

“BECAUSE ACCOUNTING MATTERS AND WE KNOW IT”

VOS CPAs, PLLC 80 Orville Drive, Suite 100, Bohemia, NY 11716 * 31 Park of Commerce Way, Suite 500, Savannah, GA 31405

www.voscpas.com

A Message from Our President

By Heather N. Vinas, President & COO

I hope this latest edition of our newsletter finds all of you in great spirits and ready for a year filled with promise. As we have all seen the effects from the economy, now more than ever, we want to believe that the worst is behind and that promising times lie ahead. As an election year can create anxiety and stress, it can also create hope and your attention on what matters most—life. Life is not a race to the finish line, but rather a journey. There will always be obstacles and hardships that we are faced with, but it is not those issues that define us; it is how we handle them and what we do about them. Some things are better left where they belong. It all happens the way it is supposed to. In our home, I have a famous quote that I look to at least 3 times daily; it says “Life is not about waiting for the storm to pass. It’s about learning to dance in the rain.” Think about that for a moment. Isn’t it true? So as we start off with a beautiful spring and a year of promise, let’s try to remember what matters most and make the most of it! I wish all of you days ahead that bring you new blessings, positive relationships, and peaceful moments that you are able to relish in.

-Heather N. Vinas

An attitude of gratitude creates blessings.

- Sir John Templeton

Employee Social Security Tax Rate Decrease Extended Through 12/31/12

Under the Middle Class Tax Relief and Job Creation Act of 2012, signed by the President on February 22, 2012, the temporary decrease in the employee Social Security tax rate from 6.2% to 4.2% has been extended through December 31, 2012.

Therefore, the maximum employee contribution for 2012 will be \$4,624.20 (\$110,100 taxable wage limit @ 4.2%).

Under the former legislation, the Temporary Payroll

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Tax Cut Continuation Act of 2011, it was to be in effect only from January 1, 2012 to February 29, 2012. The lower rate is for the employee portion only; the employer rate remains 6.2%

There continues to be no impact on the tax rate for Medicare. Both the employee and the employer rates remain unchanged at 1.45% with no wage base limit.

Recaptured Tax Repealed

The “recapture” provision under the Temporary Payroll Tax Cut Continuation Act of 2011, which would have imposed an additional 2% income tax on employees who received more than \$18,350 (up to \$110,100) in wages during the two-month period of January 1, 2012 to February 29, 2012 has been repealed. This tax was originally going to be an add-on to the income tax liability that the employee would otherwise pay for 2012 when they filed their income tax return. to make one major point. The making of this point can be achieved through two to five (or so) sub-points.

Written By: ADP Tax Researcher



~ The IRS Corner ~

Tax Credits Available for Certain Energy-Efficient Home Improvements

The IRS would like you to get some credit for qualified home energy improvements this year. Perhaps you installed solar equipment or recently insulated your home? Here are two tax credits that may be available to you:

1. The Non-business Energy Property

Credit Homeowners who install energy-efficient improvements may qualify for this credit. The 2011 credit is 10 percent of the cost of qualified energy-efficient improvements, up to \$500. Qualifying improvements include adding insulation, energy-efficient exterior windows and doors and certain roofs. The cost of installing these items does not count. You can also claim a credit including installation costs, for certain high-efficiency heating and air conditioning systems, water heaters and stoves that burn biomass fuel. The credit has a lifetime limit of \$500, of which only \$200 may be used for windows. If you've claimed more than \$500 of non-business energy property credits since 2005, you cannot claim the credit for 2011. Qualifying improvements must have been placed into service in the taxpayer's principal residence located in the United States before Jan. 1, 2012.

2. Residential Energy Efficient Property Credit This tax credit helps individual taxpayers pay for qualified residential alternative energy equipment, such as solar hot water heaters, solar electricity equipment and wind turbines. The credit, which runs through 2016, is 30 percent of the cost of qualified property. There is no cap on the amount of credit available, except for fuel cell property. Generally, you may include labor costs when figuring the credit and you can carry forward any unused portions of this credit. Qualifying equipment must have been

installed on or in connection with your home located in the United States; fuel cell property qualifies only when installed on or in connection with your main home located in the United States.

