



PAC TAX & FINANCE

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January 2013

Stress-free tax preparation that pays for itself.

Our modern world is full of rules and regulations that can overload our day to day lives with stress. Tax laws and preparation should not be one of them. Our experienced preparers strive to make your tax experience as pain free as possible. Not only will we prepare your taxes, but we will give you guidance to avoid any pitfalls in the future. We can give you peace of mind so you don't have to worry about future surprises. We archive your data for up to ten years, so if you need an extra copy of your information we will have it for you. Don't throw away money on tax software that costs nearly the same amount as a professional consultation. Tax law changes every year, and sometimes even mid-year. Don't wallow around the 4,000 pages of tax code to save a couple bucks while second guessing yourself. It will usually cost you more in the long run.

Refer a friend or foe and get a \$20 Target gift card.

Your referral is our finest form of advertisement. We want to thank you by sending you a \$20 Target gift for every new client you send our way. Send us five clients and you can pay for your tax preparation, send us five hundred and you can finance your Mediterranean cruise. Some restrictions may apply.

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Schedule an appointment, drop off, mail, fax or email your tax information.

Our goal is to provide the method that's easiest for you and your busy schedule. Sorry, we **DO NOT accept credit cards**, so please bring a checkbook, cash or bank information to your appointment.

We offer day, evening, and weekend appointments. We recommend scheduling your appointment early so you can get a time that best suits your schedule. Call early, February fills up fast. You can also drop-off, FAX, mail, or email your information. There is nothing we can't do over the phone, except hold hands.

"Instead of cursing the darkness, light a candle."

Ben Franklin

Bring your working kids, not your crying ones.

While we love a cute baby, and not a crying one, it is in your best interest to bring your working dependent's (or dependents') information to your tax appointment. Even though we might not prepare the dependents' returns, we can give you some advice in what is the correct way to file and save you headaches down the road.

In memory of Irving Dreher.

Irving Dreher, founder of Pac Tax & Finance, passed away in 2012. He was a great business man, tax wizard and financial guru. We want to thank him for all the great memories and profound wisdom he shared with us. Even though it might not be what you wanted to hear, Irv, you were going to hear it anyway. We'll miss you.

Taxmageddon 2013 / Fiscal Cliff to hit taxpayers with the largest tax increase in one year.

As of press time congress has failed to extend the Bush tax cuts. Taxpayers can expect large tax increases January 1st of 2013 if no action is taken.

What to expect if nothing is done:

- An increase in the capital gains rate.
- AMT (Alternative Minimum Tax) would kick in at substantially lower income levels.
- Dividends to be taxed as regular income.
- The 2% payroll tax cut will expire.
- The American Opportunity Credit will expire.
- The Earned Income Credit and Child Tax Credit would be reduced.
- The marriage penalty would be back.
- The Dependent Care Tax credit will drop \$600 per child.
- No more student loan interest deduction.
- Cancelled debt on a foreclosed or short-sold home would be taxable.
- Personal exemptions and itemized deductions will phase out at a lower income level.

What will probably happen:

- Expect a piece-meal approach from congress and the president as some are extended temporarily and some are not.
- Expect some sort of compromise by late December 2012 or possibly early January 2013.

What should you do?

- **Seeing a tax professional will be as important as ever.** Proper planning now can prevent any surprises from arriving on April of 2013.

Gone in 2012

- The Energy Credit is out in 2012 with the exception of large ticket items like Geothermal, Wind Turbines, and Solar Energy Systems
- The deduction for Mortgage Insurance Premiums paid is gone in 2012.
- The \$250 Educators Deduction has been removed for teachers on the front page of the 1040. Educators can still take expenses, but they will be a miscellaneous deduction subject to 2% of Adjusted Gross Income.
- You can no longer deduct sale tax.
- You can no longer do a tax-free charitable distribution from an IRA; instead you have to take it as a charitable donation.
- The same joke we told every tax client last year (we can only hope!)!!!
- Preparer Dave Olden has moved on to other business ventures. Thanks for all of your hard work and good luck, Dave.

