients, Associates & Friends of Pro@ctive CPA  
From: Mark Wyssbrod, Managing Member  
Date: October 20, 2012  
RE: Tax Planning Time is Now

My new smart phone is amazing. It takes pictures and videos, which I used for my newborn son. Memories we would have forever, except for the fact that the smart phone died and all of the images and videos were lost. Why? Because the smart phone didn't come with a memory card! I pondered for a moment: if something is that critical then (1) why didn't the phone come with it, and (2) why wasn't I informed on the front-end of its importance?

The connection here is that this happens with our tax positions all of the time! Many times we are left bemoaning: "If I only knew the rules and options, I would have done it the right way to get the tax deduction!" Planning and knowledge is important; no, it is critical in this small business economic environment!

The time to plan for your 2012 and 2013 income taxes is now! I have provided some general ideas for taxpayers to consider now, although the best course of action is to meet with your tax advisor.

Best wishes,

Mark W.

### Individuals

- Review employee benefits and be certain they are structured in the most tax efficient way
  - Do you know your benefits?
  - Are you using the employee benefits to help meet your financial goals?
- Saving more
  - Should you save inside a retirement or in a regular savings account?
    - Do you know the tax benefits of a Traditional Retirement Vehicle, Roth variation of a retirement vehicle and a regular investment account?
      - How should you allocate between these?
        - Liquidity
        - Current tax savings vs. future tax savings
- Be aware of changes to the tax rules!
- Alternative Minimum Tax's (AMT) exemption was cut in half which may trigger up to \$8,000 more in taxes for middle class wage earners
- Many federal tax credits are being decreased or simply are not available any more
- Purchase federal and state tax credits (if you can purchase them for a fraction of the tax cost and you do not mind the additional complexity and risk to your tax returns)

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- Be prepared for 2013 when social security in employees pay checks increase back to 6.2% (from the current 4.2%) and income tax rates rise on average 2-3%. Are you receiving a 5%+ raise to cover the increase in taxes? If not, plan your budget today!

## General Businesses

- Review structure of employee benefit rules
  - The Health Care Act has changed the discrimination rules and testing
    - You should hire an employee plan expert (not health insurance agent) to review and update your employee benefit plans
- Hold annual corporate meeting and update minutes
- Review (or create) business plan and strategy
- Set up or change retirement plan type
- Prepare written documentation for employee benefit plans (you might have heard you can deduct certain expenses, but if you read the regulations, you will probably have to have a documented plan which is communicated to employees)
- Calculate cash flow projections and financial forecasts
- Review financial position and working capital requirements

## S-corporations

- Is your officer compensation to distributions reasonable?
  - Zero wages (i.e. no W-2) can lead to the IRS telling you what your wages should be
  - Officer compensation needs to be "reasonable"
    - Officer wages should be the same or greater than distributions
    - Officer wages should equal the same salary a third-party employer would have to pay an employee to retain their service
- Employee benefits need to be reported on Officer's W-2s W-2
  - Health insurance and long-term care insurance needs to be reported as officer compensation and shown as a part of taxable wages and in the information box on the Officer's W-2 (Box 1 and Box 14)
- Be certain all (especially with a related party) loans and equity distributions are documented

## C-corporations

- Review bonuses for officers and owners
  - Which tax rates are more efficient; remitting corporate income tax or individual income tax (remember payroll taxes are remitted with compensations!)?
- Any retained earnings greater than \$250,000 need to be ear-marked for a specific use
  - The excess not ear-marked is subject to an excise tax if not distributed to owners via dividend distribution
- Be certain all (especially with a related party) loans and equity distributions are documented

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## Partnerships

- Be prepared for income to be subject to both income taxes as well as self-employment taxes
  - For individuals who are partners and are actively involved with the business operations would be aware their portion of income will be subject to income tax and self-employment tax
    - Self-employment tax is Social Security and Medicare. Since the partner is the employee and the employer, they are required to pay both the employee and the employer's portion. In 2012 the total tax can be up to 13.3%, but in 2012 the tax increases back to the traditional 15.3% level
- Unreimbursed Partner Expenses (UPE)
  - Partners have the ability to deduct expenses they incurred for their business directly against their income
    - A written documentation at the partnership levels needs to be prepared in order allow UPE
- Retirement Plan Matches
  - The partnership needs to inform all partners the retirement match percentage
    - All partners need to contribute the same retirement match percentage
      - i.e. Bob cannot contribute the maximum match of 25% if Mary is only contributing 5%

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## Deadline Reminder

### Important Dates to Remember

- **November 15** - Final filing deadline for tax-exempt organizations with a calendar year-end
- **December 31** - S-corporation owners must report health insurance in W-2 for favorable tax treatment
- **December 31** - Deadline to set up SEP, 401(k) and other retirement plans. You may need to fund the plans by this date as well
- **December 31** - Final day to set up a retirement plan for 2012 for small businesses and employee benefit plans for 2013



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