2012

Professional Tax Planning Guide

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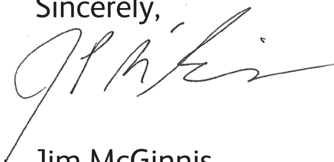
To show our appreciation, we're extending you the Intuit® Accountants 2012 Professional Tax Planning Guide.

This Special Report is designed to help point your Tax Year 2012 research in the right direction. You'll also find practical tips that just might help you and your team work more efficiently.

As you know, nothing can take the place of your professional expertise. Tax laws and regulations change frequently and the application of these laws can vary widely based up the specific facts and circumstances involved. It's important for you to determine whether the information and interpretations provided in the following pages are accurate and how they apply to your practice—and to your clients.

Again, than you for your interest in Intuit professional tax software. If you have any questions, don't hesitate to contact an Intuit Professional tax consultant at 1-800-765-7777.

Sincerely,



Jim McGinnis
Vice President, Intuit Accountants

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New Tax Law Changes for 2012

While there has been not been a major tax law recently, there are a number of tax law changes that take effect in 2012. Some of these changes come from minor tax laws that Congress has enacted in the last year, while others come from earlier laws that had delayed effective dates.

Let's take a look at six key tax law changes for 2012.

1. Self-employment tax

Congress enacted legislation that provides a reduction in the Social Security tax withheld from employees' paychecks in 2012. But the new law changes will also show up on 2012 returns in the form of a reduced self-employment (SECA) tax on Schedule SE.

Under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 [Pub. L. No. 111-312], the Social Security portion of the SECA tax was reduced by two percentage points—from 12,4% to 10,4%--for 2011. This reduction applied to all self-employment income, up to the maximum of $106,800.

The Temporary Payroll Tax Cut Continuation Act of 2011 [Pub. L. No. 112-78] extended the reduced rate of 10.4% to self-employment income earned in the first two months of 2012. The Middle Class Tax Relief and Job Creation Act extends the 10.4% Social Security tax rate for SECA through December 31, 2012, and applies it to the new self-employment income base of $110,100.

These laws made no changes in the Medicare tax rate of SECA (2.9%).

Special rules coordinate the SECA tax rate reduction with a self-employed individual's computation of net earnings from self employment under the SECA tax and the income tax deduction for one-half of the SECA tax. The rate reduction is not taken into account in determining the net earnings from self-employment. The income tax deduction allowed for the SECA tax for 2011 and 2012 is 59.6 percent of the Social Security portion of the SECA tax plus one-half of the Medicare portion of SECA.

2. Alternative minimum tax

The structural components of the alternative minimum tax (AMT), notably the AMT exemption amount, are not indexed for inflation. Congress has regularly enacted legislation increasing the exemption amount, preventing inflation from causing income tax liabilities to increase. Most recently, the AMT was "patched" (the exemption amount indexed for inflation) as part of Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 [P.L. 111-312]. The 2010 Act increased the exemption amount for joint filers to $74,450 (from the unindexed amount of $45,000) and increased the exemption amount for singles to 48,450 (from the unindexed amount of $33,750).

3. Deduction for higher education expenses

As things stand now, the "above-the-line" deduction for higher education expenses will not be available on 2012 returns.

Prior to 2012, an individual was allowed a deduction for adjusted gross income for qualified tuition and related expenses for higher education paid by the individual during the taxable year. Deductible expenses included tuition and fees required for the enrollment or attendance of the taxpayer, the taxpayer's spouse, or any dependent of the taxpayer.

The maximum deduction was $4,000 for an individual whose adjusted gross income for the taxable year did not exceed $65,000 ($130,000 in the case of a joint return), or $2,000 for other individuals whose adjusted gross income did not exceed $80,000 ($160,000 in the case of a joint return). No deduction was allowed for an individual whose adjusted gross income exceeded these thresholds.

The deduction for higher education expenses is a temporary provision of the tax code and was last extended through 2011 by the 2010 Tax Relief Act.

4. Bonus depreciation

An additional first-year depreciation deduction was allowed for 50 percent of the adjusted basis of qualified property placed in service between January 1, 2008 and September 8, 2010. The 2010 Tax Relief Act extended the 50 percent first-year deduction through 2012 (through 2013 for certain longer-lived and transportation property). But the Tax Relief Act also temporarily increased the deduction to 100 percent.

The Tax Relief Act also temporarily increased the deduction to 100 percent. However, the 100 percent deduction applied only if (1) a taxpayer acquired the property after September 8, 2010 and before January 1, 2012; (2) the taxpayer placed the property in service after September 8, 2010 and before January 1, 2012

(before January 1, 2013 in the case of certain longer-lived and transportation property); and (3) the original use of the property commenced with the taxpayer after September 8, 2010. Thus, the 100 percent deduction will revert to 50 percent for 2012 returns (and will generally not be available for 2013 returns and beyond).

5. Expensing deduction

Subject to certain limitations, a taxpayer that invests in qualifying property may elect under Code Section 179 to deduct (or "expense") the cost, rather than to recover the cost through depreciation deductions. For tax years beginning in 2010 and 2011, the maximum amount that a taxpayer may expense was $500,000 of the cost of qualifying property placed in service during the year. The $500,000 amount was subject to a phaseout. It was reduced by the amount by which the cost of qualifying property placed in service during the year exceeded $2 million. Thus, no expensing deduction was allowed if more than $2.5 million of qualifying property was placed in service during the year.

Both the maximum expensing deduction and the phaseout threshold will take dramatic drops on 2012 returns. The maximum amount a taxpayer will be able to expense will be reduced to $125,000 of the cost of qualifying property and the $125,000 amount will be phased out when qualifying property placed in service during the tax year exceeds $500,000.

6. Adoption credit

For 2011, the total expenses that could be taken as a credit for all tax years in connection with a child's adoption was limited to $13,360 and the credit for a special needs child was also limited to $13,360. For 2012 returns, both figures will drop to $12,650. In addition, the adoption credit will no longer be refundable.

New Tax Developments That Impact Your Clients

In addition to a number of tax law changes, there have been several recent IRS pronouncements and court cases that may have a significant impact on your clients' tax returns. Let's take a quick look at five new IRS and court developments tax return preparers should be aware of.

1. Cell phones

The Small Business Jobs Act of 2010 (Pub. L. No. 111-240) made it easier for employers to claim income tax deductions for the cost of providing cell phones to employees. Starting with 2010, deductions have been allowed without detailed recordkeeping regarding personal and business use of the cell phones. However, in the wake of the tax law change, a big question remained: How are employer-provided cell phones treated on the employee end?

The IRS recently provided an answer to this question. The IRS says the value of an employer-provided cell phone is excludable from an employee's income as long as the phone is provided primarily for noncompensatory business purposes. And, as long as the noncompensatory business purpose test is met, recordkeeping requirements are deemed satisfied and any personal use of the phone is disregarded. A reimbursement to an employee to cover the business use of the employee's personal cell phone will also be tax free under similar conditions [Notice 2011-72, 2011-38 I.R.B. 407; Field Examination Operations Memorandum, Sept. 14, 2011].

Examples of noncompensatory business purposes include the employer's need to contact the employee at all times for work-related emergencies, the employer's requirement that the employee be available to speak with clients at times when the employee is away from the office, and the employee's need to speak with clients located in other time zones at times outside of the employee's normal work day. According to the IRS, a cell phone provided to promote the morale or goodwill of an employee, to attract a prospective employee, or as a means of furnishing additional compensation to an employee is not provided primarily for noncompensatory business purposes.

New Tax Developments That Impact Your Clients, cont'd.

2. Home mortgage interest

In new decision, the Tax Court imposed a strict limit on how much interest can be deducted when unmarried individuals buy a home together. According to the court, an unmarried couple is subject to the same interest deduction limit as a married couple [Sophy, 138 TC No. 8.].

Under the tax code, a taxpayer can claim an itemized deduction for interest paid on the first $1 million of debt incurred to acquire a home. In addition, a taxpayer can claim a deduction for interest paid on the first $100,000 of home equity loans. The same limits apply to both single taxpayers and couples filing a joint return (the limits are cut in half for married couples filing separately). But what limits apply to an unmarried couple filing as singles? Is each individual allowed a deduction for interest up to the $1 million/$100,000 limit or is the couple subject to an overall $1 million/$100,000 limit?

The Tax Court says it's the latter. The $1 million and $100,000 debt limits apply on a per-residence, not a per-individual, basis. The court pointed out that the tax code refers to "any indebtedness" on the residence when imposing the limits so the focus is on the amount of debt carried by the residence and not on the debt carried by individuals.

3. Unemployment insurance

The IRS recently ruled that an employee can claim a deduction for the cost of purchasing a private unemployment insurance policy. The policy purchased by the employee supplements benefits received under a state unemployment insurance program if the employee is involuntarily terminated.

The IRS said that the premiums paid on a private unemployment insurance policy are analogous to the premiums paid by businesses to insure against lost profits during a shutdown. The unemployment insurance policy provides indemnity coverage for lost wages due to unemployment. Since an employee is in the "business" of being an employee, the premiums are a business expense that can be claim as a miscellaneous itemized deduction [Priv. Ltr. Rul. 201152005].

4. IRA loans

The tax law allows taxpayers to use IRAs as a short-term source of cash. As long as an IRA distribution is redeposited in the IRA within 60 days, there are no tax consequences. And the tax law permits the IRS to waive the 60-day limit when delaying events are beyond a taxpayer's control and a waiver would be equitable.

In a new ruling, the IRS said that the waiver will generally not be available when a taxpayer loans an IRA distribution to someone else. The ruling involved a taxpayer who loaned a distribution to his mother to buy a house until she could get permanent financing. Because of bank delays, the taxpayer's mother could not repay the loan and the taxpayer could not redeposit the funds within the 60-day limit. The IRS ruled that, whether or not the taxpayer intended to redeposit the funds within 60 days, he assumed the risk that the loan might not be repaid on time. Thus, the taxpayer wass ineligible for the waiver and the IRA distribution was taxable [Priv. Ltr. Rul. 201118025].

5. Charitable donations

According to a recent Tax Court decision, at least some of the expenses a taxpayer incurs for pets under a foster care program may be deductible as a charitable donation [Van Dusen, 136 T.C. No. 25].

The tax code allows taxpayer to deduct out-of-pocket expenses paid in connection with providing volunteer services to a charitable organization. The taxpayer in the Tax Court case used her residence to provide a foster home for about 80 cats under the direction of a charitable organization. The Tax Court ruled that by providing the foster home, the taxpayer was performing volunteer services to the organization.