New in 2012

- The standard deductions, personal exemptions and tax rate tables have all been increased for inflation.
- New form 8849 for the sale of investments.
- Mileage rates are 55.5 cents a miles for business, 23 cents a mile for medical, and 14 cents a mile for charitable. You should keep a log to support your mileage.
- IRA phase out income level limits have been increased \$2,000, but the maximum contribution levels remain at \$5,000 per spouse. A \$1,000 additional Catch-Up contribution can be made if you are age 50 or over at the end of the year.
- Maximum 401K, deferred comp, and other qualifying retirement plan contributions are up \$500 to \$17,000, with \$5,500 allowed in additional Catch-Up contributions.

Border Battle for Wisconsin and Minnesota continues to wage, reciprocity agreement is still not made.

Minnesota and Wisconsin are still "studying" the cancelled reciprocity agreement. Minnesota and Wisconsin residents will still have to file tax returns for both states for 2012 and will probably continue to have to do so in 2013. Minnesota residents working in North Dakota still have a reciprocity agreement. If you are a Minnesota resident working in North Dakota you should see if your employer can withhold Minnesota tax, or you should make quarterly estimated tax payments so you don't wind up with a large balance due to Minnesota and large refund from North Dakota.

Obamacare tax facts, not fiction.

A 3.8% tax on the sale of real estate will be assessed. This is true only if the gain is over \$500,000 for joint filers, \$250,000 gain for single filers. Most people will be hard pressed to have any gain in this real estate market.

The reduction in deductible medical expenses will be raised to 10% of adjusted gross income instead of the current 7.5%.

The Tanning Mom Tax kicks in, and there will be a 10% excise tax on indoor tanning fees. If you stick to the spray tan you're fine.

Your medical flexible spending account is limited to \$2,500. You and your spouse can each contribute \$2,500 to a flexible medical spending account.

"Higher" income earners (\$200,000 single, \$250,000 married) will pay an additional .95% medicare surcharge.

In 2014 there will be a penalty of \$285 - \$975 per family if they are not covered by health insurance.

There is a 20% Penalty for misuse of health spending accounts.

Death panels will not decide who does and doesn't get care. Current rules on end of life decisions will be made by the insured.

Inherited IRA'S

Inherited IRA'S can be tricky.

Surviving spouses can continue to own the account as a beneficiary IRA or can do a spousal rollover. If you continue to own the account as a beneficiary, distributions will not be subject to the 10% premature distribution penalty if you are under age 59 ½.

Distributions from Roth IRA's must meet the 5 year rule or they are subject to tax but not penalty. Finally, required minimum distributions will be based on the deceased's age, not yours. If you roll over the account to a spousal rollover, the account behaves as if it has always been your IRA.

Non-spousal inherited IRA's can be distributed in a lump sum, 5-year payout, or over your life expectancy. The deceased's life expectancy must be used the first year, if they have reached the RMD age and not taken a distribution. The same rules apply to Roth distributions and the premature distribution penalty.

Successor beneficiaries may continue to distribute the IRA based on the life expectancy of the deceased or they can take a lump sum.

Please consult us if you have questions relating to inherited IRA's.

Gift and Inheritance Tax

The maximum gift you can give an individual is \$13,000 per spouse to as many individuals as you like. If you give more than \$13,000 to one individual **you** are required to file a Gift Tax Return, not the receiver of the gift. The amount over \$13,000 would come off your \$5,120,000 federal estate tax limit, while the Minnesota estate tax limit remains at \$1,000,000.

Many lottery winners have found out the hard way about giving too much money to one individual, and get stuck paying 35% on money they have given away.

Depending on how congress handles the fiscal cliff, the federal estate tax will revert back to \$1,000,000 for 2013 with a maximum rate of 55%. The gift limit will increase to \$14,000 in 2013.

If you do run into a large sum of money, consult your tax advisor on the best strategy to divide up the money.

Questions and Answers

Q: Can you just give me a yes or no answer?

