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Look both ways... Don't be blinded by the AMT Zone

Most people know little or nothing at all about how the **Alternative Minimum Tax** works. Those of us who do, or those who have been blindsided by it, consider the Alternative Minimum Tax (AMT) to be one of those things *"we love to hate."*

The alternative minimum tax was originally intended to apply to high-income taxpayers who took advantage of loopholes. However, in recent years, many middle-income taxpayers are finding themselves subject to this dreaded tax.

Basically, computing an individual's federal income tax involves the comparison of two parallel tax systems: the regular tax and an alternative tax. Many of the deductions available are disallowed and added back to income when computing the AMT. After computing and comparison, if the regular tax is higher than the alternative tax, that is the amount due. If, however, the AMT computes higher, then the AMT amount becomes the amount due.

Characteristics most likely to give a rise to AMT for "ordinary" taxpayers include:

- **A large number of personal exemptions**
- **A large amount of state income taxes and property taxes**
- **A large amount of miscellaneous itemized deductions**
- **A large amount of deductible medical expenses**
- **The bargain element of incentive stock options**
- **A large amount of capital gains**
- **Home equity interest that was not used for home improvements**

A closer look :

Personal Exemptions

While personal exemptions are allowed to reduce your regular tax, they are not allowed for AMT.

State, Local and Property Taxes

State, local and other taxes paid, including property taxes, claimed as itemized deductions on Schedule A are not allowed as deductions for AMT purposes.

Medical Expenses

Medical Expenses can be deducted for AMT purposes, but they must exceed 10% of adjusted gross income, compared to 7.5% for regular tax purposes.

Miscellaneous Itemized Deductions

Miscellaneous itemized deductions that are greater than 2% of your adjusted gross income are deductible for normal tax purposes, but they are *not* deductible for AMT purposes. These expenses include un-reimbursed employee business expenses, expenses for the production of income, tax return preparation expenses, and many others too numerous to mention here. Unlike the previous items, you do have much more control over these expenses. If you know they'll be large, make sure to do your AMT planning, so you don't lose the tax benefit of these expenses.

Incentive Stock Options (ISOs)

Generally you don't report anything on your regular income tax at the time you exercise an incentive stock option. This is not true for AMT purposes. The difference between your exercise price and the fair market value of the stock on the exercise date is considered an "add back" when computing AMT.

Large Capital Gains

Long-term capital gains receive the same preferential rate under AMT as they do under regular income tax. In theory, they shouldn't cause you to pay AMT. However, it is possible to be stuck with AMT liability because of a large capital gain.

Avoid being blindsided by AMT. It's best to consult your accountant at LBS before year-end to discuss the financial events that could possibly affect the dreaded AMT.

Inside This Issue:

2012 Social Security Earnings Limitations

Change for 2012

Age	Earnings Limit	Reduction Rate
Age 62 to "full retirement age"	$ 14,640 ($ 1,220/mo.)	Benefits reduced $ 1 for every $ 2 over the limit.
"Full retirement age" and above	Unlimited	No reduction In benefits.

Note: *$ 1 will be withheld for every $ 3 in earnings above the limit of $ 38,880 in the year an individual reaches full retirement age. This rule applies to earnings for the months prior to attaining full retirement age.*

"Full Retirement Age" varies and is based upon the year you were born. See Chart on next page.

Topic Corner

CT Annual Reports for LLC & Corps

Starting January 1, 2012, annual reports must be filed online.

Paper reports for filing will no longer be sent to businesses.

Plan for Your Estate

In 2011, the Federal Estate Tax exclusion is $5,000,000. In 2012, the exclusion will rise to $5,120,000. The annual federal gift tax exclusion has not changed. You are still allowed to give up to $13,000 worth of assets each to any number of recipients.

Bonus Depreciation and Section 179

In 2011, 100% bonus depreciation will be allowed for qualified property. That means that all qualified property placed in service in 2011 can be written off as an expense! Qualified property placed in service during 2012 will be eligible for 50% bonus depreciation. Section 179 first-year expensing deduction will be $139,000 in 2012.