Since the taxpayer had seven pet cats of her own, the Tax Court said that the taxpayer could claim a charitable deduction for 90 percent of her veterinary and pet supply expenses. In addition, the Tax Court allowed a deduction for a portion of her cleaning and utility expenses.

Key Tax Facts For The 2012 Return

STANDARD DEDUCTION

Married filing jointly/surviving spouse	$11,900
Single	$5,950
Head of household	$8,700
Married filing separately	$5,950
Dependent taxpayers	$950

ADDITIONAL STANDARD DEDUCTION

	65 or over or blind	65 or over and blind
Married/surviving spouse	$1,150	$2,300
Unmarried	$1,450	$2,900

PERSONAL EXEMPTIONS

Personal exemption amount	$3,800

KIDDIE TAX

Amount taxed at child's rate	$950
AMT exemption	earned income plus $6,950

ADOPTION CREDIT

Maximum credit	$12,650
Phaseout range	$189,710 - $229,710

EDUCATION CREDITS

American Opportunity—maximum credit	$2,500
Phaseout threshold—joint filers	$160,000
Phaseout threshold—all other filers	$80,000
Lifetime Learning-maximum credit	$2,000
Phaseout threshold—joint filers	$104,000
Phaseout threshold—all other filers	$52,000

EDUCATION SAVINGS BOND EXCLUSION

Phaseout range—joint filers	$109,250 - $139,250
Phaseout range—all other filers	$72,850 - $87,850

STUDENT LOAN INTEREST DEDUCTION

Phaseout range—joint filers	$125,000-$155,000
Phaseout range—all other filers	$60,000-$75,000

LONG-TERM CARE INSURANCE DEDUCTION

Age at close of year	Premiums eligible for medical expense deduction
40 or less	$350
More than 40 but not more than 50	$660
More than 50 but not more than 60	$1,310
More than 60 but not more than 70	$3,500
More than 70	$4,370

HEALTH SAVINGS ACCOUNTS

Type of coverage	Self-only	Family
HDHP deductible	$1,200	$2,400
Out-of-pocket expense cap	$6,050	$12,100
Maximum contribution	$3,100	$6,250

MEDICAL SAVINGS ACCOUNTS

Type of coverage	Self-only	Family
HDHP deductible	$2,100-$3,150	$4,200-$6,300
Out-of-pocket expense cap	$4,200	$7,650

INDIVIDUAL RETIREMENT ACCOUNT DEDUCTION

Phaseout range—joint filers	$92,000-$112,000
Phaseout range—single/head of household	$58,000-$68,000
Phaseout range—married filing separately	$0-$10,000
Phaseout range—joint filer/active participant spouse	$173,000-$183,000

ROTH IRA CONTRIBUTION

Phaseout range—joint filers	$173,000-$183,000
Phaseout range—single/head of household	$110,000-$125,000
Phaseout range—married filing separately	$0-$10,000

FOREIGN INCOME

Foreign earned income exclusion	$95,100

SOCIAL SECURITY TAXES

Maximum net taxable self-employment earnings	$110,100
"Nanny tax" threshold	$1,800

ANNUAL EXCLUSION FOR GIFTS

Gift tax exclusion	$13,000
Exclusion for gifts to a non-citizen spouse	$139,000

MILEAGE ALLOWANCES

Standard business mileage allowance	55.5¢
Medical and moving allowance	23.5¢
Charitable mileage allowance	14¢

RETIREMENT SAVINGS CONTRIBUTION CREDIT

Credit percentage	50 %	20 %	10 %
Joint filers	$0-$34,500	$34,500-$37,500	$37,500-$57,500
Head of household	$0-25,875	$25,875-$28,125	$28,125-$43,125
Other filers	$0-$17,125	$17,125-$18,750	$18,750-$28,750

DEPRECIATION LIMITS FOR VEHICLES PLACED IN SERVICE IN 2012

Passenger cars (subject to additional first-year depreciation)

1st tax year	$11,160	2nd year	$5,100
3rd year	$3,050	Each succeeding year	$1,875

Trucks and vans (subject to additional first-year depreciation)

1st year	$11,360	3rd year	$3,150
2nd year	$5,300	Each succeeding year	$1,875

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June 2012

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
To-Do List ➪ Review tax law changes for 2012. ➪ Schedule much-needed R&R.					1 Semiweekly depositors deposit FICA and withheld income tax on wages paid on May 26–29.	2
3	4	5	6 Semiweekly depositors deposit FICA and withheld income tax on May 30–June 1.	7	8 Semiweekly depositors deposit FICA and withheld income tax on wages paid on June 2–5	9
10	11 Tipped employees who received $20 or more in tips during May should report them to the employer on Form 4070.	12	13 Semiweekly depositors deposit FICA and withheld income tax on June 6–8.	14	15 Individuals and calendar-year corporations pay second installment of 2012 estimated tax. Monthly depositors deposit FICA and withheld income tax for May. Semiweekly depositors deposit FICA and withheld income tax on June 9–12.	16
17 Father's Day	18	19	20 Semiweekly depositors deposit FICA and withheld income tax on wages paid on June 13–15. First Day of Summer	21	22 Semiweekly depositors deposit FICA and withheld income tax on wages paid on June 16–19.	23
24	25	26	27 Semiweekly depositors deposit FICA and withheld income tax on wages paid on June 20–22.	28	29 Semiweekly depositors deposit FICA and withheld income tax on wages paid on June 23–26.	30

IRS Issues New Guidance on Repairs v. Improvements

The IRS recently issued regulations dealing with the capitalization of expenses incurred to "to acquire, produce, or improve tangible property" [T.D. 9564, 12/23/2011]. Among other things, the new regulations provide guidance on what has long been a thorny issue for businesses that own equipment, machinery and real estate: When is an expense a repair to property (currently deductible) and when is it an improvement to the property (a capital cost recovered over a period of years through depreciation)?

Under the new regulations, amounts paid after a "unit of property" (UOP) is placed in service will generally be considered an expenditure for the improvement of the UOP if the expenditure results in (1) a betterment of the UOP, (2) a restoration of the UOP, or (3) adapting the UOP to a new or different use.

UOPs

Whether an expenditure constitutes a repair or improvement is determined separately for each UOP. And, as a rule of thumb, the smaller a UOP, the greater the chance that an expenditure will be considered an improvement.

Generally speaking, all the components that are functionally interdependent comprise a single unit of property. Components of property are functionally interdependent if the placing in service of one component by the taxpayer is dependent on the placing in service of the other component by the taxpayer. For example, an automobile and its engine are considered functionally interdependent, but a computer and a printer are not. The automobile cannot operate without an engine but a computer can operate without a printer.

A special rule applies to buildings. A building and its components are generally considered one UOP. However, in the case of certain specified building systems, an expenditure on a system will be considered capital expenditure if it improves the system, even if it would not be considered an improvement to the building as a whole. The specified systems include:

1. Heating, ventilation, and air conditioning ("HVAC") systems (e.g motors, compressors, boilers, pipes, ducts, radiators);
2. Plumbing systems (e.g., pipes, drains, valves, sinks, bathtubs, toilets);
3. Electrical systems (e,g. wiring, outlets, lighting fixtures);
4. All escalators;
5. All elevators;
6. Fire-protection and alarm systems (e.g. sprinkler heads and associated plumbing, heat and smoke detection devices, fire escapes, fire fighting equipment, such as extinguishers, hoses);
7. Security systems (e.g., security cameras, security lighting, alarm systems);
8. Gas distribution systems; and
9. Other structural components identified by the IRS in published guidance.

Betterments

An amount paid results in the betterment of a UOP if it—

1. Ameliorates a material condition or defect that either existed prior to the taxpayer's acquisition of the UOP or arose during the production of the UOP, whether or not the taxpayer was aware of the condition or defect at the time of acquisition or production;
2. Results in a material addition (including a physical enlargement, expansion, or extension) to the UOP; or
3. Results in a material increase in capacity (including additional cubic or square space), productivity, efficiency, strength, or quality of the UOP or the output of the UOP.

IRS Issues New Guidance on Repairs v. Improvements, cont'd

Restorations

An amount is considered paid to restore a UOP (and thus must be capitalized) only if it—

1. Is for the replacement of a component of a UOP and the taxpayer has deducted a loss for that component;

2. Is for the replacement of a component of a UOP and the taxpayer has taken into account the adjusted basis of the component in realizing gain or loss on the sale or exchange of the component;

3. Is for the repair of damage to a UOP for which the taxpayer has taken a basis adjustment as a result of a casualty loss;

4. Returns the unit of property to its ordinarily efficient operating condition if the property has deteriorated to a state of disrepair and is no longer functional for its intended use;

5. Results in the rebuilding of the unit of property to a like-new condition after the end of its depreciation period; or

6. Is for the replacement of a part or a combination of parts that comprise a major component or a substantial structural part of a UOP.

Adapting

Taxpayers must capitalize amounts paid to adapt a unit of property to a new or different use. In general, an amount is paid to adapt a unit of property to a new or different use if the adaptation is not consistent with the taxpayer's intended ordinary use of the unit of property at the time originally placed in service by the taxpayer.

Safe harbor for routine maintenance

An amount paid for routine maintenance performed on a UOP (other than a building or a structural component of a building) is not considered an improvement to the UOP. Routine maintenance is the recurring activities that a taxpayer expects to perform to keep the UOP in its ordinarily efficient operating condition. Routine maintenance activities include, for example, the inspection, cleaning, and testing of the unit of property, and the replacement of parts of the unit of property with comparable and commercially available and reasonable replacement parts. The activities are routine only if, at the time the unit of property is placed in service by the taxpayer, the taxpayer reasonably expects to perform the activities more than once during the UOP's depreciation period. Among the factors to be considered in determining whether a taxpayer is performing routine maintenance are the recurring nature of the activity, industry practice, manufacturers' recommendations, and the taxpayer's experience.

Final point

The new regulations, which generally apply to tax years beginning on or after January 1, 2012, are voluminous and complex. We have just hit the high spots. The regulations can be found at the IRS's website at http://www.irs.gov/irb/2012-14_IRB/ar05.html#d0e1168.

