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2012 YEAR-END TAX LETTER

Dear Clients,

This annual letter is provided to help you better organize toward year end tax planning and your 2012 tax appointment. Please pay special attention to page 3, where I've highlighted important 2012 changes.

You will be getting your prescheduled appointment letter in the next week. We try our best to give you a correct appointment. Unfortunatly, our Verizon phone system is still not back after Hurricane Sandy, please be paitent if you get a busy signal when you call us.

For all communication it's very important for us to have an updated email address for you, as well as all phone numbers you can be reached at, in order for us to confirm with you during the week of your appointment.

Corporation, Partnership, Estate and Trust tax returns are due March 15th. If you have to do one of these returns please get the information to us, Ira Grossbach, or the preparer of your choice by early February.

Extensions: Remember that the extension only extends your time to file; it doesn't extend your time to pay. Please let us know if you plan to file an extension and send us your preliminary information before April 1st. We will let you know if we need direct debit banking info for your extension.

Best wishes for a healthful and fun holiday season, and a happy and healthy New Year.

Sara

Sara and the staff of the Sara Brandston Group.
(and Chloe's new baby Nicholas)

INSIDE THIS ISSUE:

□ **Sales of stocks and mutual funds**-if your Brokerage firm allows you to download a spreadsheet of your sales and cost basis- please let us know. The IRS rules on sales reporting is cumbersome. Having a downloadable spreadsheet might make our work easier, and reduce any additional computation fees we will charge.

□ **If you sell your home** that you previously received a credit for, we may need to re-capture that credit.

□ **Noncustodial parents claiming children** need a signed IRS Form 8332 to claim the child.

□ **Adoption costs** if applicable. Also bring the legal adoption documents. You will have to attach copies of all documents to your tax return.

□ **Bring IRA year-end statements.**

□ **Bankruptcy or divorce papers.**

□ **Bring all other statements of income,** whether you think they are taxable or not.

□ **Bring bankaccountinformation** for direct deposit or debit processing.

Time to get organized

The following checklist will help you collect the documents you'll need to file your tax return. When all of the boxes are checked, you're ready.

□ **Your last 3 years' tax re turns** *(new client).*

□ **Social Security numbers and dates of birth** are needed for all taxpayers, spouses and dependents.

□ **Your last paycheck stub of the year.**

□ Records showing income and expense for any business or rental property you own will be needed.

□ **If you received Forms 1099-K for internet or credit card sales** please bring them.

□ **Year-end statements from mutual funds** showing the transaction detail for the year.

□ **Purchase and sale information,** including dates, relating to any-thing sold during 2012.

□ **If you paid an individual person $600 or more for services rendered in conection with your business or rental property, please provide their name, address, and Social Security number.**

□ **W-2 Forms.**

□ **Bring your records of estimated taxes paid.**

□ **If you have an investment in a Partnership, S Corporation, Estate or Trust** you will need to bring Forms K-1.

□ **Details on all noncash donations greater than $500.** Include date, place, fair market value, and original cost.

□ **Forms 1098-T** and amounts paid for post-secondary tuition are needed.

□ **Child care provider information** (name, address, SS#, amount paid), *even if you are reimbursed at work.*

□ **1099 Forms for interest, dividends, retirement, Social Security, debt cancellation, and unemployment.**

□ **Property tax statements.**

□ **If your mortgage was forgiven due to foreclosure,** bring Form 1099-C or 1099-A.

□ **If you bought a new home or refinanced your existing home** bring the closing papers.

□ **Information on energy saving solar, wind, or geothermal home improvements** might get you a tax credit.

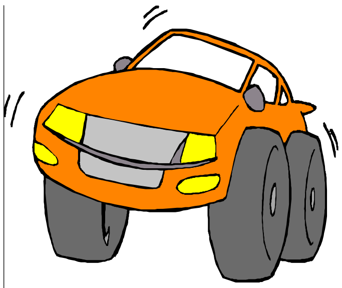
□ **Names, addresses, and Social Security numbers** from individuals and lawyers you received interest, or to whom you paid interest.

□ **If you purchased a new fuel cell or electric vehicle in 2012,** bring the year, make and pur-chase date.

