

# Lassus Wherley

## Building Better Futures

### People and Puppy News

**Everyone is ready for tax season! As we gear up I thought we could share the holiday wish list that for some was fulfilled.**

**Nancy** wished for a cushiony rug to stand on during the long hours of assembling returns. **Martha** hoped for a shoulder rest for her telephone receiver or, better yet, headphones to handle the tax season calls.

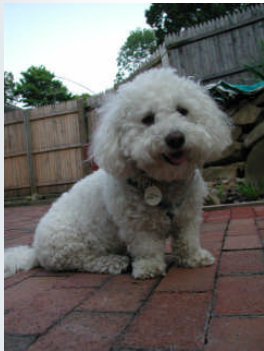
**Linda** wanted a new green pen because green is what is used to question input information. **Chen** looked for a new keyboard because her letters are worn off from so much typing.

**PatD, Laurie** and **Cynthia** dreamed of new stamps for LW Only info and hoped they would come with lots of paper clips.

**PatM, Jaime** and **Jonne** thought maybe this year they'd get an invitation to the Saturday Chinese feast or maybe the Italian food day. **Chad, Charles** and **Betty** and **Lisa** just wondered if they'd be given enough time to raise funds, if needed.

And **Peg**? She just hoped she'd get a faster computer.

And for all a good season!



Sammi shuffled off to the rainbow bridge last May. We miss her and the hourly walks. She kept us in shape with the many breaks each day.

Bunker and Abigail are holding down the fort quite nicely and no, there won't be another puppy dog for awhile.

### It's not about 2012... it's 2013 that's the question.

Tax planning the last three years has been extremely frustrating. In 2001 the Bush administration laid out the tax laws for 10 years. Even though things changed every year in the decade, at least we knew what was coming. In 2009 that all changed.

Basically, the Bush tax laws were due to expire in 2010. Problem was, nobody had a clue what would replace them. As we now know, Congress extended them for two more years through 2012, but now we have no idea what 2013 will bring. So how do you plan? There are always a few basics that should be followed :

- ◆ Contribute to retirement plans such as 401(k)'s, IRAs, etc.).
- ◆ Open and fund 529 accounts for children or grandchildren.
- ◆ Give to charity. It's a dollar-for-dollar deduction.
- ◆ Keep track of what you spend so you have the documentation for the actual amounts for deductions like medical, charity or business expenses.
- ◆ Look at your tax return and understand it. Ask questions.
- ◆ Discuss any changes in your personal circumstances.
- ◆ Don't pay your taxes with a credit card. It's expensive and more debt.
- ◆ Use direct deposit if you're due a refund.
- ◆ Sell a highly depreciated asset in 2012 to get a 15% capital gains rate, particularly if you've been thinking about doing so.

# Lassus Wherley

Certified Public Accountants

## LW News



Check out the February issue of Consumer Reports magazine. The article “Where to put your money” credits Diahann Lassus and the team at Lassus Wherley as one of two judges of the financial plans and as major contributors for the information featured.

Halloween is always a fun time for us. We dress up, give prizes and give out pennies, nickels, dimes and quarters to the trick or treaters. We generally get a puzzled look from youngsters when we tell them it’s for their 529 account BUT, the parents love us.



## Important Tax Season Tips and Requests

- ◆ Gather all your information, open the envelopes and review the items and amounts reported. If it doesn’t look right, question it. Almost all tax reports have phone numbers for answering questions.
- ◆ Attach the various items behind the appropriate pages in the organizer. This saves us a lot of time.
- ◆ Look at the organizer and determine whether you have all the information from the prior year. If something is no longer valid, note it.
- ◆ You do not have to fill in the organizer. Use it for reference.
- ◆ Answer the questions in the questionnaire. I know—same old same old. But we don’t know that. Also, we ask questions designed to trigger information and your answer may lead to further questions from us.
- ◆ Remember to tell us about major changes like marriages, divorces, new child, child graduated from college and on their own, a death or a move. Tell us even if you think we know.
- ◆ Be sure to let us know if you will be leaving town or need your return by a specific date.
- ◆ If you get an open item list, please address all the items as soon as possible. We will not reprocess your return until all open items are closed.
- ◆ If you think we’re tough, it’s because the law holds both you AND us responsible for the accuracy of information. We have a vested interest in making sure the i’s are dotted and the t’s are crossed.