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July 2012

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
1	2	3	4 Independence Day	5 Semiweekly depositors deposit FICA and withheld income tax on wages paid on June 27–29.	6	7
8	9 Semiweekly depositors deposit FICA and withheld income tax on wages paid on June 30–July 3.	10 Tipped employees who received $20 or more in tips during June should report them to the employer on Form 4070.	11 Semiweekly depositors deposit FICA and withheld income tax on wages paid on July 4–6.	12	13 Semiweekly depositors deposit FICA and withheld income tax on wages paid on July 7–10.	14
15	16 Monthly depositors deposit FICA and withheld income tax for June.	17	18 Semiweekly depositors deposit FICA and withheld income tax on wages paid on July 11–13.	19	20 Semiweekly depositors deposit FICA and withheld income tax on wages paid on July 14–17.	21
22	23	24	25 Semiweekly depositors deposit FICA and withheld income tax on wages paid on July 18–20.	26	27 Semiweekly depositors deposit FICA and withheld income tax on wages paid on July 21–24.	28
29	30	31 Employers file Form 941 for the second quarter of 2012. (Employers that have already deposited tax for the quarter in full and on time have until August 10 to file Form 941.) Employers deposit federal unemployment tax owed through June if more than $500. Retirement and benefit plans file 2011 information return (Form 5500).				

To-Do List

- ➪ Alert clients to 2012 tax planning opportunities.
- ➪ Schedule required Continuing Professional Education for 2012. See http://goo.gl/tqnL6 for IRS-approved CPE providers.

Marketing In Cyberspace

Doing business nowadays is radically different than it was just a few years ago. Case in point: Everyone recognizes the need to carry business cards that you can hand out to prospective clients. But have you established a Website for your practice yet? In this day and age, it's tantamount to having a business card.

In fact, setting up a Website is one of the most important aspects of marketing your practice. Your Website should be graphically stimulating and informative without being garish. You will want to maintain your professionalism yet capture the interest of casual "surfers" on the web.

Most significantly, the Website should provide all the information needed to develop an all-around view of your practice. Give clients and prospects a reason to keep returning to your website. Update it periodically with new information. But don't create a site that is so overloaded it takes an eternity to load. It's easy for people browsing your site to get frustrated and move on. You can measure the level of interest by the number of "hits" your site receives.

Get Social

One way to boost your Website traffic is by linking it to newer social media such as Facebook or Twitter, or by writing a blog.

On Facebook, your clients can see your page and then click the 'like' button. Once they 'like' your business, you are a part of their Facebook profile, and all of their friends can see this passive referral. By updating your Facebook profile, you can offer the members of your Facebook circle useful information, such as reminders of important deadlines, news about new or changed laws, or links to helpful articles that you've found online.

Twitter allows you to send "'tweets" of up to 140 characters to followers of your Twitter account. Like Facebook, it can be used for short reminders, news, or to share links.

If you want to provide prospective clients with more in-depth information, consider writing a blog. Blogs usually contain short articles, but can also include other content, such as video files. To be successful, you need to constantly update your blog with fresh content. Blogs are available to casual web surfers, and those who find your blog useful may subscribe to its Web feed.

Make sure that the various aspects of your firm's online presence are linked to each other. To encourage current clients to join their social media circles, many businesses include notes on their website, business cards, or even invoices inviting their customers to visit them on Facebook or Twitter.

Optimize E-Mail

E-mail marketing can take many forms, such as sending an e-zine to individuals who respond to an open invitation. But if you're especially industrious, you can go the extra yard by offering a valuable new service for online users. Set up an e-mail "hotline" that encourages questions from prospects and clients. Once you do this, it's important that you respond quickly and accurately to their queries. Naturally, you won't want to give away the farm—after all, you are in business to make money—but you can provide enough information to whet the writer's appetite. You will find that any inquiry often leads to new business.

Complement the e-mail hotline with a section on your Website called "Frequently Asked Questions" (FAQs). By posting FAQs on your site, you will avoid unnecessary repetition.

Tax return preparers should exercise caution in using client lists, including e-mail addresses, that are culled from client's tax returns. Under IRS regulations these lists may be used solely for the purpose of soliciting additional tax return business or providing general business or economic information or analysis to clients. A client list may not be used to solicit any service or product other than tax return preparation services.

Put the IRS on Your Marketing Team

You can team up with the IRS to market your practice. IRS's Marketing Express allows tax preparers to create and customize IRS communication products with your name, location, contact information and hours of service.

For cyber marketing, the IRS offers "widgets" that can be posted on your Web site, Facebook page, or other social media. Each widget contains a graphic "teaser" about a particular tax topic, such as the EITC, withholding changes, retirement plans, and the like, and directs users to the IRS website for further information. The widgets display the official IRS logo, lending your website or social media page an air of official authority.

You can check out the full range of Marketing Express materials, including IRS widgets at www.marketingexpress.irs.gov/mexpress/main/.

August 2012

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
To-Do List ➪ Remind individual clients of September 17 estimated tax payment. ➪ Remind calendar-year corporations with returns on extension of September 17 filing deadline. ➪ Alert clients who are parents of first-year college students of the American Opportunity tax credit.			1 Semiweekly depositors deposit FICA and withheld income tax on wages paid on July 25–27.	2	3 Semiweekly depositors deposit FICA and withheld income tax on wages paid on July 28–31.	4
5	6	7	8 Semiweekly depositors deposit FICA and withheld income tax on wages paid on August 1–3.	9	10 Tipped employees who received $20 or more in tips during July should report them to the employer on Form 4070. Employers file Form 941 for the second quarter of 2012 if tax for the quarter was deposited in full and on time. If not, employers should have filed by July 31.	11
12	13	14	15 Semiweekly depositors deposit FICA and withheld income tax on wages paid on August 8–10. Monthly depositors deposit FICA and withheld income tax for July.	16	17 Semiweekly depositors deposit FICA and withheld income tax on wages paid on August 11–14.	18
19	20	21	22 Semiweekly depositors deposit FICA and withheld income tax on wages paid on August 15–17.	23	24 Semiweekly depositors deposit FICA and withheld income tax on wages paid on August 18–21.	25
26	27	28	29 Semiweekly depositors deposit FICA and withheld income tax on wages paid on August 22–24.	30	31 Semiweekly depositors deposit FICA and withheld income tax on wages paid on August 25–28.	

Back to School: Maximizing Education Tax Credits for Clients

As students head back to college, they and their families face the increasingly daunting task of paying tuition bills. The tax law does provide some relief. For example, the American Opportunity and Lifetime Learning credits reduce the after-tax cost of college expenses.

Tax return preparers also have a role here. They can help to that insure clients obtain maximum benefit from these incentives.

Test Your Credit Score

For 2012, eligible taxpayers can claim an American Opportunity credit of 100% of the first $2,000 of qualifying expenses and 25% of the next $2,000 of qualifying expenses for each of the first four years of a student's higher education—a maximum credit of $2,500 per student per year. The Lifetime Learning credit is available for 20% of up to $10,000 of qualifying higher expenses, up to a maximum credit of $2,000 per year. Unlike the American Opportunity credit, the Lifetime Learning credit is calculated on a per family (i.e., per tax return) basis, not on a per-student basis. Moreover, both the American Opportunity and Lifetime Learning credits cannot be claimed for the same student in a tax year.

The credits are phased out for higher income taxpayers. For 2012, the Lifetime Learning credit is phased out for joint filers with modified adjusted gross income (MAGI) between $104,000 and $124,000, and for other filers with MAGI between $52,000 and $62,000. The phaseout range for the American Opportunity credit is $160,000 to $180,000 for joint filers and $80,000 to $90,000 for other filers. On the other hand, up to 40% of the American Opportunity credit is refundable for taxpayers with little or no tax liability to offset.

Timing Counts

The credits are generally allowed only for payments of qualifying expenses for an academic period beginning in the same tax year the payments are made. (An academic period is a quarter, semester, trimester or other period of study, such as a summer school session, as reasonably determined by the eligible educational institution.)

However, there is an exception to the general rule. If qualified tuition and related expenses are paid during one tax year for an academic period that begins during the first three months of the taxpayer's next tax year (i.e., in January, February, or March of the next tax year for calendar year taxpayers), an education tax credit is allowed, not in the year the academic period begins, but in the year the expenses are paid [IRC Sec. 25A(g)(4)].

Example

College Z charges Taxpayer A $2,000 in qualifying expenses to attend classes during the 2013 Spring semester, which begins in February 2013. If Taxpayer A pays the college in December 2012, Taxpayer A may claim an education tax credit in 2012 for payments for the 2013 Spring semester expenses. On the other hand, if Taxpayer A makes the $2,000 payment in January 2013, the general rule applies and the payment is creditable in 2013.

Assuming a client has flexibility as to when payments can be made, accelerating an American Opportunity credit for 2013 expenses into 2012 may be particularly advantageous. Unless Congress acts to extend it, the American Opportunity credit will expire after 2012. In 2013, the Hope Scholarship credit will be reinstated for 2013. In contrast to the American Opportunity Credit, the Hope credit is available only for the first two years of post-secondary education, is limited to a maximum of $1,500, and is not refundable.

Borrowing Counts

An education credit may be claimed for the qualified tuition and related expenses paid with the proceeds of a loan. The credit can be claimed only in the year payment is made with the proceeds, not in the year the debt is incurred or the year it's repaid.

Loan proceeds disbursed directly to a college will be treated as "paid" on the date the college credits the proceeds to the student's account. For example, in the case of any loan issued or guaranteed as part of a federal student loan program under Title IV of the Higher Education Act of 1965 (e.g., Pell Grant), loan proceeds will be treated as paid on the date of disbursement to the college.

While a client has little control over the date the college credits the account, the client may want to ask the college precisely when date that is. This can make a difference in which year the credit can be claimed. IRS regulations provide that if a taxpayer does not know the date the college credits the student's account, the taxpayer must treat the qualifying expenses as paid on the last date for payment prescribed by the college [Reg. 1.25A-5(e)(5)]. This might force a delay in claiming the credit.

Back to School: Maximizing Education Tax Credits for Clients, cont'd

Family Counts

If a client claims a student as a dependent, the client can claim an education credit for the student's expenses. Moreover, any expenses paid or deemed paid by the student are treated as paid by the client when figuring the credit. Thus, for example, a client can claim an education credit for college expenses paid by a dependent student with earnings from a summer job or from college loans in the student's name.

If a third party (say, a grandparent or a noncustodial parent) makes payment directly to an eligible educational institution for a student's education expenses, the student is treated as receiving the payment from the third party and in turn paying the expenses to the institution. Thus, if the student is claimed as dependent by your client, the payments can be taken into account in calculating your client's credit.

On the flip side, if your client does not claim the student as a dependent, the student can claim an education credit on his or her return. That's true even if your client is eligible to claim the student as a dependent. Moreover, payments made by the client for the student's expenses can be counted towards the credit on the student's return.

