

# TaxTips

Keeping You Informed • Winter 2012- 2013

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"We Come To You"

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## Additional Medicare Tax Goes Into Effect in 2013

### Some wealthier taxpayers will pay more

The Additional Medicare Tax goes into effect for taxable years beginning after December 31, 2012. An additional tax of 0.9 percent applies to individuals' wages, other compensation and self-employment income over certain thresholds (see below table).

Filing Status	Threshold Amount
Married filing jointly	\$250,000
Married filing separately	\$125,000
Single	\$200,000
Head of household (with qualifying person)	\$200,000
Qualifying widow(er) with dependent child	\$200,000

All wages that are currently subject to Medicare tax are subject to Additional Medicare Tax if they are paid in excess of the applicable threshold for an individual's filing status. There are no special rules for nonresident aliens and U.S.

citizens living abroad for purposes of this provision.

Employers are responsible for withholding the tax on wages and other compensation in certain circumstances. The statute requires an employer to withhold Additional Medicare Tax on wages or compensation it pays to an employee in excess of \$200,000 in a calendar year. An employer has this withholding obligation even though an employee may not be liable for the Additional Medicare Tax because, for example, the employee's wages or other compensation together with that of his or her spouse (when filing a joint return) does not exceed the \$250,000 liability threshold.

There is no requirement that an employer notify its employee when the business begins withholding Additional Medicare Tax. The employer is required to withhold Additional Medicare Tax on total wages, including noncash fringe benefits, in excess of \$200,000. There is no employer match for

### Additional Medicare Tax.

*The Additional Medicare tax should not be confused with the new 3.8% Net Investment Income tax which will also be imposed on couples with income above \$250,000 (with the same lower threshold amounts for taxpayers who do not file jointly) who have certain types of investment income beginning in tax year 2013. The Net Investment tax applies to individuals, estates and trusts with income from interest, dividends, capitals gains, rental income, passive income, some types of annuity income and certain other specified income. The good news is that both the .9% Additional Medicare tax and the 3.8% Net Investment Income tax are slated to be assessed only on income in 2013 and do not apply to income for 2012. You will have plenty of time to adjust your budgeting and tax payments if you will be subject to these new taxes. You will hear much more about these taxes during the year as they begin to be implemented.*



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### **South Carolina Department of Revenue Cyber Hacking Event**

As most of you are probably aware. The South Carolina Department of Revenue was subjected to a cyber-hacking event that resulted in the theft of taxpayer information. It has been widely reported by the news media that several million individual taxpayers and businesses have had their private information stolen by as yet unnamed international cyber criminals. The stolen data include social security numbers, bank account numbers, credit card numbers and apparently sufficient other information to enable the thieves to conduct identity theft or perhaps drain bank accounts for everyone involved. Anyone who has electronically filed a tax return since 1998 is at risk. While the investigation of this crime is still ongoing there have been a number of specific recommendations issued by the authorities that will help mitigate the damages and perhaps provide some measure of protection from this menace.

From the beginning of this issue we have been posting updates to the incident on the Tax On Wheels, LLC blog as relevant information became available. We encourage you to visit our blog at [www.taxonwheels.com/blog](http://www.taxonwheels.com/blog) and review as much of this information as you feel is needed to bring you up to date. Please bear in mind that much of the information has been updated and replaced as new

information became available. Based on publicly announced information we have created the following list of recommended actions which we believe are advisable based on a typical individual taxpayer profile:

1. Sign up for the free year of credit protection provided by the state at [www.ProtectMyID/scdor](http://www.ProtectMyID/scdor).
2. Credit protection will not protect your bank account. Therefore you will need to determine how best to protect any account that was used on a South Carolina efiled tax return any time since 1998. Contact your financial institution and let them help you determine whether or not you need to close your bank account.
3. Monitor your bank accounts daily or at least weekly. If you are afraid of online banking it is time to educate yourself and overcome that fear. It simply is not sufficient to wait until the monthly statement arrives in the mail 30 to 40 days later. By then the damage is done.
4. Review every item on every credit card on every statement every month. Consider requesting paper statements instead of online statements to better facilitate your review. Online statements can easily get caught up in the rush of all the other junk email that arrives in your in box.
5. Purchase a high quality cross cut shredder and shred those bank and credit card statements after you have reviewed the for accuracy. Do not let your information leave your house by way of

the garbage.

6. Promptly open and read every piece of mail that comes to your mailbox even if it looks like junk mail. Some of that mail may hold clues that something strange is happening with your credit information and allow you get ahead of potential damage.
7. Go online and Google yourself. You may be surprised at all of the information about you that is already floating around out there for anybody willing to look for it. And it is all apparently legal. Available data include your birth date, the price you paid for your house, a picture of your house (both aerial and street view) with a map to your house, a list of your relatives, your arrest records, your occupation, your education and who knows what else. And this is what is available to anybody with an internet connection. Just imagine what can be found by people with special tools, training and a bit of larceny in their hearts. The point is that there is no such thing as privacy anymore. You will need to learn about the information that is already freely available about you so that you can better protect yourself.

You should make a personal determination on how best to protect yourself based on your individual circumstances. As always, please feel free to contact Tax On Wheels, LLC if you have questions about this issue or if we can be of assistance to you. This is a very serious matter and we urge everyone to take appropriate precautions.

