

# DOLLAR\$

AND

# BYTES

A Newsletter Published by Hubmer, Enstad, Ovik & Co., Ltd.  
Certified Public Accountants

December 2012

Vol. 28, Issue 1



**Happy New Year** to you and your family from all of us at Hubmer, Enstad, Ovik & Co. We hope you enjoyed the holidays. With all the to-do about the Fiscal

Cliff and changing tax items, it didn't feel like we got any time off. We all knew something would be done AND it would be last minute. So now that there is some clarity we look forward to preparing your 2012 tax returns. If you are mailing us your organizer and data, write in your questions or comments and we will call you. By the way, **we can also do your interview with SKYPE.**

## Online Client Access

As you know, our home page at [www.cpafirm.cc](http://www.cpafirm.cc) is the entry point to your personal Online Client Access account, where you can view tax returns and related documents. Our web site has been totally re-constructed, hopefully to make it easier to navigate and more useful. Take a look at it. Among the new things you will see are daily and monthly newsletters and expanded links to several things that may be helpful as you go through life's events; when to get married, should you buy or lease, now that you have kids, etc. Use these as starting points for a discussion with us about how it personally pertains to you. Also, **notice the [testimonial page](#) and please add one if you are so inclined.**

## Mobile APP

Download your **FREE mobile APP** to make your 24/7 experience even better. Using your smartphone or mobile device search for "**NETCLIENT CS**", for more information, please contact Sean Riley.

## Staff News & Changes

We would like to introduce two new staff people, Terri Heishman and Audra Bird. Terri will most likely greet you when you come into the office; she actually started last winter so some of you will recognize her. Audra will be in the background working diligently on your returns and financials. She may be calling you to get answers to questions. Audra comes to us with 25 years' experience in public accounting.

## Tax Information

As you know, Congress passed the American Taxpayer Relief Act on New Year's Day. Yippee! You can decide if anything was fixed. One thing we can say about this Act, most of the expiring provisions were made permanent. What follows, are summaries and our comments about the more interesting provisions from that Act, as well as recent court cases and rulings.

As a note, **these summaries are for things that you may need to know for your 2012 tax returns and 2013 tax planning.** Remember the health care law passed in 2010? The Supreme Court determined that as a tax, it was basically legal, so the changes going into effect in 2013 need to be taken seriously. Several of those are very controversial such as the penalty for not being insured and surtaxes on the rich. There are still details that need to be worked out, so we will be watching for those.

## Personal Tax Items

**Net Pay Going Down:** Again in 2012, as in 2011, workers received extra take home pay because the employee share of Social Security was reduced to 4.2% of their pay instead of 6.2% as it has been for decades. This amounted to as much as \$2,202 per person (2% x \$110,100). It was done to create a stimulus to the economy and was going to go back to the 6.2% at some point so this will be the first thing you notice about the tax changes. Your net pay will be lower immediately and for the rest of the year. Will there be some other stimulus?

**Federal Income Tax Rates:** The rates for 2012 are the same as 2011; the issue has been what they would be in 2013. Several of you called during the year asking about strategies when you had potential capital gains and thought you should consummate the sale in 2012 rather than wait. Well, the current brackets are extended for 2013 *but* only for single people making less than \$400,000 per year and married couples making less than \$450,000 (\$225,000 if filing separately).

This includes the 0% and 15% rates on long-term capital gains and qualified dividends. The 0% rate applies when you are already in the 15% bracket. For the “wealthy” the rate on capital gains and qualified dividends goes to 20% and the ordinary rate can go to 39.6% ***Two more taxes starting in 2013*** if your income is over \$200,000 (single) and \$250,000 (MFJ); there is a **3.8% surtax** on net investment income and a **0.9% Medicare tax** on earned income.



**Broker Reporting of Covered Securities:** While we are on capital gains, those of you with investment accounts noticed that the broker 1099 showed cost basis information as well as sale dates and amounts. That started in 2011. We explained to you that there were new forms for reporting your transactions that required us to verify more information. This will be the case again in 2012.

**Deduction and Exemption Phase-out:** This was suspended two years ago but brought back in 2013 for single taxpayers with income over \$250,000 and married couple with income over \$300,000. You may hear this referred to as the Pease Limitation.