Intuit Accountants

September 2012

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
To-Do List ➪ Schedule appointments with individual clients for year-end tax planning sessions. ➪ Remind individual clients on automatic six-month extensions of October 15 filing deadline for 2011 returns. ➪ File returns for calendar-year corporate clients that obtained automatic six-month extensions. Remind individual clients on automatic six-month extensions of October 15 filing deadline for 2011 returns.						1
2	3 Labor Day	4	5	6 Semiweekly depositors deposit FICA and withheld income tax on wages paid on August 29-31.	7 Semiweekly depositors deposit FICA and withheld income tax on wages paid on September 1–4. Tipped employees who received $20 or more in tips during August should report them to the employer on Form 4070.	8
9 Grandparent's Day	10 Tipped employees who received $20 or more in tips during August should report them to the employer on Form 4070.	11	12 Semiweekly depositors deposit FICA and withheld income tax on wages paid on September 5–7.	13	14 Semiweekly depositors deposit FICA and withheld income tax on wages paid on September 8–11.	15
16	17 Monthly depositors deposit FICA and withheld income tax for August. Individuals and calendar-year corporations pay third installment of 2012 estimated tax. Calendar-year corporations file 2011 income tax return (Form 1120 for C corporations; 1120S for S corporations) if automatic six-month extension was obtained. Partnerships file 2012 information return (Form 1065) if automatic five-month extension was obtained.	18	19 Semiweekly depositors deposit FICA and withheld income tax on wages paid on September 12–14.	20	21 Semiweekly depositors deposit FICA and withheld income tax on wages paid on September 15–18.	22 First Day of Autumn
23	24	25	26 Semiweekly depositors deposit FICA and withheld income tax on wages paid on September 19–21.	27	28 Semiweekly depositors deposit FICA and withheld income tax on wages paid on September 22–25.	29
30						

Are Your Tax Return Preparer Credentials In Order?

The IRS' tax return preparer regulations are up and running—and now is a good time to make sure that all preparers in your firm have their credentials in order for next year's tax return season.

Preparer IDs

Virtually all individuals who prepare tax returns for compensation must have a preparer tax identification number (PTIN). This requirement generally applies to all attorneys, accountants, and enrolled agents who prepare returns, as well as to registered tax return preparers who are authorized by the IRS to prepare returns.

In order to become a registered tax return preparer, an individual must pass an IRS competency examination (see below). However, under a transitional rule, preparers who have not yet passed the exam may obtain and retain a provisional PTIN through December 31, 2013.

The PTIN requirement also applies to "supervised preparers" who do not and are not required to sign returns, but who are employed by an attorney or CPA firm and who prepare returns under supervision. To obtain a PTIN, a supervised preparer must provide the PTIN of their supervisor. The supervisor's PTIN must be a valid and active PTIN.

Renew now

All PTINs must be renewed on a calendar year basis using the IRS's online application or by submitting a paper application on Form W-12, IRS Paid Preparer Tax Identification Number (PTIN) Application, and paying the required fee (currently $64.25). Holders of valid PTINs must renew after October 15 and before January 1 each year. Renewed PTINs are valid from January 1 through December 31 of the following calendar year. PTINs obtained or renewed during a calendar year expire on December 31 of that year.

Competency Examination

As a general rule, all paid preparers other than attorneys, CPAs, enrolled agents, and supervised preparers, must take and pass the Registered Tax Return Preparer competency test in order to obtain a PTIN. However, individuals who do not prepare Form 1040 series returns are not required to take the test.

The test currently covers only individual income tax. However, preparers who successfully complete the test and obtain a PTIN are not limited to preparing Form 1040 series returns.

Preparers required to take the Registered Tax Return Preparer competency test who have a provisional PTIN have until December 31, 2013, to pass the test.

Renew now

Preparers should be sure to renew their provisional PTINs annually. If a provisional PTIN is allowed to expire, the preparer will have to take and pass the competency test to obtain a new PTIN. Holders of provisional PTINs who do not pass the competency test by December 31, 2013 will be contacted by the IRS proposing to deactivate their PTIN and remove them from the list of authorized preparers. Preparers must obtain a PTIN before taking the competency test.

The test is currently administered at testing locations in cities across the country. Testing may be scheduled at any time during the year except during the annual black-out period from April 1 through April 15 when the testing system is updated. A testing fee (currently $116) must be paid each time the test is taken. For more information on the competency test see Internal Revenue Service Registered Tax Return Preparer Test Candidate Information Bulletin at www.irs.gov/pub/irs-utl/rtrpcandidateinfobulletin.pdf.

Are Your Tax Return Preparer Credentials In Order?, cont'd

Continuing Education

Enrolled agents and registered tax return preparers are subject to continuing education requirements set by the IRS, while attorneys and CPAs are subject only to continuing education requirements (if any) required to maintain their professional credentials. Supervised preparers are not subject to any continuing education requirement The IRS notes, however, all tax return preparers have an obligation to stay current on the tax laws.

Enrolled agents must complete 72 hours of continuing education over a three-year enrollment cycle, with a minimum of 16 hours per year (two of which must be on ethics).

Registered tax return preparers must complete 15 hours of continuing education between January 1 and December 31 each year, beginning with the 2012 calendar year. The required continuing education must include at least 2 hours of ethics, 3 hours of federal tax law updates, 10 hours of other federal tax law topics.

Prorated requirements apply to individuals who become enrolled agents during an enrollment cycle and to individuals who become registered tax return preparers during a calendar year. Individuals who become registered tax return preparers after January 1 must complete one hour of continuing education on federal tax law updates or other federal tax law topics for each month or portion of a month that the individual is a registered preparer. Two hours of ethics credits are required regardless of when an individual becomes a registered preparer.

Only credits obtained through courses offered by IRS approved continuing education providers will count towards the IRS' continuing education requirement. A list of IRS approved continuing education providers can be found at https://ssl.kinsail.com/partners/irs/publicListing.asp.

Free CE

One way to beef up those CE credits is to log on to an IRS Live free webinar. Participants receive on CE credit for viewing a presentation. Preparers must register with their PTINs and sign in using the e-mail address used to register in order to receive a certificate of completion and have their credits reported to the IRS. Information on IRS live can be found at www.irs.gov/businesses/small/article/0,,id=223591,00.html.

Renew now

Minimum continuing education requirements must be completed in order to renew status as a registered tax return preparer. Provisional PTIN holders who do not satisfy the minimum continuing education requirements in 2012 will not be allowed to renew their provisional PTINs for 2013. Preparers who do not renew their provisional PTINs will be required to pass the competency test before obtaining a PTIN to prepare returns.

October 2012

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
To-Do List ⇨ Conduct year-end tax planning sessions with individual clients. ⇨ Remind individual clients to use flexible spending account funds before year end unless plan provides post year-end grace period.	1	2	3 Semiweekly depositors deposit FICA and withheld income tax on wages on September 26–28.	4	5 Semiweekly depositors deposit FICA and withheld income tax on wages on September 29–October 2.	6
7	8 Columbus Day	9	10 Tipped employees who received $20 or more in tips during September should report them to the employer on Form 4070.	11 Semiweekly depositors deposit FICA and withheld income tax on wages paid on October 3–5.	12 Semiweekly depositors deposit FICA and withheld income tax on wages paid on October 6–9.	13
14	15 Individuals file 2011 income tax return if automatic six-month extension was obtained. Monthly depositors deposit FICA and withheld income tax for September.	16	17 Semiweekly depositors deposit FICA and withheld income tax on wages paid on October 10–12.	18	19 Semiweekly depositors deposit FICA and withheld income tax on wages paid on October 13–16.	20
21	22	23	24 Semiweekly depositors deposit FICA and withheld income tax on wages paid on October 17–19.	25	26 Semiweekly depositors deposit FICA and withheld income tax on wages paid on October 20–23.	27
28	29	30	31 Halloween			**To-Do List** ⇨ File returns for individual clients who obtained automatic six-month extensions. ⇨ Renew PTIN for 2013.

October 31:

Employers file Form 941 for the third quarter of 2012. (Employers that have already deposited tax for the quarter in full and on time have until November 13 to file Form 941.)

Employers deposit federal unemployment tax owed through September if more than $500.

Semiweekly depositors deposit FICA and withheld income tax on wages paid on October 24–26.

Help Your Clients Cut Their 2012 and 2013 Tax Bills

There are a number of strategies your clients can employ to shift income and deductions at year-end. However, the first step in deciding which year-end moves will actually save tax dollars is to make some basic tax estimates and determinations.

- Make a rough estimate of the client's income and deductions for this year and for 2013.
- Based on the taxable income estimates, determine the client's tax bracket for both years.
- Determine the amount by which income must change to move from one bracket to another.

For example, let's say a client's taxable income for 2012 is $200,000, putting him in the 28% bracket (for joint filers). However, his estimated taxable income for 2013 is $225,000—in the 33% bracket. Shifting a few thousand dollars of income from 2013 to 2012 will cut the tax on that income by 5 cents on the dollar. But there's a limit on this strategy. If too much income is shifted into 2012, the client will be pushed into the 33% bracket for 2012. So all that will be accomplished is paying tax sooner rather than later.

Your clients may routinely accelerate spending at year-end to increase their tax deductions—for example, by making year-end charitable contributions and prepaying other deductible expenses, such as state or local taxes and mortgage interest. However, for clients whose income is on the rise, those deductions may be more valuable in 2013. On the other hand, even for these clients, smart year-end spending can generate deductions that would not be available if the expenses were spread out over two years. Here are two examples:

Miscellaneous deductions

Miscellaneous itemized expenses are deductible only to the extent they exceed 2% of a taxpayer's adjusted gross income. The 2% deduction floor applies to a long list of items including unreimbursed employee business expenses, investment counseling fees, custodial fees on property held to produce income, safe deposit rentals, job hunting expenses—and, of course, tax return preparation fees.

If a client's miscellaneous expenses are already at or surpass 2% of adjusted gross income, your client should be on the lookout for ways to accelerate other miscellaneous expenses from early 2013 into this year. That way, the client will be sure to get a deduction on this year's return, while the same expenses may not be deductible at all in 2013 if miscellaneous expenses don't top the 2% mark.

You may want to point out to clients with employee business expenses that they can sidestep the 2% rule if their employer pays for their business expenses under an accountable plan. The payments will be tax-free to them. In some cases, it may be worthwhile for a client to take a pay cut if he or she can work out a reimbursement arrangement with the employer. A reimbursement arrangement would effectively allow the client to pay the expenses with pre-tax, rather than after-tax, dollars.