Not all energy-efficient improvements qualify so be sure you have the manufacturer's tax credit certification statement, which can usually be found on the manufacturer's website or with the product packaging.

If you're eligible, you can claim both of these credits on Form 5695, Residential Energy Credits when you file your 2011 federal income tax return. Also, note these are tax credits and not deductions, so they will generally reduce the amount of tax owed dollar for dollar. Finally, you may claim these credits regardless of whether you itemize deductions on IRS Schedule A.



Small Businesses Can Benefit from Higher Expensing / Depreciation Limits

For tax years beginning in 2010 and 2011, small businesses can expense up to \$500,000 of the first \$2 million of certain business property placed in service during the year.

In general, businesses can choose to treat the cost of certain property as an expense and deduct it in the year the property is placed in service instead of depreciating it over several years. This property is frequently referred to as section 179 property, after the relevant section in the Internal Revenue Code.

Section 179 property is property that you acquire by purchase for use in the active conduct of your trade or business, including:

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Small Businesses continued from page 2

- Tangible personal property.
- Other tangible property (except buildings and their structural components) used as:
 1. An integral part of manufacturing, production, or extraction or of furnishing transportation, communications, electricity, gas, water, or sewage disposal services;
 2. A research facility used in connection with any of the activities in (1) above; or
 3. A facility used in connection with any of the activities in (1) above for the bulk storage of fungible commodities.
- Single purpose agricultural (livestock) or horticultural structures.
- Storage facilities (except buildings and their structural components) used in connection with distributing petroleum or any primary product of petroleum.
- Off-the-shelf computer software.

Section 179 property generally does not include land, investment property (section 212 property), property used mainly outside the United States, property used mainly to furnish lodging and air conditioning or heating units.

The Small Business Jobs Act (SBJA) of 2010 increases the section 179 limitations on expensing of depreciable business assets for tax years beginning in 2010 and 2011 and expands temporarily the definition of section 179 property, for tax years beginning in 2010 and 2011, to include certain qualified real property a taxpayer elects to treat as section 179 property. Qualified real property means qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property.

The \$500,000 amount provided under the new law is reduced, but not below zero, if the cost of all section 179 property placed in service by the taxpayer during the tax year exceeds \$2 million.

For tax years beginning in 2012, the maximum amount is \$125,000; before enactment of the 2010 tax relief legislation, it was set at \$25,000.



New IRS Fresh Start Initiative Helps Taxpayers Who Owe Taxes

The Internal Revenue Service has expanded its "Fresh Start" initiative to help struggling taxpayers who owe taxes. The following four tips explain the expanded relief for taxpayers.

Penalty relief Part of the initiative relieves some unemployed taxpayers from failure-to-pay penalties. Penalties are one of the biggest factors a financially distressed taxpayer faces on a tax bill. The Fresh Start Penalty Relief Initiative gives eligible taxpayers a six-month extension to fully pay 2011 taxes. Interest still applies on the 2011 taxes from April 15, 2012 until the tax is paid, but you won't face failure-to-pay penalties if you pay your tax, interest and any other penalties in full by Oct. 15, 2012.

1. The penalty relief is available to two categories of taxpayers:

- * Wage earners who have been unemployed at least 30 consecutive days during 2011 or in 2012 up to this year's April 17 tax deadline.
- * Self-employed individuals who experienced a 25 percent or greater reduction in business income in 2011 due to the economy.

To qualify for this penalty relief, your adjusted gross income must not exceed \$200,000 if married filing jointly or \$100,000 if your filing status is single, married filing separately, head of household or

Please see *IRS Fresh Start* on page 4

IRS Fresh Start from page 3

qualifying widower. Your 2011 balance due cannot exceed \$50,000. Taxpayers who qualify need to complete a new Form 1127A to request the 2011 penalty relief. The new form is available on www.irs.gov or by calling 1-800-829-3676 (TAX FORM).

