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2013 Tax Season Newsletter

DO YOU KNOW? All paid income tax preparers must have an identification number known as a PTIN. Also all previously unregulated preparers must pass an IRS test by Dec 31, 2013 and become a Registered Tax Return Preparer (RTRP). Bruce Barker Jr passed his exam and became an RTRP on June 15, 2012. Bruce Barker Sr as an Enrolled Agent (EA) exceeds the RTRP requirements and isn't required to also become an RTRP. Paid preparers must sign all tax returns they prepare as the preparer, and include their PTIN on the return. The IRS has an ongoing effort to identify "ghost preparers." Do not pay a preparer who does not have a PTIN and who marks the return as "self-prepared" or refuses to sign your tax return as the return preparer.

TAXMAGEDDON, a new word I first heard at the Maine Tax Forum and now see in the news. What is it? Many federal tax provisions are set to expire soon, resulting in higher tax rates coupled with decreased deductions and fewer tax credits. Here are some of the anticipated changes. They include income tax rate increases, a new medicare tax on investment income and higher adjusted gross incomes, the return of the marriage penalty, long term capital gain tax rate increase, employee FICA withholding increasing to 6.2% from 4.2%, the child tax credit decreasing to \$500 from \$1000, the AOTC education credit reverts back to the HOPE credit, the tuition and fee deduction is gone, the \$250 deduction allowed educators for classroom expenses is gone, and the residential energy property credit is gone. Also the alternative minimum tax (AMT) will increase from impacting 5 million taxpayers to affecting 25 million taxpayers. As you can see from this list there are changes coming that will impact taxpayers of all incomes, and not in a favorable way. Last minute legislation may alter this list, but this is how it stands right now.

MAINE ATTORNEY GENERAL William Schneider said at the Maine Tax Forum on November 7, 2012 that no business should receive an advantage over their competitors as a result of lowering their business expenses by cheating on their payroll and sales taxes. The state is aware that some businesses do cheat on their taxes, enabling them to under-price their competition. The Maine Attorney General will prosecute. Those with no prior criminal record are receiving jail time for their first criminal tax crime conviction.

2012 IRA CONTRIBUTIONS. You may contribute up to \$5500 or \$6500 if you are age 50 or older. The contribution must be made before April 15, 2013. If made in 2013 for 2012 be sure to designate the contribution for tax year 2012.

DEPRECIATION of capital assets. 2012 bonus depreciation has decreased from 100% to 50% of asset cost. In 2013 there will be no bonus depreciation. Also section 179 expensing of assets is limited to \$139,000 in 2012 and dropping to \$25,000 in 2013. If you are considering purchasing a major asset you may want to do it before January 1, 2013.

TO REPAIR OR DEPRECIATE that work on business property? If the property is improved, restored or adapted to a different use the cost must be depreciated. It cannot be expensed as repairs.

WE ARE MEMBERS of the National Association of Tax Professionals (and ME chapter), National Society of Tax Professionals, National Association of Enrolled Agents (and ME chapter), National Society of Accountants (and ME chapter), National Institute of Professional Bookkeepers, National Association for the Self Employed, Lincoln Lakes Region Chamber of Commerce, and the Lincoln Business Referral Group.

IN ORDER TO STAY CURRENT and better serve our clients, we attend many hours of tax training each year. This year, this training consisted of a one day Tax Practitioner Institute, a two day National Association of Tax Professionals (NATP) 1040 Workshop, a one day NATP tax seminar, a two day Maine Tax Forum, and a two day Maine Association of Professional Accountants "Gear Up" tax seminar, as well as many telephone forums and webinars hosted by various agencies and associations throughout the year. These training events cover many facets of federal and Maine tax law as well as current changes.

\$100 WINNER! Last year's winner of our drawing was Aaron Webb of Passadumkeag. This year all completed 2012 income tax return clients will be entered and the \$100 winner will be drawn at 5 pm on April 16, 2013.

FOREIGN ACCOUNT REPORTING. The IRS can take more than 100% of the value of an undisclosed offshore account in taxes, penalties and interest if they discover it. Any U.S. person (even non-citizens) must report any ownership of or signature authority over any foreign financial accounts totaling over \$10,000 U.S at any time within the year. This is reported to the Treasury Department on Form TD 90-22.1 which we can prepare while preparing your income tax return.

TAX FRAUD HOTLINE. If you suspect or know of an individual or company that is not complying with the tax laws, you may report this activity by calling the IRS at 1-800-829-0433 or report on Form 3949-A (available at irs.gov). File Form 211 to receive a reward if applicable. Maine tax violations can be reported by calling 207-624-9600. The caller can remain anonymous.

WE PROVIDE PAYROLL SERVICES. You give us your employee hours worked each period and we'll prepare your payroll checks, direct deposits, or detailed pay-stubs that you can attach your own check to. We can accommodate all calculations and deductions such as tips, child support and retirement plan withholding, as well as vacation and sick time accrual if needed. We prepare all quarterly and year-end payroll tax returns as well as 1099MISC forms for payments to independent contractors.

SSA & MILITARY RETIREES will receive a cost of living adjustment of 1.7% in 2013.

USE TAX. As you may have heard on the news the state of Maine is asking individuals and businesses to pay their use tax. Individuals who buy items not listed as exempt from Maine sales tax, but buy them tax free out of state or over the internet and bring them or have them shipped into Maine need to declare their 2012 purchases on their 2012 Maine Income tax return and add the use tax to their overall tax liability. Businesses that order (sales tax free) tools, equipment and supplies for business use, not resale, must pay use tax on those items. Businesses must also pay use tax for items taken from inventory for internal use that were purchased sales tax free.

LD 1314, effective Jan 1, 2013. Maine has simplified the employee vs independent contractor (IC) rules. In summary if an individual is in charge of their own work AND is established in their own business AND has an opportunity for both profit and loss, AND supervises and pays their own assistants if any, AND is able to make their services available to other clients, they may be ICs. All five of the above tests must be met along with three of an additional seven tests for an individual to be classified as an IC. Failing any one of the above five tests means an individual is not an IC, but is an employee and must be put on payroll. The state of Maine automatically assumes all workers are employees and not ICs unless the business or person doing the work can prove otherwise.

IDENTITY THEFT. Potentially fraudulent returns were up 72% in 2011. More than one million 2011 returns were electronically detected by the IRS's systems as potentially fraudulent. Another million were detected using other means. While not all fraudulent returns involve identity theft, many do. If you file a tax return and discover a social security number has already been used on another return you may be a victim of identity theft. You should call the *IRS Identity Protection Specialized Unit*, toll-free at 1-800-908-4490.

ORGANIZE NOW. If you would like us to send you a tax organizer to help you get ready for tax time, call us at 794-8563 or email taxman2@barkerbusiness.com.

Helping Take the Bite out of Taxes!