Medical expenses

Medical expenses are also subject to a deduction floor. Therefore, here again, accelerating expenses can salvage deductions that might otherwise be lost. Moreover, this strategy may be especially useful this year. For 2012, unreimbursed medical expenses are deductible only to the extent they exceed 7.5% of adjusted gross income. However, as things stand now, for 2013 the deduction threshold is scheduled to rise to 10% of adjusted gross income for taxpayers other than seniors who have reached age 65 by year end.

Your clients should total up all unreimbursed medical and dental expenses they have incurred so far in 2012 and compare that figure with an estimate of the adjusted gross income for the year. If the expenses are at, over, or near the 7.5% mark, it makes sense to accelerate what would otherwise be 2013 medical and dental expenses into 2012.

For example, a client can move up an scheduled doctor's visit or eye exam from January to December. A client may also want to pay the full cost of an ongoing procedure, even if treatment won't be completed until next year. By bunching expenses in 2012, there's a better chance of getting a deduction.

Accelerating medical payments is only half the story. Clients should examine their bills for often-overlooked deductions. For example, the extra cost of orthopedic shoes or a special mattress for an arthritic condition, Medicare B premiums, room and board for a live-in nurse, the cost of medical travel, and the portion of a child's tuition bill that covers medical care all qualify for deductions. Be sure to alert your clients that the cost of medical procedures can be deducted even if they are not prescribed by a doctor. The IRS has ruled that in determining whether an expense is for medical reasons, the recommendation of a physician is important—but it's not crucial. Where expenses are for items that are wholly medical in nature, a deduction can be claimed even if no doctor was involved. The IRS specifically approved deductions for the costs of annual physicals, full body scans, and home-pregnancy tests.

Use It Or Lose It

There's one case in which your clients may have do some spending or lose a valuable tax break—and their hard-earned dollars as well. Employees whose companies sponsor a reimbursement or flexible spending arrangement can set aside money each pay period to cover child care and medical bills with pre-tax dollars. However, employees forfeit any funds not used by a set deadline. As a general rule, the deadline is the end of the calendar year. However, IRS regulations allow company plans to give employees a grace period of up to 2 ½ months after year end to use up their contributions.

The grace period applies only if the company plan specifically provides for it. Therefore, employees should check with the plan administrator to determine the deadline for their particular plan.

Clients who are in danger of losing any money that was deposited in a company plan should make arrangements now to use up the funds by the plan deadline. If a year-end deadline applies, clients can accelerate as many medical, dental, and child care expenses into 2012 as possible. If the plan allows for a grace period, clients should take action now to schedule planned expenses for early 2013.

Intuit Accountants

November 2012

To-Do List

- ➪ Remind individual clients whose withholding status will change in 2013 to submit new W-4 forms to their employers.
- ➪ Remind individual clients who may have underpaid estimated taxes to increase withholding from salary and wages to make up for shortfall.
- ➪ Register online to use IRS e-services. Preparers who anticipate filing 11 or more 1040, 1040A, 1040EZ and 1041 during the year must file electronically.
- ➪ Set up tax preparation software and test e-filing. Download IRS e-file logo and order IRS e-file marketing materials. See the EFTPS Tool Kit at http://www.irs.gov/pub/irs-pdf/p4320.pdf

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
				1	2 Semiweekly depositors deposit FICA and withheld income tax on wages paid on October 27–30.	3
4 Daylight Saving Time Ends	5	6 Election Day	7	8 Semiweekly depositors deposit FICA and withheld income tax on wages paid on October 31–November 2.	9 Semiweekly depositors deposit FICA and withheld income tax on wages paid on November 3–6.	10
11 Veteran's Day	12	13 Tipped employees who received $20 or more in tips during October should report them to the employer on Form 4070. Employers file Form 941 for the third quarter of 2012 if tax for the quarter was deposited in full and on time. If not, employers should have filed by October 31.	14	15 Semiweekly depositors deposit FICA and withheld income tax on wages paid on November 7–9. Monthly depositors deposit FICA and withheld income tax for October.	16 Semiweekly depositors deposit FICA and withheld income tax on wages paid on November 10–13.	17
18	19	20	21 Semiweekly depositors deposit FICA and withheld income tax on wages paid on November 14–16.	22 Thanksgiving Day	23	24
25	26 Semiweekly depositors deposit FICA and withheld income tax on wages paid on November 17–20.	27	28 Semiweekly depositors deposit FICA and withheld income tax on wages on November 21–23.	29	30 Semiweekly depositors deposit FICA and withheld income tax on wages paid on November 24–27.	

The Tax Man Cometh

For the third year in a row during the 2012 tax return season, the IRS sent letters and scheduled visits with thousands of tax return preparers nationwide. These annual letters and visits are part of the IRS'ongoing compliance initiative to improve the accuracy and qualify of filed tax returns and to heighten awareness of preparer responsibility. And, while the focus of the letters and visits may change, tax practitioners can anticipate another round of letters and visits during the 2013 filing season.

During both the 2011 and 2012 tax return seasons, the IRS focused on tax return preparers who prepared a large number of individual returns with Schedules A (Itemized Deductions), C (Profit or Loss from Business) or E (Supplemental Income and Loss) in the prior year. In November 2010, the IRS sent more than 10,000 letters to selected preparers and scheduled visits with about 2,500 preparers between December 2010 and the end of April 2011. In November 2011, approximately 25,000 preparers nationwide received missives from the IRS, with about 2,100 visits scheduled through April 15, 2012.

You've Got Mail

According to the IRS, the purpose of the preparer letters is to heighten awareness of preparer's responsibilities, the consequences of filing incorrect returns and tax return preparer requirements. The letters include enclosures that outline common issues preparer's should be aware of on the targeted schedules.

Preparers are not required to respond to the IRS letters—but may want to prepare for the possibility of an in-office visit.

You've Got Company. Based on past experience, upwards of 2,000 preparers who receive letters can expect a visit from the IRS. An IRS agent will call selected tax return preparers in advance to schedule the date and time of the visit. The agent will then send a letter confirming the visit.

According to the IRS, the purpose of the preparer visits is to:

- Confirm that tax return preparers are complying with current preparer requirements, including the maintenance of records and signing and furnishing of PTINs on returns; and
- To provide information on return preparer requirements.

The IRS says that no advanced preparation is required for an IRS visit, but the IRS will request that you have available tax forms for you prepared for clients in the prior year and e-file transmission documents for returns that were filed electronically.

Nonetheless, an advance review of your office procedures may be in order. The IRS says that during an office visit, IRS revenue agents will be determining whether a tax return preparer:

- Provided the client with a copy of the tax return,
- Signed the return as required by regulations,
- Furnished an identification number as required by regulations,
- Retained a copy or list of returns and claims as required by regulations,
- Filed correct information returns,
- Properly refused to endorse or negotiate taxpayer refund checks, and
- Properly safeguarded taxpayer information.

If violations are found, the revenue agent may, with managerial approval, determine that it is appropriate to impose penalties on the preparer.

On the other hand, the IRS emphasizes that the focus of visits is on return preparer activity, not on taxpayer reporting compliance. Inspection of clients' returns is to ensure the tax return preparer's compliance with the preparer requirements. Contacts with clients resulting from these visits will be to confirm potential violations by the return preparer that may result in penalties against the preparer.

Why Me, Why Now?

The IRS emphasizes that a practitioner's professional designation is not a factor in determining who receives a letter or a visit from an IRS agent. In prior years, letters were sent and visits scheduled with attorneys, CPAs, enrolled agents, and other return preparers. Instead, the IRS says that the selection of preparers is based on filters to identify preparers that may need assistance in meeting their required responsibilities.

Not surprisingly, preparers have questioned the IRS' scheduling of these visits during the height of tax return season. However, according to the IRS, the visits are scheduled during tax season because many preparers do not maintain regular office hours except during the filing season, making it difficult for the IRS to schedule visits at other times of the year. Moreover, mailing the letters and scheduling visits during tax season allows preparers to use the information provided by the IRS when they prepare their clients' returns and will help improve the accuracy of returns and avoid costly penalties for preparers and their clients.

Keep In Touch With the IRS

The IRS has gone hi-tech. You can now follow the IRS on Twitter, Like the IRS on Facebook, or sign up for a variety of e-News updates. Here is a rundown of IRS training and communication tools for tax pros.

e-News
Tax professionals can sign up to receive email alerts a on a wide variety of topics, including e-filing, tax products, tax tips, payroll taxes, and news for tax pros.

Twitter
Follow @IRSTaxPros for by-the-minute updates on key issues affecting tax professionals.

Facebook
Join the conversation with the IRS Return Preparer Office about the preparer oversight program and other issues.

The IRS also offers on-line training tools, including nationwide tax forms, live webinars, and a video portal with videos on topics for tax professionals.

Information on these and other IRS training and communication tools for tax professionals can be found on the IRS website at www.irs.gov/taxpros/article/0,,id=200803,00.html.

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December 2012

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
To-Do List ⇨ Establish tax return preparation procedures. ⇨ Develop tax preparation docket sheet. ⇨ Analyze tax season staffing needs. ⇨ Prepare tax season work assignments.	⇨ Prepare tax preparation packets for clients ⇨ Review new tax developments. ⇨ Remind individual clients of January 15 due date for final 2012 estimated tax payment.		⇨ Schedule Registered Tax Return Preparer Competency Exam. Preparers with provisional PTINs must successfully complete the exam by December 31, 2013.			1
2	3	4	5 Semiweekly depositors deposit FICA and withheld income tax on wages paid on November 28–30.	6	7 Semiweekly depositors deposit FICA and withheld income tax on wages paid on December 1–4. Pearl Harbor Remembrance Day	8
9	10 Tipped employees who received $20 or more in tips during November should report them to the employer on Form 4070.	11	12 Semiweekly depositors deposit FICA and withheld income tax on wages paid on December 5–7.	13	14 Semiweekly depositors deposit FICA and withheld income tax on wages paid on December 8–11.	15
16	17 Monthly depositors deposit FICA and withheld income tax for November. Calendar-year corporations pay fourth installment of 2012 estimated tax.	18	19 Semiweekly depositors deposit FICA and withheld income tax on wages paid on December 12–14.	20	21 Semiweekly depositors deposit FICA and withheld income tax on wages paid on December 15–18.	22 First Day of Winter
23	24	25	26	27 Semiweekly depositors deposit FICA and withheld income tax on wages paid on December 19–21.	28 Semiweekly depositors deposit FICA and withheld income tax on wages paid on December 22–25.	29
30	31 New Year's Eve		**Reminder** Employees whose withholding status will change in 2013 should submit a new Form W-4 to the employer. The new form should be submitted as early as possible to guarantee implementation of the withholding change in January.			