**You Took The First Time Homebuyers Credit in 2008?** We need to say again to remember that your 2012 Federal tax will be \$500 higher as you make the next installment to re-pay your “interest free loan.” The IRS apparently will be sending those people a letter.

**Cash Donations:** You can only deduct donations for which you have cancelled checks, no cash (i.e. Salvation Army kettles) donations unless you have a receipt from the charity. And if the amount of the check or credit card is over \$250, you need a written acknowledgement from the charity that is dated before April 15, 2013 that specifically states that you did not receive any goods or services in return for your donation. There was a court case in 2012 dealing with this documentation. For additional information, please see [www.cpa-firm.cc/monthly-news](http://www.cpa-firm.cc/monthly-news) and click “Nov 2012”.



### **Education Credits & Deduction:**

The first 4 years of college are now covered by one credit that maxes out at \$2,500 per student. The nice thing about this credit is that up to \$1,000 is refundable even if you had zero Federal tax. If your income is too high to get this credit, there is a \$4,000 deduction available for 2012 & 2013.

**Mileage Rates:** The 2012 business rate was 55.5 cents per mile, the medical/moving rate is 23 cents and the charity rate was 14 cents. The business rate for 2013 is 56.5 cents and the medical/moving rate is up to 24 cents.

**Commuting to Work on a Bicycle:** Again, you can get \$20 per month from your employer tax-free. This was started in 2009. Some of our clients said they are actually getting the reimbursement.

**Roth Conversions:** for those clients that took advantage of special rules for ROTH conversions in 2010, you will see an income item in 2012. If you remember, the special rule allowed you to delay the tax and record ½ the amount in 2011 and the other half in 2012. Outside of that one year special, there are income limits that prevent many people from converting their IRAs to ROTHs.



**Identity Theft:** We implement the best standards and practices to **protect your identity**. However, if you become aware that you are a victim, please note that the IRS has implemented a specific form to file but this will delay all federal tax matters at least 6 months.

**Other Provisions Extended:** There are many other items that were made permanent or extended only for 2012 and 2013. We will be sure your return has all the items you are entitled to.

## Estate/Gift Tax

After bouncing around for 3 years, the estate/gift tax rules are now permanent. Each person can exclude \$5.12 million, a married couple can exclude \$10.24 million. These amounts will be adjusted for inflation each year. By the way, Minnesota has always had an estate tax for estates over \$1 million.

## Business Items

**Credit Card Sales 1099s:** Remember the big deal we made of a new 1099K coming from your credit card processor? Thank goodness the separate reporting has been delayed by the IRS, indefinitely.

**Penalties for Late Filings of Tax Returns:** the penalty for filing late has increased, especially for Partnership and Sub S tax returns. The penalty is \$195 per partner/shareholder per month with a maximum of \$2,340. Sub S returns are due March 15 and Partnership returns are due April 15, the same date as personal returns. Extensions are still allowed, but it is critical that we file the extension and then file the return in the prescribed time



**1099s:** We talked about this last year and sent out several letters this past December alerting you to the 2 new questions on the schedules to report self-employed business, rental and farm activities. *Did you make any payments in 2012 that would require you to file Form 1099? If so, did you / will you?* The penalties for the late filing of 1099s also went up in 2011. They are \$30 if you're 30 days late, \$60 if filed by August 1st and \$100 if filed later than August 1<sup>st</sup>.

**Sales & Use Tax:** In 2012, we continued to see sales/use tax audits. Remember, we only have your summary information when we prepare your income tax returns, so we don't know if you properly collected sales tax or properly paid use tax. We would be glad to discuss doing a more thorough study. *One suggestion*, be sure to keep the backup documents for purchases by credit card. The monthly statement is not enough to show you paid the sales tax.



**Employee/Sub-contractor:** This continues to be a tricky issue for business. Minnesota set up rules that require contractors to register and get an exemption certificate that they give to their business customers. There is a potential \$10,000 penalty to both the sub and main contractor. You can check this out on [www.state.mn.us](http://www.state.mn.us) for more information.

**The Federal government set up a safe harbor** "come clean" program in 2011 and there are stiff penalties if a subcontractor or casual laborer is deemed to be your employee. We should talk about this.