□ **Form 1098-C for donations of automobiles or boats.**

□ **Forms 1098 for mortgage interest.**

□ **Student loan interest forms 1098-E.**



__Caution__: the IRS is very attentive to taxpayers who write off local travel costs.

A daily log of business use is essential. Also, don't forget to record the beginning and the year-end odometer readings.

There are multiple apps now available to make recording your business milage more convenient.

DEDUCTING MILEAGE?

You may be able to deduct miliage for chritable volunteer work, medical visits and business. Please compile each category separately.

If you drove for business purposes, the situation is a little more complicated: First decide which miles qualify.

Use the following three scenarios to determine how many miles you can deduct:

Keep in mind the following statement: **In general, commuting is not deductible.**

If you have an office in your home that qualifies for a home office deduction, all of your business-related mileage is deductible.

If you work out of your home but do not qualify for the home office deduction, the distance between home and your first stop and between your last stop and home are nondeductible commuting miles. You should carefully plan to have your first and last stops close to home to maximize the mileage deduction. A trip to the bank, post office, or a nearby supplier can help increase deductible business miles.

Once you have determined which miles to count, you need to decide whether to use the *standard mileage* rate or actual expenses.

The ***standard mileage rate*** *for qualified business use* for 2012 is **55.5¢ per mile.**

Don't forget to record the year-end odometer reading if you are planning on a business mileage deduction.

If you keep an appointment book, it already shows where you went, so you can write a mileage total on each day without keeping a separate book. Do whatever works best for you.

In general, the standard mileage rate works best if your business mileage is high or your car is economical to operate.

The actual expense method works best if your vehicle weighs over 6000 pounds, is costly to run, or you do not drive many miles in total.

DO YOU WORK AT HOME?

If you are self-employed, you may qualify for the home office deduction if you use a portion of your home **exclusively** as your principal place of business, to store inventory, or to conduct substantial management or administrative activities. There can be no other fixed location where the above activities can be done.

If you are an employee, your home office must be required by your employer.

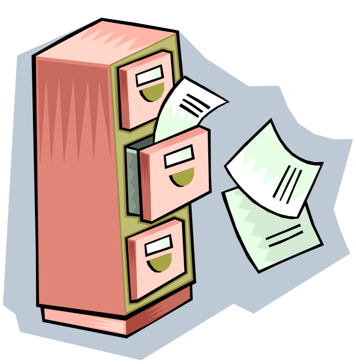
The office space still needs to be **used regularly and exclusively for business.** You can not have any other usage of the area whatsoever. Using your office for personal or investment reasons eliminates the deduction as far as the IRS is concerned, so be careful to keep your office space and computer usage all business.

Having a deductible home office means you can deduct all of your local business travel as described earlier, and you will not have to keep a log of computer usage because your computer will be used exclusively for business.

If your office qualifies, you will need additional information: Measure the business space and the total space. You will also need your mortgage interest, taxes, insurance, association fees, repairs, maintenance, utilities, garbage, security, and rent paid. Also, provide an accounting of the total investment in your home.

To avail yourself of tax deductions, you need to be organized and well documented.

Save proof of all tax deductible purchases.



COMPUTER & CELL PHONE GUIDELINES

Did you buy a computer that you would like to deduct? You can use the following guide to determine what is deductible.

If you are an employee, a computer must be required as a condition of employment and for the convenience of your employer to be deductible.

If you are self-employed, the business percentage of computer usage, measured by time, is deductible.

If you are a student, the use of a computer is not deductible, but you can tap your 529 plan for a computer purchase.

Keep a log of computer usage to support your deduction.

Cell phone deductions are as follows:

Employers providing cell phones do not have to r equire records of use to provide tax-free cell phones to employees.

Employees required to use cell phones for work can deduct cell phone use to the extent used for business.

Self employed individuals can deduct business cell phone usage. The IRS, however, still has a hard time believing a cell phone is 100% for business. It's wise to keep a log of use.

WHAT'S NEW FOR 2012?

How will you fare?

Every taxpayer benefits from the same low rates as in 2011.

Are you a worker? You may or may not have noticed that Congress is still giving you a "payroll tax holiday" for 2012. Instead of extracting 6.2% from your paycheck for Social Security, 4.2% is being taken. If you're spending it all, you're doing your part to stimulate the economy.