Getting Your Clients Ready for Tax Return Season

Your office may be geared up and ready for tax return season. However, the most streamlined office procedures will not guarantee a successful tax return season without the cooperation of one key element: your clients. If clients are habitually late in submitting tax return information or supply you with incomplete or disorganized information, the time spent sifting and sorting and contacting clients for missing data will throw a monkey wrench into the most well-oiled machine.

Here are some tips for getting your clients ready for the upcoming tax return season.

Get Clients Organized

Now is the time to provide your clients with tax return preparation packets and tax data organizers. Send them out early, so that clients have time to complete them properly. As part of this process, explain to clients when you need to see actual source documents and when it is acceptable for them to simply provide you with lists and schedules of tax data. Impress upon your clients that the more preparatory work they do before submitting their return for preparation, the smaller their bills will be. After all, time is money.

You may also want to consider developing a checklist for clients of the types of documentation they should be accumulating throughout the year. By giving clients this checklist along with their completed 2012 returns, you can get a jumpstart on the next go-round. Stress to clients that it is much easier to compile tax records on an ongoing basis than to scramble to collect everything at year end—and they are much less likely to overlook something that could save them tax dollars.

Set Firm Deadlines

Establish deadlines for when you will accept client data—and clearly communicate those deadlines to your clients. Stick to your guns by putting returns on extension if documentation is submitted after the deadline. There will, of course, be extenuating circumstances in which clients deserve some leeway. However, perennial procrastinators will get the message if you set and stick to your cut-off dates.

Schedule Reminders

As your deadlines approach, send out reminder notices or call those clients who have not yet submitted their 2012 tax data or who have not submitted all the information necessary to complete their returns. Emphasize once again that a client's return cannot be prepared by the original return due date if tax information is not received in a timely fashion. This is a good time to get clients to commit one way or another. Explain the rules for obtaining an automatic filing extension and advise clients that a filing extension may be appropriate if they are having difficulty gathering the necessary tax information.

In fact, you may want to send this type of reminder early on to those clients whose returns have typically required an extension—for example, clients who have to apply for an extension every year because of habitually late K-1 information from partnership investments. By identifying extended returns as soon as possible, you and your staff won't waste limited busy season time working on returns that will not be ready by the original return due date.

Establish Procedures for Missing Info

It's always preferable to get information from clients in writing, but it's not always possible when the tax return deadline is fast approaching. You may have had instances where you or a staff member obtained client information over the telephone only to have the client later dispute the accuracy of that information. To avoid such disputes, develop procedures now to ensure the accuracy of last-minute data submissions. Whenever possible, have clients submit any additional information in writing by fax or e-mail. If you must obtain information verbally, make it a practice to follow up with a written memo. Make sure your clients understand that you will assume the information is accurate unless you are promptly notified of any changes.

Estimate Your Bill

Most tax return preparers have had experience with clients who are outraged when they receive their bills. You can avoid this type of confrontation by providing clients with up-front estimates of their return preparation costs. Stress, however, that these figures are estimates only. Midway through the return preparation process, send an interim bill along with an explanation of any changes from your original estimate.

EITC Returns Require Extra Care

Cut Off Deadbeats

You may have clients who are habitually late paying their bills, who always contest—and refuse to pay—part of the bill, or who have owed you significant amounts of money for quite some time. Take a long, hard look at your outstanding accounts receivable. Now is the time to bite the bullet and decide which clients you ought to write off and refuse to serve any longer.

According to IRS statistics, tax professionals prepare nearly 66 percent of earned income tax credit (EITC) claims. Nonetheless, as many as one in five eligible taxpayers fail to claim the (EITC)—and many of those who do claim it either compute it incorrectly or are ineligible.

To beef up EITC compliance, new regulations taking effect in 2012 require tax return preparers to complete and file Form 8867, Paid Preparer's Earned Income Credit Checklist, with each return claiming the EITC. In the past, the form was required to be completed and retained in the preparer's records—but was not required to be filed with the client's return.

Under a new law enacted in 2011, tax return preparers who fail to comply with the EITC due diligence requirements—including the requirement to file Form 8867 with an EITC return—face a penalty of $500 (up from $100) for each noncompliant return. In addition, under the new regulations, a tax preparation firm may be subject to the penalty for its employee's failure to comply with the due diligence requirements

You can find tips on meeting the EITC due diligence requirements and other useful information on the EITC in the IRS's EITC Tax Preparer Toolkit at http://www.eitc.irs.gov/rptoolkit/main/.

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January 2013

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
To-Do List ➪ Send tax preparation packets and tax data organizers to individual clients. ➪ Alert individual clients to the option of filing the 2012 return by January 31 in lieu of making final 2012 estimated tax payment. ➪ Remind business clients of information reporting requirements.		1 New Year's Day	2	3 Semiweekly depositors deposit FICA and withheld income tax on wages paid on December 26–28.	4 Semiweekly depositors deposit FICA and withheld income tax on wages paid on December 29–January 1.	5
6	7	8	9 Semiweekly depositors deposit FICA and withheld income tax on wages paid on January 2–4.	10 Tipped employees who received $20 or more in tips during December should report them to their employers on Form 4070.	11 Semiweekly depositors deposit FICA and withheld income tax on wages paid on January 5–8.	12
13	14	15 Individuals pay final installment of 2012 estimated tax. Monthly depositors deposit FICA and withheld income tax for December.	16 Semiweekly depositors deposit FICA and withheld income tax on wages paid on January 9–11.	17	18 Semiweekly depositors deposit FICA and withheld income tax on wages paid on January 12–15.	Employers file annual Form 944 for 2012 (in lieu of quarterly Form 941s) if a qualifying small employer. Employers file Form 940 for 2012. If undeposited tax is $500 or less, employer can either pay it with 940 or deposit it. If undeposited tax is more than $500, employer must deposit it. (If employer has already deposited the tax owed for 2012 in full and on time, employer has until February 11 to file 940.)
20	21 Martin Luther King Jr. Holiday	22	23	24 Semiweekly depositors deposit FICA and withheld income tax on wages paid on January 16–18.	25 Semiweekly depositors deposit FICA and withheld income tax on wages paid on January 19–22.	
27	28	29	30 Semiweekly depositors deposit FICA and withheld income tax on wages paid on January 23–25.	31 Furnish copies of Form W-2 for 2012 to employees. Furnish information returns to retired employees (Form 1099-R) and noncorporate independent contractors who were paid $600 or more (Form 1099-MISC).	Employers file Form 941 for the fourth quarter of 2012. (If employer has deposited tax owed for the quarter in full and on time, employer has until February 11 to file form.)	Individuals file individual income tax return for 2012 in lieu of January 15 estimated tax payment. File Form 945 for 2012 to report income tax withheld on nonpayroll items.

Seven Top Techniques for Avoiding Tough Return Preparer Penalties

Making an error on a tax return may cost you a client. But it can cost more than that if the IRS says you owe a tax return preparer penalty as a result of the mistake.

For returns prepared in 2012, preparers face the possibility of a “first-tier” penalty equal to the greater of $1,000 or 50% of the income from preparing the return if there is an understatement of tax on the return. A penalty can be avoided only if a return position will “more likely than not” be sustained on its merits. If a position is disclosed on the return, no penalty applies unless there is no “reasonable basis” for the position.

A “second-tier” penalty applies if a tax understatement is due to “willful or reckless conduct” on the part of a preparer.. The second-tier penalty is the greater of $5,000 or 50% of the income from preparing the return.

So what can you do to avoid these tough new preparer penalties?

1. Run a Tight Ship

You’d like to guarantee that every return you prepare is 100% error free. But even in the best-run offices, mistakes happen. Nonetheless, when a penalty hangs in the balance, a well-run office may very well tip the scale in your favor. According to the IRS, if your office follows set routines to promote accuracy and consistency you will be more likely to escape penalties for occasional errors. These office routines may include established checklists for monitoring return preparation, forms for obtaining information from clients, review of prior-year returns—and, most important, review of the current return.

2. Review the Returns You Sign

IRS regulations contain a “one preparer-per-firm” rule under which only the preparer who actually signs a return will be liable for a penalty, even if other members of the firm were involved in preparation of the return. However, a corollary of that rule makes it imperative that you carefully review the returns you sign. A signing preparer cannot rely on the advice of a non-signing preparer to establish that he or she acted with reasonable cause and in good faith.

3. Advise With Caution

If another preparer calls on you or your firm to aid in preparation of a return, advise with caution. A non-signing preparer who is not associated with the same firm as the signing preparer can be held liable for preparer penalties. The same holds true if a taxpayer calls on you for advice in connection with a return you don’t sign.

If you believe a controversial position should be disclosed on a taxpayer’s return, convey that message clearly to the signing preparer or the taxpayer. If your return-related advice is in writing, your message about disclosure must also be in writing. If you give oral advice about a return, your views on disclosure can also be expressed orally. However, it’s a good idea to back up your oral advice with documentation in your files. IRS regulations say that the determination of whether you actually gave the oral advice will be based on all the facts and circumstances. But contemporaneously prepared documentation of your advice will generally be enough to avoid a penalty.

4. Question Your Clients

As a general rule, a preparer won’t be penalized if a return is based on information furnished by the client—even if that information turns out to be incorrect. However, there are situations where you should dig a little deeper. For example, while you don’t have to examine a client’s books and records to verify a client’s information, the IRS says you must make reasonable inquiries if any information seems incorrect or incomplete. And in cases where the tax law requires records to claim a deduction, you must get your client’s assurance that those records exist. In all cases, your files should show that you asked the right questions.

5. Weigh the Odds

Tax return preparation would be an easy task if there were a clear-cut answer to every tax question. But, in many cases, you must make an educated guess about the proper treatment of items on a client’s return. Under the new rules, you won’t be penalized for understating a client’s tax if it is “more likely than not” that the position taken on the client’s return will be sustained on the merits. “More likely than not” is generally understood to mean that the position has a greater than 50% chance of being sustained on the merits, while the former “realistic possibility” standard generally meant a one-in-three chance.

Short of putting an odds maker on your staff, how do you assess the chances of success? One thing the IRS says you can’t take into account is the likelihood that a client’s return will be audited or that the controversial item will be picked up on audit. Instead, the IRS says you must make a reasonable and well-informed analysis based on existing authorities.

