STANISLAWSKI & COMPANY, INC.

A Certified Public Accounting and Business Consulting Firm

November ~ December 2012

RE: 2012 Year End Tax Planning

Dear Friends of Stanislawski & Company:

First, and most importantly, we would like to send a special thank you. Everyone here at Stanislawski & Company appreciates the opportunity to work with you. It has been a great year for Stanislawski & Company so thank you from the bottom of our hearts . . .

Do you remember my warning a year ago? I said that 2013… will be like Friday the 13th (bad news regarding taxes) – so please don't shoot the messenger! 2013 is quickly approaching and there is still time to implement tax planning to reduce your taxes in 2012 and 2013. The good news is that you have Stanislawski & Company on your side. We have over 50 years of experience in order to combat these increases in taxes. The main goal of our Tax Department is to ensure that you pay as little tax as legally possible. Following are the more important sections of the new tax code that we want to bring to your attention:

- Not only are the Bush Administration tax cuts set to expire, but Obamacare taxes kick in via two new taxes; an increase of .9% higher Medicare payroll tax in 2013 and a new 3.8% Medicare surtax as further explained below.
- The new 3.8% surtax on investment income could raise the individual income tax rate to as high as an effective rate of 43.4% (43.4% = maximum tax rate of 39.6% + 3.8% Medicare surtax for high income taxpayers). Fortunately, there are a number of effective strategies that can be used to reduce this tax.
- In addition to the increased income taxes and Medicare payroll tax, employees will also see their employee Social Security tax increase by 2%, so their take-home pay will decrease by 2% first thing in January 2013. In general, plan for smaller paychecks next year.
- The tax rate on long-term capital gains could increase from 15% to 23.8% (23.8% = 20% new maximum rate + 3.8% Medicare surtax for higher income taxpayers) and the rate on qualified dividends from 15% to an effective 43.4% in 2013.
- Finally, if Congress doesn't take action, the federal estate and gift tax rate will increase from 35% to 55%, and the estate and gift exclusion amount will drop from $5,120,000 to $1,000,000.

Regardless of what Congress does late this year or early next year, there are solid tax savings to be realized by taking advantage of tax breaks that are on the books for 2012 but may be gone next year unless they are extended by Congress. For businesses, there are tax breaks and tax credits that are available through the end of this year but won't be around next year unless Congress acts.

Please review the following list and contact us at your earliest convenience so that we can advise you on which tax-saving moves to make. Not all actions will apply in your particular situation, but you will likely benefit from many of them. We can narrow down the specific actions that you can take once we meet with you to tailor a particular plan.

Year-End Tax Planning Moves for Individuals

- If you are contemplating selling capital gain assets in early 2013, it might make sense to accelerate those capital gains in 2012 to take advantage of the current lower tax rates. In 2012 the maximum long-term capital gain tax rate is 15%; in 2013 it increases to 20%. Also keep in mind that even long term capital gains (and short-term capital gains) can push you into the + 3.8% Medicare surtax for high income taxpayers. Deciding whether to use this strategy is complicated. By recognizing the gains in 2012 you would be paying a lower tax rate, but paying the tax earlier. The greater the differential in tax rates and the shorter the time before the sale the more favorable this idea would be. Please contact us to assist you with any questions.

- If you expect to owe state and local income taxes when you file your return next year, consider paying an estimated tax payment of state taxes before December 31st of this year to pull the tax deduction into 2012, as long as doing so won't cause you to pay the alternative minimum tax (AMT).

- For taxpayers under the age of 65, for 2013 it will be even more difficult to deduct medical expenses in 2013. The reason is the 7.5% of AGI non-deductible portion increases to 10% in 2013. So if you are close to being able to deduct medical expenses in 2012, consider making your appointments before the end of the year to "bunch" your medical expenses into 2012 or alternating years.

- Consider using a credit card to prepay expenses that can generate tax deductions for this year.

- You may be able to save taxes this year and next by applying a bunching strategy to “miscellaneous” and other itemized deductions. Examples include extending your subscriptions to professional journals, paying union or professional dues and estate tax attorney fees, enrolling in (and paying tuition for) job-related courses, etc. Pay the April installment of your property taxes this December if you are not subject to the AMT. In 2013, the general phase-out of itemized deductions is scheduled to return. So moving tax deductions into 2012 could save you taxes.

- Take required minimum distributions (RMDs) from your IRA or 401(k) plan (or other employer-sponsored retirement plan) if you have reached age 70 ½. Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn. If you turned age 70 ½ in 2012, you can delay the first required distribution to 2013, but if you do, you will have to take a double distribution in 2013 - the amount required for 2012 plus the amount required for 2013. Think twice before delaying 2012 distributions to 2013 - bunching income into 2013 might push you into a higher 2013 tax bracket or have a detrimental impact on various income tax deductions that are reduced at higher income levels. Because tax rates are increasing in 2013, it could be beneficial to take both distributions in 2012 if you will be in a lower tax bracket in 2012.

- Make gifts sheltered by the annual gift tax exclusion before the end of this year and thereby save gift and estate taxes. You can give $13,000 in 2012 ($14,000 in 2013) to each of an unlimited number of individuals but you can't carry over unused exclusions from one year to the next. The transfers also may save family income taxes where income-earning property is given to family members in lower income tax brackets who are not subject to the kiddie tax.

Year-End Tax-Planning Moves for Business Owners

- Businesses should consider buying items that qualify for the business property expensing option. For tax years beginning in 2012, the expensing limit is $125,000. However, unless Congress changes the rules, for tax years beginning in 2013, the dollar limit will drop to $25,000. The generous dollar ceilings that apply this year means that many small and medium sized businesses that make timely purchases will be able to currently deduct most if not all their outlays for machinery and equipment. What's more, the expensing deduction is not prorated for the time that the asset is in service during the year. This opens up significant year-end planning opportunities. Remember also that these deductions have limitations (you need to show net income in order to take these deductions, but they can be carried over to next year).

- The 50% first-year depreciation provision expires at the end of 2012. Another reason to consider purchasing property before the end of December.

- If you are self-employed and haven't done so yet, set up a self-employed retirement plan. All new pension plans (except for an IRA or SEP-IRA) must be formalized and signed before December 31, 2012!

- If you own an interest in a partnership, limited liability company or S corporation, you may need to increase your basis in the entity so you can deduct a loss from it for this year.

These are just some of the year end steps that can be taken to save taxes. Again, by contacting us, we can tailor a particular plan that will work best for you. Thank you so much for another year of working together. Please remember business is great at Stanislawski & Company and we are looking for more. Your referrals are greatly appreciated.

Best Regards,

Charles G. Stanislawski, M.B.T., C.P.A.

729 Mission Street • Suite 100 • South Pasadena • California 91030 • (626) 441-0330 • Fax (626) 441-3933 • www.stanislawskiandcompany.com