Are you self-employed? The "payroll tax holiday" will also benefit you at tax time. Your self-employment tax calculation will be reduced by 2% as it was in 2011.

Are you married? You were saved once again from the marriage tax penalty for 2012.

Do you have young children? You can still benefit from the Child Tax Credit, the Earned Income Credit, and the Dependent Care Credit at the same levels as in the past.

Do you have children in college? The American Opportunity Tax Credit is still a part of your tax picture if you meet the qualifications. The credit of up to $2,500 has helped many taxpayers to finance higher education.

Are you an investor? You are still in luck. Capital gains and qualified dividends are still free of Federal tax in the 10% and 15% tax bracket and 15% in all higher brackets. Don't count on this special break after this year. The free capital gains are scheduled to end on December 31 of 2012.

Are you paying on student loans? The interest on old loans of up to $2,500 is still deductible as it was in 2011.

Did you do a 2010 Roth conversion? If you deferred the tax to 2011 and 2012, the second installment is due.

Do you pay mortgage insurance premiums? They are no longer deductible as an item-ized deduction.

Did you finally buy new windows or insulation? There is no longer an energy credit.

Do you own stock in an insurance company that demutualized? Another court case has surfaced in your favor. It appears that you will someday have a basis other than 0 on your stock.

Are you part of a same-sex relationship? The courts are finally deciding in your favor in many tax related situations.

Do you owe the IRS? Under its "Fresh Start" initiative, the IRS is offering:

● Failure to pay penalty relief to some unemployed individuals,

● Streamlined installment agreements to catch-up on back taxes, and

● An Offer in Compromise program that will benefit more taxpayers.

Are you a college-bound student tackling the FAFSA form? The IRS has created an automated system to help you access the data you need and minimize the time spent.

Do you make contributions to charity? Make sure you have accurate documentation for all gifts. In two 2012 court cases, taxpayers lost large deductions: In the Durden case, a couples church donation statement did not state that no goods or services were given for the donation, and the IRS denied the deduction because accurate documentation was not in hand before filing.

In the Mohamed case, the taxpayer lost a deduction for millions of dollars worth of property due to lack of a proper appraisal.

Don't let these things happen to you. Save proper documentation of all gifts to charity.

You must have the required documentation in your files by April 15th.

Are you facing foreclosure on your principal residence? The IRS granted a special excuse to erase the taxation of debt forgiveness on principal residence mortgages that were incurred to purchase or improve a principal residence. This special excuse is scheduled to expire on December 31, 2012. Unless Congress grants an extension of this provision, you could face cancellation of debt income in 2013.

The Health Care legislation that was passed in 2010 was backed by the court system in 2012. The tax provisions that still may affect you in future years are listed below:

Changes taking effect in 2013:

● High earning workers will pay an additional Hospital insurance tax of .9% on wages over $200,000 (single) or $250,000(married/joint).

● High income individuals with incomes over $200,000 (single) or $250,000(married/joint). will pay a surtax of 3.8% on unearned income.

● The threshold for deducting medical expenses will increase to 10% for those under age 65.

● Annual FSA contributions will be capped at $2,500.

● Health plans will pay an annual fee.

Changes taking effect in 2014:

● Large employers not offering health insurance must pay a penalty.

● Individuals not having health insurance face a penalty.

The tax rates, exemptions, standard deduction, and many items related to the tax we pay are the same as 2011. The tax tables were slightly indexed, however, so 2012 should not bring any tax surprises.

FBARs

Foreign investment and savings account reporting continue to be very important to the IRS. In addition to providing interest and dividends earned on foreign accounts, we need to have record of all your 2012 monthly foreign account balances.

Please ask if this applies to you. Let us know and we will send you a detailed list of what you need to provide.

YEAR-END TAX SAVING TIPS

GIVE TO CHARITY

Not sure of where to start? Try charitynavigator.org for guidance.

Short of cash? You can still make a last minute gift. Charge your deductions on a credit card and pay later. Consider giving through www.justgive.org. You can privately give to thousands of rated charities with a credit card. Your donation goes directly to the charity, and www.justgive.org will send you a confirmation and a year-end summary to satisfy documentation requirements.