Seven Top Techniques for Avoiding Tough Return Preparer Penalties, cont'd

6. Keep Up to Date

The determination of whether a return position satisfies the "more likely than not" test is made as of the date the return is signed. Therefore, a revenue ruling or other IRS pronouncement that was published only days earlier may make it impossible to meet the test. You may escape a penalty if your reliance on previous authorities was reasonable and in good faith. But that defense will be weakened if you have not made every effort to keep up to date.

7. Red Flag the Return

In close cases, disclosing a return position may be the safest course for you—and for your client, who may also face penalties if the position is rejected. The IRS periodically issues revenue procedures listing certain tax forms and schedules that, if properly completed, will be adequate disclosure for the first-tier preparer penalty and will shield a client from negligence penalties. However, the use of Form 8275, the IRS's official disclosure form, offers greater penalty protection for both you and your client. That form is considered adequate disclosure for both levels of preparer penalties and for any accuracy-related penalties that may be levied against your client.

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February 2013

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
					1 Semiweekly depositors deposit FICA and withheld income tax on wages paid on January 26–29.	2 Groundhog Day
3	4	5	6 Semiweekly depositors deposit FICA and withheld income tax on wages paid on January 30–February 1.	7	8 Semiweekly depositors deposit FICA and withheld income tax on wages paid on February 2–5.	9
10	11 (see below)	12	13 Semiweekly depositors deposit FICA and withheld income tax on wages paid on February 6–8.	14 Valentine's Day	15 (see below)	16
17	18 President's Day	19	20	21 Semiweekly depositors deposit FICA and withheld income tax on wages paid on February 13–15.	22 Semiweekly depositors deposit FICA and withheld income tax on wages paid on February 16–19.	23
24	25	26	27 Semiweekly depositors deposit FICA and withheld income tax on wages paid on February 20–February 22.	28 (see below)		

To-Do List

- Send reminders to individual clients who have not returned tax preparation packets or scheduled appointments.
- Review pros and cons of S corporation election with eligible corporate clients.
- Remind calendar year corporate clients of March 15 filing deadline.

February 11

Employers file Form 941 for the fourth quarter of 2012 if tax for the quarter was deposited in full and on time. If not, employers should have filed by January 31.
Tipped employees who received $20 or more in tips during January should report them to the employer on Form 4070.
Employers file Form 940 for 2012. This due date applies only if employer deposited the tax for the year in full and on time. If not, employer should have filed form by January 31.

February 15

Monthly depositors deposit FICA and withheld income tax for January.
Claims for 2012 exemption from income tax withholding expire and employers must begin withholding tax after this date unless employees have submitted a new W-4 to continue the exemption for 2013.
Semiweekly depositors deposit FICA and withheld income tax on wages paid on February 9–12.

February 28

Form 1099 information returns (reports of payments of $600 or more, $10 dividend and interest payments) must be filed for 2012. Electronic filers see April 1.

Large food and beverage establishment employers file Form 8027, Employer's Annual Information Return of Tip Income and Allocated Tips. Employers use Form 8027-T to summarize and transmit Form 8027 if reporting for more than one establishment. Electronic filers see April 1.
Employers file Copy A of all Forms W-2 issued for 2012 with the Social Security Administration (SSA). Paper Forms W-2 should be accompanied by a Form W-3. Electronic filers see April 1.

New Help for Innocent Spouses

A joint return can be a tax saver for a married couple. However, it can also be a tax trap waiting to ensnare an innocent spouse.

When a couple makes a joint return, the tax is computed on the combined income of the spouses, and liability for the tax due on the return is joint and several. Both the husband and wife are jointly and individually responsible for the tax, and any interest or penalty due on the joint return. One spouse may be held responsible for all the tax due, even if all of the income was earned by the other spouse.

So what is a spouse to do when he or she is left holding the bag for the entire amount of a joint liability? One option is to request innocent spouse relief from the IRS.

There are three types of innocent spouse relief:

1. Traditional innocent spouse relief allows a spouse, who made a joint return, to elect to limit his or her liability for any deficiency on the return resulting from the other spouse's incorrect tax reporting. For this relief to apply, an electing spouse must, through no fault of his or her own, have had no knowledge of the other spouse's erroneous tax reporting and, taking into account all the facts and circumstances, it must be inequitable to hold the innocent spouse liable for the deficiency.

2. Separate liability relief allows a spouse who filed a joint return to limit liability to his or her allocable share of a joint understatement. An individual is eligible for separate liability relief only if, at the time relief is elected he or she is no longer married to, or is legally separated from, the spouse with whom the joint return was filed; or wasn't a member of the same household as that spouse at any time during the previous 12-month period. When separate liability relief applies, an innocent spouse's liability is limited to the portion of the understatement properly allocable to that individual. An understatement is generally allocated between the spouses based on each spouse's proportionate share of the net items taken into account in determining the understatement.

Practice Tip: Both traditional innocent spouse relief and separate liability relief are available only if there was an understatement of tax on a joint return. Neither type of relief applies to a tax liability that was reported on a joint return but was not paid. However, equitable relief may be granted by the IRS for reported but unpaid liabilities.

3. Equitable relief allows the IRS to relieve a spouse of liability for an unpaid tax or understatement on a joint return if, under all the facts and circumstances, it would be inequitable to hold the spouse liable and relief isn't available under the traditional innocent spouse or separate liability rules.

New window: The Code specifically provides that a request for traditional individual spouse relief or separate liability relief must be made no later than two years after the IRS begins collection activities against the innocent spouse. Although the Code does not specify a deadline for requesting equitable relief, IRS regulations imposed a similar two-year window on requests for equitable relief. However, after repeated court cases, the IRS has eliminated the two-year window. Requests may now be made at any time during the period of limitation on collection (generally, 10 years) or, in the case of a claim for credit or refund, during the applicable limitations period (generally, the earlier of three years from the time the return was filed or two years from when the tax was paid). [IRS Notice 2011-70]

An IRS notice makes it clear that spouses who were denied relief because their claims were untimely get a second chance to apply for relief so long as the applicable limitations period remains open. A second chance request should be made by filing a new Form 8857, Request for Innocent Spouse Relief.

New relief

The IRS has also issued new guidelines on when it will approve innocent spouse relief. [IRS Notice 2012-8] Most significantly, the new guidelines make it clear that the IRS will take into account abuse and financial control by the nonrequesting spouse in determining whether the grant equitable relief to the requesting spouse. Abuse and lack of financial control may mitigate other factors that would otherwise weigh against granting equitable relief. For example, one longstanding criteria for equitable relief is that the requesting spouse did not know and had no reason to know of a tax understatement or underpayment. However, evidence of abuse or financial control by the nonrequesting spouse will weigh in favor of granting relief even if the requesting spouse knew or had reason to know of an understatement or underpayment. Similarly, the fact that a spouse requesting relief enjoyed benefits from the unpaid tax such as a lavish lifestyle or luxury assets will generally bar equitable relief. However, if the nonrequesting spouse controlled the couple's finances and dictated their lifestyle, that factor will be mitigated.

Injured Spouses Get Relief, Too

Another tax trap for joint filers is that one spouse can become saddled with liabilities that predate the marriage. A refund due on a joint return can be offset for past-due federal taxes, state income taxes, child or spousal support, or a federal nontax debt, such as a student loan, of either spouse.

An "injured spouse" who is not liable for the unpaid obligation can apply to get back his or her portion of the joint refund.

An injured spouse claim is made by filing Form 8379, Injured Spouse Allocation. Form 8379 is filed with the joint return for which the refund is being allocated. If the joint return was previously filed, Form 8379 may be filed with the Service Center where the joint return was filed.

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March 2013

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
To-Do List ➪ File extensions for individuals who have not met deadline for return preparation. ➪ Remind individual clients of April 15 estimated tax payment. ➪ File extensions for corporate clients that will not meet March 15 filing deadline.					1 Semiweekly depositors deposit FICA and withheld income tax on wages paid on February 23–26.	2
3	4	5	6 Semiweekly depositors deposit FICA and withheld income tax on wages paid on February 27–March 1.	7	8 Semiweekly depositors deposit FICA and withheld income tax on wages paid on March 2–5.	9
10 Daylight Saving Time Begins	11 Tipped employees who received $20 or more in tips during February should report them to the employer on Form 4070.	12	13 Semiweekly depositors deposit FICA and withheld income tax on wages paid on March 6–8.	14	15 Monthly depositors deposit FICA and withheld income tax for February. Calendar-year corporations file 2012 income tax return (Form 1120 for C corporations; 1120S for S corporations). Alternatively, corporations file for an automatic six-month extension. Last day to elect S corporation treatment for 2013 (Form 2553). Semiweekly depositors deposit FICA and withheld income tax on wages paid on March 9–12.	16
17 St. Patrick's Day	18	19	20 Semiweekly depositors deposit FICA and withheld income tax on wages paid on March 13–15. First Day of Spring	21	22 Semiweekly depositors deposit FICA and withheld income tax on wages paid on March 16–19.	23
24	25	26	27 Semiweekly depositors deposit FICA and withheld income tax on wages paid on March 20–22.	28	29 Semiweekly depositors deposit FICA and withheld income tax on wages paid on March 23–26.	30
31						

How To Help Clients Who Can't Pay

You do your best to make sure your clients do not get any unpleasant surprises when you hand them their completed tax returns. You remind them of the requirement to prepay their taxes through withholding or estimated tax installments—and to adjust those prepayments if circumstances change during the year. Nonetheless, there will always be clients who owe tax when they file their returns. And, in these tough economic times, you may have an increasing number of clients who have skimped on tax prepayments to meet other obligations. Moreover, many of these clients may not have the funds available to pay up when the tax bill comes due.

What not to do

Impress upon your clients that they should not hold off on filing their returns until they can come up with the money to pay the tax due in full. If a return is not filed on time, the client will be hit with failure to file penalties in addition to penalties and interest on the unpaid tax bill.

For the 2011 return filing season, the IRS provided special relief for wage earners who were unemployed for at least 30 days in 2011 or in 2012 prior to the return filing deadline. The special relief also applied to self-employed who experienced a 25% or greater reduction in business income in 2011 due to the economy. Relief did not apply to taxpayers with income of more than $100,000 ($200,000 for joint filers) or a tax balance due of more than $50,000. Under the relief provision, eligible taxpayers were relieved of the failure to pay penalty (but not interest) for tax year 2011 if the tax interest and other penalties were paid by October 15, 2011. However, it remains to be seen whether similar relief will be provided for 2012 returns.