Energy Tax Credit

2011 is the final year you can claim a tax credit, up to 10% of cost, for making energy-efficient improvements to your home. Improvements include, but are not limited to, new doors, windows, insulation and skylights. The maximum credit is $500, less any credits taken in 2009 and 2010.

Homeowners installing renewable-energy equipment can claim a larger credit through 2016.

Full Retirement vs. Age 62 Benefit, by Year of Birth

Year of Birth*	Full (Normal) Retirement Age	Months between Age 62 and Full Retirement Age	At Age 62 **			
			A $1000 Retirement Benefit Would be Reduced To	The Retirement Benefit is Reduced By***	A $500 Spouse's Benefit Would be Reduced To	The Spouse's Benefit is Reduced By****
1937 or earlier	65	36	$800	20.00%	$375	25.00%
1938	65 and 2 months	38	$791	20.83%	$370	25.83%
1939	65 and 4 months	40	$783	21.67%	$366	26.67%
1940	65 and 6 months	42	$775	22.50%	$362	27.50%
1941	65 and 8 months	44	$766	23.33%	$358	28.33%
1942	65 and 10 months	46	$758	24.17%	$354	29.17%
1943-1954	66	48	$750	25.00%	$350	30.00%
1955	66 and 2 months	50	$741	25.83%	$345	30.83%
1956	66 and 4 months	52	$733	26.67%	$341	31.67%
1957	66 and 6 months	54	$725	27.50%	$337	32.50%
1958	66 and 8 months	56	$716	28.33%	$333	33.33%
1959	66 and 10 months	58	$708	29.17%	$329	34.17%
1960 and later	67	60	$700	30.00%	$325	35.00%

* If you were born on January 1st, you should refer to the previous year

** If you were born on the 1st of the month, we figure the benefits as if your birthday was in the previous month. You must be at least 62 for the entire month to receive benefits.

*** Percentages are approximate due to rounding.

**** The maximum benefit for the spouse is 50% of the benefit the worker would receive at full retirement age. The % reduction for the spouse should be applied after the automatic 50%

Whether you choose to retire early or late, in theory you will receive about the same Social Security benefits over your lifetime. If you retire early, monthly benefit amounts will be smaller due to the longer period of time in which you will receive them. If you retire later, monthly benefit amounts will be larger over a shorter period of time to make up for the months in which you did not receive anything. The actual amount you will receive depends on how long you actually live.

Medicare Premiums & Surcharges

Higher-income seniors will also owe a surcharge on Part D premiums for coverage of their prescription drug costs. Listed below is a table which represents the expected surcharge based upon your Modified Adjusted Gross Income.

For Married Taxpayers				For Single Taxpayers			
If your 2010 Modified AGI is More than	If your 2010 Modified AGI is But not over	Your 2012 monthly Part B premium will be	Your 2012 monthly Part D surcharge will be	If your 2010 Modified AGI is More than	If your 2010 Modified AGI is But not over	Your 2012 monthly Part B premium will be	Your 2012 monthly Part D surcharge will be
$170,000	$214,000	$139.90	$11.60	$85,000	$107, 000	$139.90	$11.60
$214,000	$320,000	$199.80	$29.90	$107,000	$160,000	$199.80	$29.90
$320,000	$428,000	$259.70	$48.10	$160,000	$214,000	$259.70	$48.10
$428,000	-	$319.70	$66.40	$214,000	-	$319.70	$66.40

Electronic Savings Bonds

After December 31, 2011, most paper forms of series EE and I savings bonds won't be available for purchase. The bonds will be issued in a digital form through TreasuryDirect.gov where you can also get a downloadable gift certificate.

Series EE and I bonds are available for purchase in denominations between $25 and $5,000. The only way in which you will be able to purchase a Series I paper bond starting January 1, 2012 will be by filling out IRS form 8888 when filing your tax return and having the amount deducted from your tax refund. Series EE paper bonds will be discontinued and not available in this method.

Electronic bonds will be sold at face value, unlike how some paper bonds were sold at half their face value. You must also wait 1 year from the date of purchase to redeem the bonds before maturity. If the bond is redeemed in less than 5 years, three months of accrued interest will be deducted. The move to paperless bonds is expected to save the government $120 million over the next 5 years.