Or, better yet, you don't even have to spend money to take a charitable deduction. Clean out your closets of unwanted items to make a noncash gift. Keep in mind, the items must be in at least good condition. You should omit items of minimal value (socks and underwear), and thoroughly document the donation.

If you plan on donating a vehicle before year-end, beware of the rules. Select a charity that will either use or improve the vehicle, and you will be able to deduct *fair market value*. Otherwise your deduction will be limited to the price the charity got when they sold the vehicle. The charity will give you a 1098C documenting the contribution. The 1098C needs to be attached to your tax return.

If you have a stock or piece of property that has increased in value, you can deduct the full value and avoid paying capital gains tax by donating it to charity. If you want to give stock that has fallen in value, sell the stock, take the loss, and give the money to charity.

Keep in mind that proof of payment is needed for donations of any size. Proper documentation is essential.

CHECK YOUR TAX PAYMENTS TO AVOID PENALTIES

The IRS will charge a penalty if your tax for 2012 is less than 90% prepaid unless your payments are at least equal to last year's tax. (110% of last year's tax if your income exceeds $150,000).

You can boost your itemized deductions, and possibly save yourself from a penalty, by sending your last state estimated tax payment before December 31st or by stepping up your state withholding. (If you are subject to AMT, don't do this.)

CHECK YOUR PORTFOLIO

If you are in the 15% tax bracket or lower (gross income under $45,100 single or under $90,200 married) you may be able to sell stocks or property at a gain in 2012 and pay no Federal tax. If you are in the above tax range, or even higher if you itemize, it might be wise to check out the possibility. 2012 will be your last chance for this tax break.

If you missed out on last year's credits or deductions because your income went over the limits, it might be wise to check your portfolio for some losses to reduce your income. You can offset up to $3,000 of other income with stock losses. If you wish to repurchase the stock again, wait at least 31 days to avoid wash sale rules.

If you are planning on deducting worthless stock, remember that it's not deductible until it's completely worthless.

In buying mutual fund shares, avoid the year-end tax trap. Year-end dividends may include a years worth of capital gain in a large taxable payout. The value of your shares declines by the amount of payout, so you end up paying tax on profits that reduce your share value.

SELF-EMPLOYED?

Shelter up to 20% of your net income in a SEP retirement plan. Besides current tax savings, money grows tax-deferred on these investments. A SEP contribution can be made up to the due date of your 2012 tax return, including extensions.

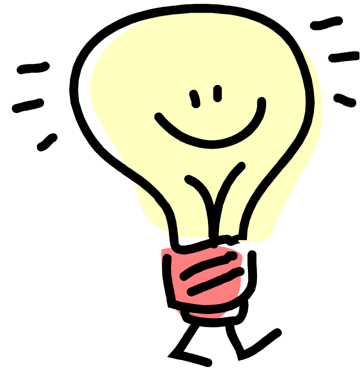
Pay all bills already received for operating expenses rather than deferring payment until 2013. If you need new equipment, save tax dollars now by purchasing before year-end. Remember that you can charge on a credit card and receive a current deduction. You must place them in service before 12/31.

To channel your income into next year for a cash basis business, you must be certain it is not constructively received. You can delay your billing to next year to defer income to 2013.

PLANNING FOR SURTAXES

If your income is over $200,000 (single) or $250,000 (married joint), some tax planning might be wise. Channeling income into 2012 where these additional taxes are not yet assessed, taking steps to reduce earned income for 2013, and changing the character of your investments are possible answers. It certainly appears that the surtax will affect married taxpayers more than singles.

The surtax hits on each individual once earnings reach $200,000. Couples who jointly earn over $250,000 but individually earn less than $200k won't have the surcharge withheld by their employers. To cover the extra tax, one of you should reduce your exemptions by 1.



The basic strategy for year-end tax planning can be summed up in the following two statements:

- *Channel your income into the year where it will be taxed at a lower rate.*
- *Channel your deductions to the year where your income will be taxed at a higher rate.*

Hurricane Sandy Losses
Deductible losses can be taken on either a 2011 amended return or on the 2012 return. Amending 2011 allows an earlier filing and a quicker refund. See IRS website www.irs.gov and www.brandstongroup.com for more information.

Uncle Sam is waiting for some of your hard earned income. Keep more of those dollars in your pocket this year by concentrating on organization and documentation.