What to do

Advise clients to pay as much as they can as soon as they can to minimize late payment penalties and interest—even if that means liquidating investments or borrowing money. While a client may balk at cashing out savings or borrowing to pay a tax bill, the interest charged on borrowings may be lower than the combined penalties and interest owed to the IRS on late payments. Bear in mind, too, that some types of borrowing may have tax or other advantages. For example, interest on a home equity loan may be deductible for tax purposes. In addition, clients may want to consider borrowing from a 401(k) plan or life insurance, if available. While the interest payments are not tax deductible, the client is essentially borrowing from him or herself since the payments on the loan replenish the account or life insurance value.

A client who needs time to cash in assets or arrange for a loan can apply for a short-term extension of 60 to 120 days. The IRS does not charge a fee for a short-term extension, but penalties and interest continue to accrue on the unpaid tax.

Installment payment agreements

If other options are not available, a client can request an installment payment agreement from the IRS. Here again, interest and penalties continue to accrue until the tax is paid in full. In addition, the IRS charges a one-time user fee for setting up an installment agreement. Generally, the fee is $105, but the fee is reduced to $52 for direct debit agreements under which the agreed upon payments are automatically deducted from the client's bank account.

Starting in 2012, the IRS raised the threshold for individuals to obtain a streamlined installment agreement without having to supply the IRS with detailed financial information and increased If the maximum installment payment period. If the tax due plus penalties and interest is $50,000 or less (up from $25,000), a client can arrange for installment payments through an Online Payment Agreement (OPA). The maximum term for streamlined installment agreements is now 72 months (up from 60 months). Liabilities of more than $50,000 can qualify for installment payment, but the client will generally need to file a request form (Form 9465) and submit a collection information statement (Form 433F) to support the request.

In 2011, the IRS expanded the availability of streamlined installment agreements for small business. Streamlined agreements are available to small businesses with $25,000 or less in unpaid liabilities (up from $10,000). These agreements give a business 24 months to pay by direct debit.

The IRS may file a tax lien while an installment payment agreement is in effect. However, in early 2011, the IRS announced changes to its collection procedures to help struggling taxpayers. [IRS News Release 2011-20] These changes include a significant increase the dollar threshold at which a lien is generally filed, as well as withdrawal of liens in most cases where taxpayers enter into a direct debit installment agreement.

How To Help Clients Who Can't Pay, cont'd

Offers in compromise

A client who is struggling to make ends meet may qualify for an offer in compromise. An offer in compromise (OIC) is an agreement between a taxpayer and the IRS that settles the taxpayer's tax liabilities for less than the full amount owed. Absent special circumstances, 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.

In most cases, the IRS will not accept an OIC unless the amount offered by the taxpayer is equal to or greater than the reasonable collection potential (RCP). The RCP is how the IRS measures the taxpayer's ability to pay and includes the value that can be realized from the taxpayer's assets, such as real property, automobiles, bank accounts, and other property. The RCP also includes anticipated future income, less certain amounts allowed for basic living expenses.

In 2011, the IRS announced a streamlined offer in compromise program for taxpayers with annual income up to $100,000 and tax liabilities of less than $50,000.

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April 2013

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
	1 Form 1099 information returns, Copy A of Form W-2, or Form 8027 for 2012 must be filed if filing electronically. April Fool's Day	2	3 Semiweekly depositors deposit FICA and withheld income tax on wages paid on March 27–March 29.	4	5 Semiweekly depositors deposit FICA and withheld income tax on wages paid on March 30–April 2.	6
7	8	9	10 Tipped employees who received $20 or more in tips during March should report them to the employer on Form 4070. Semiweekly depositors deposit FICA and withheld income tax on wages paid on April 3–5.	11	12 Semiweekly depositors deposit FICA and withheld income tax on wages paid on April 6–9.	13
14	15 Individuals file 2012 returns (Form 1040, Form 1040A, or Form 1040EZ). Alternatively, individuals file for an automatic six-month extension (Form 4868). Partnerships file 2012 information return (Form 1065). Alternatively, partnerships file for an automatic five-month extension (Form 7004). Individuals and calendar-year corporations pay first installment of 2013 estimated tax. Monthly depositors deposit FICA and withheld income tax for March.	16	17 Semiweekly depositors deposit FICA and withheld income tax on wages paid on April 10–12.	18	19 Semiweekly depositors deposit FICA and withheld income tax on wages paid on April 13–16.	20
21	22 Earth Day	23	24 Semiweekly depositors deposit FICA and withheld income tax on wages paid on April 17–19.	25	26 Semiweekly depositors deposit FICA and withheld income tax on wages paid on April 20–April 23.	27
28	29	30 Employers file Form 941 for the first quarter of 2013. (Employers that have already deposited tax for the quarter in full and on time have until May 10 to file Form 941.) Employers deposit federal unemployment tax owed through March if more than $500.				

To-Do List

- File extensions for individual clients who will not meet April 15 filing deadline.
- Conduct reviews of clients' prior year returns to determine need for amended returns.

The Tax Professional's Post-Season Review

Every tax return preparer deserves a little R&R after April 15. But once you have reintroduced yourself to your family, the time is ripe for a post-season review. Most likely, in the heat of getting all those returns out the door, you didn't even think about what you could have done in advance to make things go more smoothly. By reviewing the past season, you can develop an action plan to capitalize on your firm's strengths and target those areas that need improvement.

Why now

Even though it seems a long time away, there are several reasons for getting started now on planning for next year:

- The problems of the 2012 tax season are still fresh in your mind.
- You are probably not that busy now and have the luxury of having some "thinking time" on your hands.
- Some of the solutions you come up with may take several months to implement.

To get you started on your post-season review, here are some points you might want to consider.

Evaluate your software

You may have found that the tax return software you used did not fully meet your needs. Perhaps the system did not have the capability to prepare all the forms you needed and you and your staff spent too much time filling out forms by hand.

You may want to make a list of features you need that were unavailable to you this year and explore alternatives. For instance, you may find that you want to upgrade your current software or purchase different software that has the particular features you feel you need.

Assess your in-house reference material

You may have found that your staff needed to go outside the office too often or spent too much time online to obtain the research materials they needed to solve complex return problems.

Based on your experience and that of your staff, you might want to determine what materials your office library is lacking. Decide which of these resource materials your staff uses often so that adding them to your office library would be a worthwhile investment.

Address supply problems

Your support staff may have had trouble doing their jobs in a timely fashion because of problems with suppliers.

Ask your support staff which suppliers they felt were unresponsive to their needs for prompt delivery of materials. Based on this information, you may want to explore switching some of your suppliers. As a corollary to this, ask your staff which items they felt they ran out of too often or too quickly. Consider stocking up on larger quantities next year.

Budget your time: Perhaps you have the sense that you were off base in too many cases when it came to predicting how long it would take to prepare a return.

For returns that were significantly over budget, compare budgeted to actual time spent. Whenever possible, do this for individual segments of the preparation process, not just for the return as a whole. Determine in what areas major variances occurred and why. When armed with this information, you can take steps to avoid a repeat performance next year.

Post-Season Checklist

Here is a checklist of some important items to touch on in your postseason review:

Tax Season Statistics

- Number of returns and extensions processed each month during tax season. Why: To project needs for temporary help and interns for next tax season.
- Staff performance for this year compared to staff performance last year. Why: To pinpoint where improved knowledge and skill are necessary and to uncover inefficient use of staff time.
- Actual tax preparation time compared to budgets set before last season started. Why: To determine variances and their causes.

Tax Preparation Processing Service Problems

- Make a list of complaints, processing inefficiencies, and errors. Why: To determine where the process can become more efficient.
- Interview support staff and their supervisors. Why: A perspective from the "bottom of the ladder" often provides missed insights.

Tax Library

- Make a list of tax library materials and survey staff on these existing materials and resources they would like to have in the library. Why: To determine which publications to renew and add to the library.
- Remove outdated material from the tax library. Why: To keep the library current, uncluttered, and efficient.

Tax Season Post-Mortem for Staff

- Survey or discuss the tax season with your staff. Why: To solve problems perceived to exist by your staff.
- Share firm statistics with the staff, e.g., number of returns processed and how quickly returns were processed. Why: Let staff know how well the season went compared to prior-year performance.
- Recognize staff members who made outstanding contributions. Why: To improve staff morale and interest in doing an outstanding job.

Supplies

- Survey support staff on the efficiency and responsiveness of suppliers. Why: To determine the effectiveness of suppliers, and to identify any need to investigate alternatives.
- Send letters of thanks to suppliers who were efficient and responsive. Why: To help ensure continued high performance.

Client Base and Marketing

- Compile client realization rates for tax season, and categorize clients by type (e.g., entity, industry). Why: To provide an objective means of rating where the firm needs to improve its expertise by client type. This may also provide important information on which types of clients are profitable and worthy of further marketing efforts.
- Compile client data on late payers. Why: To provide data on clients the firm should consider dropping.
- Discuss client base and marketing with staff. Why: To get staff involved in the marketing effort.

May 2013

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
To-Do List ➪ Conduct post-season review. ➪ Evaluate tax software. ➪ Remind individual clients of June 17 estimated tax payment. ➪ Alert clients who need to file amended returns.			1 Semiweekly depositors deposit FICA and withheld income tax on wages paid on April 24–26.	2	3 Semiweekly depositors deposit FICA and withheld income tax on wages paid on April 27–30.	4
5	6	7	8 Semiweekly depositors deposit FICA and withheld income tax on wages paid on May 1–3	9	10 Tipped employees who received $20 or more in tips during April should report them to the employer on Form 4070. Employers file Form 941 for the first quarter of 2013 if tax for the quarter was deposited in full and on time. If not, employers should have filed by April 30. Semiweekly depositors deposit FICA and withheld income tax on wages paid on May 4–7.	11
12 Mother's Day	13	14	15 Monthly depositors deposit FICA and withheld income tax for April. Semiweekly depositors deposit FICA and withheld income tax on wages paid on May 8–10.	16	17 Semiweekly depositors deposit FICA and withheld income tax on wages paid on May 11–14.	18
19	20	21	22 Semiweekly depositors deposit FICA and withheld income tax on wages paid on May 15–17.	23	24 Semiweekly depositors deposit FICA and withheld income tax on wages paid on May 18–21.	25
26	27 Memorial Day	28	29	30 Semiweekly depositors deposit FICA and withheld income tax on wages paid on May 22–24.	31 Semiweekly depositors deposit FICA and withheld income tax on wages paid on May 25–28.	

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