**Research Credit:** This credit was extended again with some interesting twists added. We will talk about this when it applies to your business.

**Subchapter S Corp Wages:** There were more court cases on this issue in 2012. Still, no clear rules. As this letter says every year, we keep watching this.

**Health Insurance Premiums in W2s:** Starting in 2012 large employers need to show the amount paid for health insurance premiums. This will not be added to wages as some commentators had reported. Small employers need to start this in 2013.

## Not For Profits

If you are involved with a NFP pay attention to the **1099** item. Even non-profits are required to file if the organization pays anyone \$600 or more during the year. This could be coaches, referees, bookkeepers, etc.

Also, if you make money from **advertising** in anything printed or on a website, this could be taxable, even though the organization is a non-profit.

## Protecting your Confidentiality

Just to remind you, tax preparers have very strict rules for complying with your requests to send tax information to someone, such as your banker. **We need an authorization form signed by you before we can send out any of your information.** We have that template; it is different from the letter your banker may give you. It's another reason your personal Online Client Access account is valuable.

## 1-800 Phone Number

This is a reminder that we do have a 1-800 phone number, **800-371-7363**. For those of you out of the metropolitan area, feel free to call us on that number.

## In Conclusion

These are the highlights of the tax issues we have encountered during the year. If you have heard or read about something, let us know. We look forward to meeting with you to attend to your business and personal tax needs. Thanks to those clients that have referred friends and relatives to us. We appreciate it and will take good care of our current and new clients.





## *A look back at 2012...*

### *Greg Ovik*



Every year, I retell the trips Diane and I took during the year. We had two highlights in 2012. One was a family get together in Kalispell, MT, and Glacier Park. I have two brothers that live out there and they showed us some great scenery. It was fun to have a snowball fight in August and a day later be in sweltering heat in Wyoming. We didn't plan it, but on the way home went thru the Black Hills the weekend Sturgis started. We have heard a lot about it but couldn't believe the amount of motorcycles. The other was going further up the North Shore than we have before, all the way to the Canadian border. We trekked into the wilderness to see the falls of

Temperance River and walked on Canadian soil at the Pigeon River falls . We even kept up with our energetic grandkids.

*Merry Christmas and Happy New Year* to you and your family. I look forward to seeing or at least talking to everyone in the next few months

### *Jon Enstad*



2012 was another spectacular year with another grandchild being added, this time a girl – Vesper. She lives with her parents and big brother out in Spanaway WA near Tacoma. We were able to go out for Baptism and stayed a few days to play. One of the best parts of being a **Grandpa** is playing with the kids and being silly and no one thinks it is weird. Little do they know that I absolutely love it!

We went to Colorado Springs for a wedding and we decided that it would be a great place to live. With technology the way it is I can work from anywhere – the staff would probably welcome that. Now that the fiscal cliff has passed and we know what the tax laws are for 2012 – sort of – I am looking forward to seeing and hearing from you all!

### *Sean Riley*



2012 is now behind us. I *enjoyed* the Summer Olympics in London and watching Adrian Peterson get 2000+ yards. I *did NOT enjoy* the aftermath of Hurricane Sandy and hearing about the Fiscal Cliff. For 2013, what better way to start the year then to see familiar faces and discuss tax matters with you! My focus is to provide you with the best service possible and to make your tax experience as stress free as possible. I consider myself fortunate that my family is in good health, my daughters (8 and 6) are both achieving in school, and I have a career that I truly love doing.

I want to remind everyone to keep me in mind throughout the year. If you encounter a situation that you feel could be tax related, than **feel free to call me or stop in.**

On behalf of *Humber, Enstad, Ovik & Co*, we appreciate your business...***without you, there is no us.***  
I hope you all have a well and prosperous 2013.

## Terrí Heishman



I started at the beginning of the tax season in 2012 – talk about a head spin. I am really looking forward to this year now that I have a better understanding of what to expect. I am excited to see all of you again and to meet those who I missed last year. 2012 was a blast for me and my fiancée. We finished our wedding planning and our date is set for **November 16<sup>th</sup> of 2013** (yes, I've already taken that week off for vacation, unbeknownst to Jon, Greg, and Sean). In July, we had fun celebrating our daughter's first birthday – It is truly unfair how fast babies grow! My fiancée just graduated as a Vet Tech and now works in Corporate America so our next step will be to let the house hunting begin!