2. Installment agreements An installment agreement is a payment option for those who cannot pay their entire tax bill by the due date. The Fresh Start provisions give more taxpayers the ability to use streamlined installment agreements to catch up on back taxes and also more time to pay.

The new threshold for requesting an installment agreement has been raised from \$25,000 to \$50,000. This option requires limited financial information, meaning far less burden to the taxpayer. The maximum term for streamlined installment agreements has been raised to six years from the current five-year maximum. If your debt is more than \$50,000, you'll still need to supply the IRS with a Collection Information Statement (Form 433-A or Form 433-F). You also can pay your balance down to \$50,000 or less to qualify for this payment option.

With an installment agreement, you'll pay less in penalties, but interest continues to accrue on the outstanding balance. In order to qualify for the new expanded streamlined installment agreement, you must agree to monthly direct debit payments.

You can set up an installment agreement with the IRS through the On-line Payment Agreement (OPA) page at www.irs.gov

3. Offer in Compromise Under the first round of Fresh Start in 2011, the IRS expanded the Offer in Compromise (OIC) program to cover a larger group of struggling taxpayers. An Offer in Compromise is an agreement between a taxpayer and the IRS that settles the taxpayer's tax liabilities for less than the full amount owed.

The IRS recognizes many taxpayers are still struggling to pay their bills so the agency has been working on more common-sense changes to the OIC program to more closely reflect real-world situations. Generally, an offer will not be accepted if the IRS believes that the liability can be paid in full as a lump sum or through a payment agreement. The IRS looks at the taxpayer's income and assets to make a determination regarding the taxpayer's ability to pay.

4. More information A series of eight short videos are available to familiarize taxpayers and practitioners with the IRS collection process. The series "Owe Taxes? Understanding IRS Collection Efforts", is available on the IRS website, www.irs.gov. The IRS website has a variety of resources available to help taxpayers meet their payment obligations.



IRS Tax Tip 2012-54 Employee Business Expenses

Some employees may be able to deduct certain work-related expenses. The following facts from the IRS can help you determine which expenses are deductible as an employee business expense. You must be itemizing deductions on IRS Schedule A to qualify.

Expenses that qualify for an itemized deduction generally include:

- Business travel away from home
- Business use of your car
- Business meals and entertainment
- Travel
- Use of your home
- Education
- Supplies
- Tools
- Miscellaneous expenses

You must keep records to prove the business expenses you deduct. For general information on recordkeeping, see IRS Publication 552, Recordkeeping for Individuals available on the IRS website at www.irs.gov

Metropolitan Commuter Transportation Mobility Tax (MCTMT) Changes



NYS Dept. of Taxation & Finance

Self-Employed Individuals

(including partners and members)

For tax years beginning on or after January 1, 2012, you're not subject to the MCTMT if your net earnings from self-employment allocated to the MCTD are \$50,000 or less for the tax year. (The threshold has increased from \$10,000 to \$50,000.) **NOTE:** You are still required to file your annual return for tax year 2011 on April 30, 2012 if your net earnings exceeded \$10,000 in 2011.

Employers

Beginning with the second quarter (4/1/12 - 6/30/12), if your payroll expense for the quarter:

- Is \$312,500 or less, you are not subject to the MCTMT for that quarter.
- Exceeds \$312,500, use the appropriate rate shown on chart

Payroll Expense	MCTMT Rate
Over \$312,500 but not over \$375,000	.11% (.0011)
Over \$375,00 but not over \$437,500	.23% (.0023)
Over \$437,500	.34% (.0034)

Note: The payroll expense threshold for the *first quarter* remains \$2,500 and the rate remains .34%. If your payroll expense exceeds \$2,500 for January 1, 2012 through March 31, 2012, you are subject to the MCTMT and must file a first quarter return due April 30, 2012.

The definition of an employer now excludes additional educational institutions beginning with the second quarter. For additional information, see [*TSB-M-12\(1\)MCTMT, Legislative Amendments to the Metropolitan Commuter Transportation Mobility Tax*](#)

It Could Happen...