A: Yes and No. Almost every tax rule has income limits and multiple stipulations. In order for us to give you a simple answer, we need to know all the facts.

Q: Can we get a copy of our previous years return?

A: Yes, but **we charge a \$25 fee for additional copies**. If you are refinancing or applying for student aid, make a copy of your return and keep the original.

Q: I cashed in my 401K early and they withheld 20% tax. I've paid all taxes, right?

A: Wrong. You've paid part of the tax. You can expect an additional 15-20% in additional tax to cover federal, state and penalty. Even if you cashed out the plan with hardship clause you will have to pay the 10% penalty. There are a few exclusions for higher education, medical expenses, and first time homebuyer. Consult your preparer.

Q: Do I qualify for a property tax refund?

A: Maybe. Ask your preparer and they will check your income and tax level to see if you qualify. We can't prepare the property tax refund until the 2013 statements have come out in the end of March. We will put your information in a database and figure out if you qualify at a later date.

Q: Can I deduct gambling losses?

A: Yes, but only up to reportable gambling winnings. If you don't have any reportable winnings you can't deduct any losses.

Q: How long should I keep my return?

A: Usually you can dispose of returns five years after the filing date. It is best to keep the actual returns indefinitely, this can help you match up your social security benefits or even help prove that you filed a certain year.

Do's and Don'ts

Do: Contribute at least the company minimum matching amount to your 401K or you're just throwing money away. Increase the percentage once a year and you will barely notice the difference in your take home pay.

Don't: Cash in retirement savings plans unless you absolutely have to. Expect to pay 40-45% tax and penalty if you cash them in early.

Do: Review your beneficiaries on 401K or IRA's, you may have no or old beneficiaries that you want to update.

Don't: Respond to any email from the "IRS", the IRS will only contact you via mail. Any email is a phishing scam.

Do: Act promptly if you get any correspondence from IRS or state tax agency. Contact your preparer immediately. You may owe all, some, or none of the tax in the proposed changes. If you don't respond, the default will be that you owe all the tax in the proposed changes.

Don't: Take tax advice from non-professionals. Some of the information may be correct, but it is usually a piece-meal of the actual tax laws.

Do: Participate in a flexible medical and/or daycare spending account. However if both spouses have spending accounts, only one can contribute the maximum of \$5,000 for child dependent care.

Don't: Jump in and out of the stock market when it is volatile. You will end up selling low and buying high.

Disclaimer

While we believe the information in this newsletter to be accurate and true, all information can change after mailing and it's difficult to summarize the entire tax code in a four page newsletter. We do not provide legal advice.