# NewsNotes

## *Healthcare Reform: What Kicks Off in 2012...*

### Accountable Care Organizations

January 2012. The Affordable Care Act starts providing a financial incentive for physicians, hospitals and health care providers that voluntarily join together to form Accountable Care Organizations, to coordinate care for patients with original Medicare. If they demonstrate improved quality and outcomes, lower costs and patient priority, they will share the savings with the Medicare system.

### Equal Access

March 2012. Not all Americans have equal access to or similar outcomes from health care. Depending on race, ethnicity or income level, there may be a higher incidence of diseases, fewer treatment options or reduced access to care and insurance. The Affordable Care Act in 2012 is accelerating data collection, funding community health centers, increasing racial and ethnic diversity in the health care professions with the objective that by 2014, the law will provide affordable health insurance for all through insurance exchanges.

### Insurance Rebates

June 2012. An initiative that began last year called the medical loss ratio, or MLR formula, requires health insurance companies to spend at least 80 percent of their premiums on direct medical care or quality improvement or 85 percent for large group-based plans. Those that don't meet the mark must provide a rebate to policyholders.

### Electronic Records

October 2012. The new law kicks in a series of milestones to be reached in the process of converting to electronic records.

### Value-Based Purchasing

October 2012. The Value-Based Purchasing program, or VBP, kicks in. It's designed to improve the quality of patient care by linking provider payments to the cost and quality of the care they provide. It also requires that hospital performance statistics be made publically available for the first time.



## *In Perspective*

### *Household Income Levels For the Top 10% Of All Taxpayers*

	Top 10%	Top 5%	Top 1%
1980	66,600	83,700	162,400
1990	78,600	102,000	210,700
2000	96,300	130,400	309,000
2007	102,900	141,900	352,900

Back in 1960, the top 1% of all households earned 9% of all income, and paid 13% of all taxes. In 2008, the top 1% of households earned 20% of all income, and paid 38% of all taxes.

The top marginal rate in 1960 was **91%**, which applied to income over \$200,000 for single filers or \$400,000 for married filers. This corresponds to approximately \$1.5 million and \$3 million, respectively, in today's dollars.

In 1960 approximately 12% of returns filed paid no taxes. In 2008 the number of returns filed that paid no taxes had risen to 36%.

By far, the biggest tax change since 1960 is the growth in Social Security and Medicare taxes, also known as payroll taxes. For most taxpayers, payroll taxes are a bigger burden than income taxes.

### Compliance Disclosure

You should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized tax advice from Lassus Wherley or any other tax professional. To the extent that a reader has any questions regarding the applicability of any specific issue discussed herein to his/her situation, he/she is encouraged to consult with the professional advisor of his/her choosing.

# Audit Highlights for 2012

## What are the real red flags for audit!

- **Missing information or careless preparation** — Math errors and missing information create suspicion. If the computers can't figure it out, a human has to check to find the mistake.
- **Not reporting income** — If you fail to report income received, you're heading for trouble. All of your interest, dividends, and miscellaneous income *must* be reported. Remember: everyone who sends you a 1099 is also sending one to the IRS. And it's not just 1099's. The IRS has millions of statistics and knows what level of income correlates to the level of expenses reported. If you are outside the parameters, you better have documentation.
- **Unusually low income** — Another statistical calculation. If you make a lot less than others in the same profession, that raises a flag.
- **Anyone with high income** — Though fewer than one-percent of taxpayers are audited each year, those making over \$100,000 are five times more likely to be audited.
- **A significant change in income** — Unexplained fluctuations could mean that something was not reported somewhere. Most people's income doesn't vary significantly up-and-down, and the IRS knows it.
- **Using round numbers** — If you're guessing that your investment income is around \$600, or that your mortgage interest is approximately \$10,000, the IRS will probably guess that you're guessing! And they think guessing is fishy.
- **Relatively high charitable contributions** — Charitable donations are great, but if your generosity is out of line with your income it can raise a red flag and increase your chances for audit. Be sure to save your documentation!
- **Itemized deductions outside the range** — Any deductions too far from the averages are at greater risk for scrutiny by the IRS. Don't hesitate to claim all the deductions you are entitled to, but recognize that if you have a lot of itemized deductions, you have a higher risk of being audited.
- **Differences between State and Federal returns** — There are a number of legitimate differences but, where numbers should be the same, any variation is considered sloppiness and brings your return up for review.

People who complain about taxes can be divided into two classes: men and women.  
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