## Audra Bird



I joined the Hubmer, Enstad, Ovik & Co., team in August, so I will give you a brief profile of myself and family. I have over 25 years of public accounting experience working with small business accounting, payroll taxes, corporate & individual tax preparation. I'm recognized with the MN State Board of Accountancy as a Registered Accounting Practitioner (RAP), as an Accredited Retirement Advisor (ARA) with the Accreditation Council for Accountancy and Taxation, and also as a Registered Tax Return Preparer (RTRP) with the Internal Revenue Service.

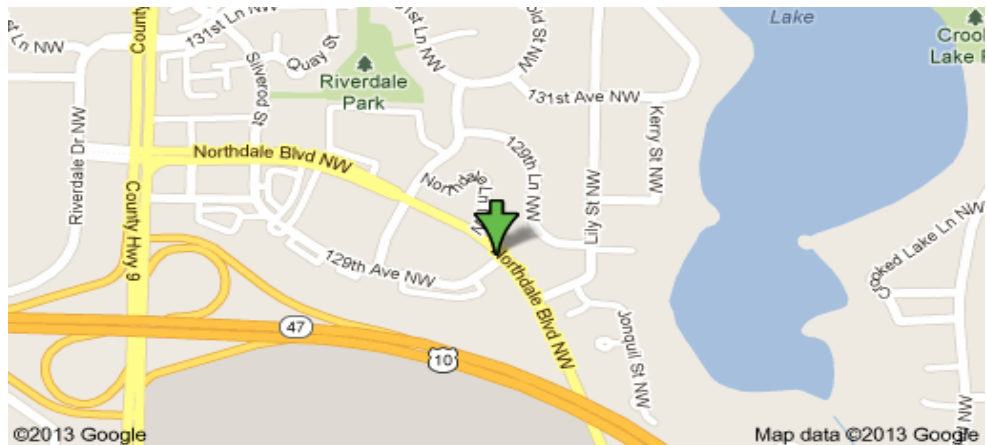
My husband Brian and I celebrated our twenty-third anniversary in May. We have two adult children; the oldest has a 2 ½ year old daughter and the youngest just graduated from Andover HS this past spring and then started at the U of MN-Twin Cities campus in the fall. In my free time I enjoy spending time with my family, camping, hiking and fishing. With the upcoming tax season quickly approaching, I am looking forward to meeting our clients and providing them with excellent service whether it involves individual tax, accounting, or other business needs. ***I hope everyone has a successful 2013!***

---

We appreciate **your referrals**. If you know others that would benefit from and might value the kind of services we provide, please give them our name and number.

Our business has been built through referrals from existing and past clients.

Thank you!





The Hubmer, Enstad, Ovik & Co., Ltd. Newsletter, **DOLLARS AND BYTES**, is published periodically by the staff of Hubmer, Enstad, Ovik & Co., Ltd. Any suggestions for inclusion or comments on the newsletter should be directed to:

Editor  
Hubmer, Enstad, Ovik & Co., Ltd.  
3340 Northdale Blvd, Suite120  
Coon Rapids, MN 55448

Ph: (763) 786-7899  
Fax: (763) 786-6606  
[office@cpafirm.cc](mailto:office@cpafirm.cc)  
[www.cpafirm.cc](http://www.cpafirm.cc)

**The Hubmer, Enstad, Ovik & Co., Ltd. Staff:**

Gregory P. Ovik, CPA, President  
Jon L. Enstad, CPA, Vice President  
Sean P. Riley, CPA, Partner  
Audra Bird, RAP, RTRP, ARA  
Terri Heishman

<a href="mailto:ovik@cpafirm.cc">ovik@cpafirm.cc</a>	Ext: 105
<a href="mailto:enstad@cpafirm.cc">enstad@cpafirm.cc</a>	Ext: 107
<a href="mailto:sriley@cpafirm.cc">sriley@cpafirm.cc</a>	Ext: 103
<a href="mailto:audra@cpafirm.cc">audra@cpafirm.cc</a>	Ext: 112
<a href="mailto:terri@cpafirm.cc">terri@cpafirm.cc</a>	Ext: 101



Now connect with us on Facebook and LinkedIn!