GENERAL INFORMATION AND INCOME

<p>✓ APPOINTMENTS CALL 651-738-0457</p> <p>Appointment Date:</p> <p>Appointment Time (AM/PM):</p> <p>Preferred Tax Preparer:</p> <p align="center"> <input type="checkbox"/> ROBERT <input type="checkbox"/> GEORGE <input type="checkbox"/> JENNIFER <input type="checkbox"/> MARK <input type="checkbox"/> KATE <input checked="" type="checkbox"/> DAVE (Sorry, Dave has made a career change) </p>	<p>✓ INCOME (List only if you DO NOT have statements)</p> <p>Salaries and Wages (Bring W-2's)</p> <p>Interest (Bring 1099-INT's)</p> <p>Dividends (Bring 1099-DIV's)</p> <p>Capital Gains/Losses (Bring 1099-B's) <i>If your gain/loss is not furnished on your 1099, you must provide the property cost basis (what you paid for it) and when the property was acquired and/or purchased.</i></p> <p>Unemployment (Bring 1099-G)</p> <p>Social Security (Bring 1099-SSA)</p> <p>Railroad Retirement (Bring 1099-RRB)</p> <p>Pensions / IRA's / Ins Benefits (Bring 1099-R's)</p> <p>Gambling Winnings (Bring W-2G's)</p> <p>Alimony Received</p> <p>Business Income (Bring itemized list)</p> <p>Rental Income (Bring itemized list)</p> <p>Cash and Coin Found on Sidewalk</p> <p>Other (Jury Duty, Prizes, etc.)</p>
<p>✓ METHOD OF PREPARATION</p> <p align="center"> <input type="checkbox"/> APPOINTMENT <input type="checkbox"/> FAX <input type="checkbox"/> MAIL <input type="checkbox"/> EMAIL <input type="checkbox"/> DROP-OFF </p> <p>Please pick a method which best suits your needs. Please return this PINK PREP SHEET along with all W-2's, 1099's, K-1's, Brokerage Accounts, and any other reported income items (copies are acceptable).</p>	<p>✓ REFUNDS AND PAYMENTS</p> <p>Previous State Refund (New clients only)</p> <p>Previous State Balance Due (New clients only)</p> <p>Federal Estimated Tax Payment</p> <p>State Estimated Tax Payments</p>
<p>✓ CONTACT INFORMATION</p> <p>Primary Contact Name</p> <p>Home Phone</p> <p>Cell Phone</p> <p>Work Phone (If OK to call)</p>	<p>✓ DISCUSSION ITEMS</p> <p>W-4 and Withholding <input type="checkbox"/></p> <p>IRA Contributions <input type="checkbox"/></p> <p>IRA and Pension Distributions <input type="checkbox"/></p> <p>ROTH Contributions <input type="checkbox"/></p> <p>Mutual Fund Selection <input type="checkbox"/></p> <p>Estimated Tax Payments <input type="checkbox"/></p> <p>Starting Your own Business <input type="checkbox"/></p> <p>Life Insurance (Buy Term) <input type="checkbox"/></p> <p>Sale of Stock or Property <input type="checkbox"/></p> <p>Annuities (Why most should avoid) <input type="checkbox"/></p> <p>Other: <input type="checkbox"/></p>
<p>✓ FILING STATUS (List changes from last year)</p> <p align="center"> <input type="checkbox"/> SINGLE <input type="checkbox"/> MARRIED <input type="checkbox"/> MARRIED FILING SEPARATE <input type="checkbox"/> HEAD OF HOUSEHOLD <input type="checkbox"/> QUALIFYING WIDOWER WITH DEPENDENT CHILD </p>	<p>✓ CONSULTATIONS</p> <p>While we will do our best to answer your many questions during your appointment, our primary goal is to get your tax return prepared. We are available year round for individual tax consultations. We can show you the tax impact of direct investment, mutual funds, 401K, pension or annuities. Consider both the contribution and distribution. We sell no product, so our advice is impartial. This service is especially important to individuals who are just entering retirement. With a little tax planning a soon to be retiree can save thousands in taxes. Don't be pennywise and pound foolish, set up a separate consultation if you will have significant tax changes in the near future.</p>
<p>✓ DEPENDENTS (List changes from last year)</p> <p align="center"><i>Bring dependents' Full Name, Date of Birth, and Social Security Number</i></p> <p>Full Name</p> <p>Date of Birth</p> <p>Social Security Number</p> <p>WE PREPARE DEPENDENTS RETURNS AT SPECIAL RATES! Even though your dependent child probably knows more than we do, we can give you the best overall advice if you have your returns filed as a family. Don't file your dependents' returns based on incomplete or erroneous information. With the many education, child credits, and other factors, we can file with the best interests of all.</p>	<p>✓ PROPERTY TAX REFUND</p> <p>Veterans that are 70% disabled can get a tax exclusion. PROPERTY TAX REFUNDS ARE INCLUDED WITH YOUR TAX PREPARATION!!!</p> <p>Your preparer will see if you qualify at later date even if you don't have your 2013 Property Tax Statement when you have your taxes prepared. If you might be eligible your preparer will put your information in a database and look it up online, efile it, and mail you a copy for your records. If you think you might qualify, give your preparer a friendly reminder.</p>