News that Makes You Go Hmmm...

TaxMasters Goes Bankrupt

Tax resolution chain TaxMasters has filed for Chapter 11 bankruptcy protection.

By Michael Cohn, Accounting Today

The firm, which widely advertised its ability to help taxpayers settle their tax disputes with the IRS in TV commercials featuring CEO Patrick Cox, filed a bankruptcy petition in Houston on Sunday, according to Reuters. The chain listed assets of less than \$50,000 and liabilities of between \$1 million \$10 million.

The firm has been sued by the state attorneys general in both Texas and Minnesota who have accused the firm of deceptive business practices, according to Forbes. Texas officials accused the chain of refusing to perform work on behalf of clients trying to resolve their tax debts until their fees were fully paid, even if they missed IRS deadlines. Texas Attorney General Greg Abbott's office had received over 1,000 complaints.

TaxMasters joins two other high-profile tax resolution chains, JK Harris and "Tax Lady" Roni Deutch, which went out of business in the past year amid consumer complaints and after running afoul of state attorneys general (see JK Harris Goes out of Business and "Tax Lady" Roni Deutch Closes Firm Amid Allegations). Harris's customer records have been purchased by another tax resolution firm, Resolute Tax Services.



List of Business Management Tips for 2012

The way contractors prepare and react to differing economic environments determines whether they thrive or fail.

To prosper in 2012, contractors must be proactive and take control of critical business issues. Below is a list of business management tips to serve as help to position your business for a successful year.

1. **Change your attitude.** If you think 2012 will be a good year for business, then it will be. But if you think it will be a bad year, then it will be bad. Zig Ziglar said, "People often say that motivation doesn't last. Well, neither does bathing—that's why we recommend it daily." Attitude becomes a self-fulfilling prophecy. As the leader of your business, your attitude and beliefs will filter throughout your company. If you always have a positive attitude, your company will reflect this, and success will be much easier to achieve.
2. **Hire good salespeople.** I once went on a sales call with a salesman who obviously did not know all the steps in the sales process. He made a great presentation, but he failed to ask open or closed questions in a systematic manner. Even worse, he answered a probing question that I had directed to the prospect—instead of allowing the prospect to answer. And then he failed to ask for the sale. Does your sales staff make the same mistakes?
3. **Train your sales staff on prospecting.** In business-to-business sales, the telephone should be your sales staff's best friend. Many salespeople have a fear of the phone, rejection and those in authority. You will have more than enough prospects to turn into sales if you teach your salespeople how to find prospects in their everyday activities.
4. **Obtain more referrals.** Teach your staff how to get referrals to keep them from chasing cold calls.
5. **Teach all staff good customer service.** More than one sale has been landed by a personable and well-trained receptionist after the official salesman had failed to close the deal. A sale starts when anyone enters your establishment.
6. **Be pro-active about A/R collections.** Due to the recession, many companies' receivables have increased to greater than 90 days. This delay in collecting can cause companies to use their line of credit and pay for the privilege. Instead of being able to bank the money and earn interest, many companies borrow extravagant amounts just to stay afloat.
7. **Use managerial accounting.** Managerial accounting helps managers within the company make decisions, while financial accounting only provides information to parties outside the company. By changing from financial accounting (that does little more than tell you how much tax to pay) to managerial accounting, you can improve job profitability, reduce gross margin shrinkage and greatly increase cash flow. This takes work, but the pay back is incredible.
8. **Questions to Consider**

Take a hard look at the current state of your business. How would you respond to these important questions?

 - What are my financial goals—revenue, operations and capital for 2012?
 - Do I have a business plan to achieve these goals?
 - What markets will achieve my sales goals?
 - What is my most competitive offering? How can I use unique selling propositions?
 - Do I sell features or benefits?
 - Is my estimating, accounting and project management software up for the challenge?
 - Can my employees deliver? Do we have a training schedule in place?
 - What can I invest in now that will give me the largest ROI?
 - How can I increase staff productivity?