## The Affordable Care Act

*How does the Supreme Court decision affect your taxes?*

At the end of June, the Supreme Court upheld the *Patient Protection and Affordable Care Act of 2010*. The Supreme Court's decision stated the government cannot force the public to have health insurance, but the government can tax the public if they don't. What does this mean for you?

Beginning January 1, 2014, under the new law, most individuals who can afford it will be required to obtain basic health insurance coverage or pay a fee to help offset the costs of caring for uninsured Americans. If affordable coverage is not available to an individual, he or she will be eligible for an exemption. Those who can afford health care and are not covered will be assessed a penalty on their tax return.

To help the government determine who has health care coverage, employers have been required to report the cost of coverage under an employer-sponsored group health plan on the employee's Form W-2. Reporting the cost of health care coverage on the Form W-2 does not mean that the coverage is taxable. The value of the employer's contribution to health coverage continues to be excludable from an employee's income, and it is not taxable. This reporting is for informational purposes only and will provide employees useful and comparable consumer information on the cost of their health care coverage.

## 1099-K Reporting

*Keep this form handy*

Depending on your type of business, you may receive a 1099-K form in your mailbox. Don't throw it out! Your tax professional will need it to prepare your taxes. The Form 1099-K, *Merchant Card and Third-Party Network Payments*, will arrive early in 2013, because it is due to merchants by January 31.

Merchant acquirers and third-party settlement organizations, as payment settlement entities (PSE), must report the proceeds of payment card and third-party network transactions made to you on Form 1099-K. You'll receive the form if you have either accepted credit cards for payments or received payments through a third-party network (like PayPal) that exceeded \$20,000 **and** the total number of such transactions exceeded 200 for the calendar year.

Note: Starting in 2013 there will be a backup withholding requirement similar to other 1099 forms. Merchants and third parties will be required to withhold 28 percent of gross proceeds when a tax identification number has not been provided. Starting with the 2013 tax year, this backup withholding applies for sellers with more than 200 transactions at any income level.

## Getting Ready to Retire?

*Certain tax issues may affect your social security benefits*

Many individuals start thinking about retirement at age 63 and wonder how social security will work once they are no longer working.

Some people have to pay federal income taxes on their social security benefits. This usually happens only if they have other substantial income such as wages, self-employment, interest, dividends and other taxable income that must be reported on their tax return in addition to their benefits. Based on IRS rules, no one pays federal income tax on more than 85 percent of their social security benefits.

Each January retirees will receive a Form SSA-1099, *Social Security Benefit Statement*, showing the amount of benefits they received in the previous year. If they do have to pay taxes on their social security benefits, they can make quarterly estimated tax payments to the IRS or choose to have federal taxes withheld from their benefits. Tax On Wheels, LLC can help you determine how retirement will impact your tax situation.







## Overseas Bank Accounts

*Do you know what special reporting is required?*

If you have a bank account, brokerage account, mutual fund, trust or other type of foreign financial account, you may need to file Form TD F 90-22.1, *Report of Foreign Bank and Financial Accounts* (FBAR).

The IRS requires certain taxpayers to file an FBAR because foreign financial institutions may not be subject to the same reporting requirements as domestic financial institutions. The FBAR is a tool to help the United States government identify persons who may be using foreign financial accounts to circumvent United States tax law. Investigators use FBARs to help identify or trace funds used for illicit purposes or to identify

unreported income maintained or generated abroad.

In general, you must file an FBAR when the total value of all foreign financial accounts that you own or have signature authority over exceeds \$10,000 at any time during the calendar year. The FBAR is not filed with your federal income tax return; it is an annual report that the Department of the Treasury must receive on or before June 30 of the year following the calendar year being reported. Tax On Wheels, LLC can help you with this filing if required.

## Did You Receive an IRS Notice?

*Talk to your tax professional right away*

Every year the IRS sends millions of letters and notices to taxpayers. If one shows up in your mailbox, don't panic! The IRS may simply be requesting payment of taxes, notifying you of a change to your account, or requesting additional information. Regardless, any notice you receive will normally cover a very specific issue about your account or tax return.

If you receive a notice about a correction to your tax

return, you should review the correspondence and compare it with the information on your return. Call your tax professional right away! In most cases, the IRS will require a response within 30 or 60 days, and your tax professional will need time to review the notice and determine the appropriate response. Be sure to keep copies with your tax records of any correspondence between you, your advisor and the IRS.

## Quik Tips

1

Paper coupons may no longer be used for federal tax deposits.

2

The 2012 business standard mileage rate is 55.5 cents per mile.

3

Congress has finally provided clarity on tax law for the 2013 filing season. This is normally done months ahead of time but this season it was not done until the first of January. As a result, some tax return processing may be delayed into late February or early March. Unless you have a fairly simple tax return, you should probably be prepared for a delay while the IRS and the tax software companies implement this last minute legislation.

4

An online version of the Social Security Statement is now available at [socialsecurity.gov](http://socialsecurity.gov). The new online statement provides eligible workers with access to their social security earnings and benefit information.

5

For calendar year 2013, the annual limitation on HSA contributions for an individual with family coverage under a high deductible health plan is \$6,450, up from \$6,250 in 2012. For an individual with self-only coverage under a high deductible health plan, the annual limit is \$3,250, up from \$3,100 for 2012.

6

The Additional Medicare Tax goes into effect for taxable years beginning after December 31, 2012. The statute requires an employer to withhold Additional Medicare Tax of 0.9 percent on wages or compensation it pays to an employee in excess of \$200,000 in a calendar year.