ITEMIZED DEDUCTIONS, EXPENSES, CREDITS, AND SPECIALTY ITEMS

✓ MEDICAL (Must exceed 7.5% of AGI)		✓ SCHOOL AND EDUCATION	
Bring itemized list of Medical Expenses		KG-12 School Tuition	
✓ TAXES		KG-12 Enrichment (<i>Dance, Band, etc.</i>)	
Real Estate Taxes Main Home		KG-12 Supplies	
Real Estate Taxes Second Home		KG-12 Computer Expense	
Property Tax Refund from Last Year		College and Secondary Education Tuition	
Auto License (<i>Less \$35 base fee per auto</i>)		<i>Bring 1098-T's. Include books and supplies only if the fees and expenses must be paid to the institution as a condition of enrollment or attendance. First two years qualify for Hope Credit, then the Lifetime Learning Credit applies.</i>	
Sales Tax deduction is gone 2012	XXXX		
✓ INTEREST EXPENSE		Educator and Teacher Expenses	
Home Mortgage (<i>Bring 1098's</i>)		✓ RETIREMENT CONTRIBUTIONS	
Second Mortgage, RV or Boat Loan		Traditional IRA Contributions	
Line of Credit		Roth IRA Contributions	
Points (<i>Paid on purchase or refinance</i>)		SEP or Keogh	
Investment Interest Expense		Health or Medical Savings Account	
Student Loan Interest		401K contributions are listed on W-2's	
✓ CONTRIBUTIONS		Other	
Receipted Contributions (<i>Church, Temple, etc.</i>)		✓ DAY CARE	
Petty Cash and Miscellaneous		Daycare Expense	
Goods (<i>If more than \$500, bring list</i>)		<i>Bring providers name, address, and SS# or Federal ID number. This information is required even if you participated in a pre-tax spending account.</i>	
Charitable Mileage			
✓ MISCELLANEOUS (Must exceed 2% of AGI)		✓ SPECIALTY ITEMS	
Tax Preparation and Consulting		Energy Credit Items	
Union and Professional Dues		Casualty Losses (<i>Must exceed 10% AGI</i>)	
Safety and Protective Equipment		Hybrid Vehicle	
Uniforms		Alimony Paid (<i>Bring recipients SS#</i>)	
Tools and Supplies		Gambling Losses (<i>Only up to winnings</i>)	
Cell Phone and ISP		Adoption Expenses	
License and Recertification		Moving Expenses	
Training and CEU's		Military Combat Zone Credit *NEW*	
Meals and Entertainment		<i>You can receive a \$120 credit for each month of service in a Combat Zone in 2012. Bring copies of your DD-214's</i>	
Mileage or Auto Expense			
Liability and Malpractice Insurance		✓ FREE AUDIT OR INQUIRY HELP	
Subscriptions and Professional Journals		<p>While your chances of a full blown audit are very rare, adjustment or correction letters are very common. If your return is audited or adjusted, please call us. Our assistance is free. If you receive a written notice of inquiry, adjustment, or correction please fax or send us a copy. Even if you agree with the changes, sending us a copy allows us to update your file. If your federal return is adjusted your state return will probably have to be amended as well. PAC does NOT pay either the penalty or interest on corrected or amended returns. DO NOT PAY ANY BALANCE DUE FROM AN ADJUSTMENT OR CORRECTION LETTER WITHOUT CONTACTING US FIRST!</p>	
Job Search			
Travel and Passport (<i>If used for work</i>)			
Safe Deposit Box			
Travel			
Business Cards			
IRA Custodial Fees			
Business Use of Home			
Total Square Footage of Home			
Business use Square Footage			
Utilities (<i>Water, Electricity, Trash, etc</i>)			
Insurance			
Repairs			
Major Improvements			
Phone Expense			

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Safe Deposit Box			
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Business Cards			
IRA Custodial Fees			
Business Use of Home			
Total Square Footage of Home			
Business use Square Footage			
Utilities (<i>Water, Electricity, Trash, etc</i>)			
Insurance			
Repairs			
Major Improvements			
Phone Expense			