Business Entity Tax

Starting with tax years beginning on or after January 1, 2013, the $250 Business Entity Tax will be payable every other year instead of every year. The change will effectively reduce the entity tax by 50%

The Connecticut Job Expansion Tax Credit

The Connecticut Job Expansion Tax Credit is a three year credit for businesses that create new jobs and fill those jobs with Connecticut residents who meet certain criteria.

Who will be eligible for the credit?

- A qualifying business must create a certain number of qualifying jobs between January 1, 2012 and January 1, 2014.
- A qualifying business must have been in existence for 12 consecutive months prior to submitting its application and be subject to the Insurance Premiums Tax, the Corporate Business Tax, the Utility Company Tax, or the Personal Income Tax.
- A taxpayer claiming the job expansion credit for a new hire, may not count that employee towards any other allowable credits.

How many new employees?

A business with 50 or fewer employees must create one new job in order to qualify for the credit. Employers with 50 to 100 employees must create at least 5 new jobs, and a business with over 100 employees must create 10 new jobs.

What type of jobs must be created?

- The jobs created by the employer must not have existed in Connecticut prior to the credit application being filed. Temporary and seasonal jobs are excluded from consideration.
- The job must be at least 35 hours per week for 48 weeks per calendar year. If the employee is receiving vocational rehabilitation services or is receiving or has exhausted unemployment benefits, then the job must be for 20 hours per week for at least 48 weeks per calendar year.
- An individual cannot be considered a new employee if they maintain any ownership interest in the business or have worked in Connecticut for a related business.

What is the amount of the Credit?

The credit is $500 per month to be applied against the applicable tax. The credit must be claimed in the year in which the job was created and filed, as well as the two succeeding years, provided that the employee held the job for the full year. The credit is not refundable and unused credits expire.

If the following conditions apply, the credit is increased to $900 per month and the employee is considered a "qualifying employee."

If the new employee is:

1. receiving unemployment compensation benefits or does not have a full-time job since exhausting unemployment benefits.
2. a current member of the armed forces or has been honorably discharged or released from active service.
3. receiving vocational rehabilitation services from the Connecticut Bureau of Rehabilitative Services.

How to Claim the credit

Apply to the Department of Economic and Community Development for a certification letter. Within 30 days of the DECD receiving your letter, you will hear back.

Employer 2012 Payroll Tax Update

EMPLOYER TAX	RATE	2012 WAGE CAP	MAXIMUM AMOUNT
SOCIAL SECURITY	6.2 %	$ 110,100	$ 6,826.20
MEDICARE	1.45 %	NO MAXIMUM	NO MAXIMUM
SELF-EMPLOYMENT	15.3%	$ 110,100	15.3% OF INCOME UP TO $110,100. 2.9% OF THE EXCESS
FUTA	0.6%	$ 7,000	$ 42 PER EMPLOYEE
CT SUTA	VARIES BETWEEN 1.9%-6.8% (3.0% FOR NEW EMPLOYERS)	$15,000	AMOUNT CALCULATED PER EMPLOYER BASED UPON ASSIGNED RATE AND NUMBER OF EMPLOYEES

Deducting a Loss from a Losing Roth IRA

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You can deduct losses from a Roth IRA – but don't rush to cash in – there are a few catches. In order to deduct the loss, you must liquidate **all** of your Roth IRAs, including the conversion accounts.

Your loss is calculated as the difference between the amount of your Roth contribution and Roth conversion and the value of the IRA when you sell. The loss is treated as a miscellaneous itemized deduction. That means all your combined miscellaneous deductions including your IRA loss, must exceed 2% of your adjusted gross income to realize any tax benefit.

Lastly, if you are under the age 59 1/2, you may face a 10% early withdrawal penalty.

The possibility exists to deduct a loss from a losing IRA. Serious tax consequences may exist, such as Alternative Minimum Tax. Consult your LBS tax professional before deciding to liquidate your IRA.

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This site is a part of a continuing effort to maintain open and easy communication between our firm and our clients. It's for you. We hope our website will complement our service to you. We encourage and expect your comments and suggestions.

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Standard Mileage Rates

Purpose	Rate From January — June	Rate From July — December
Business Miles		
2012	55.5 cents per mile	55.5 cents per mile
2011	51 cents per mile	55.5 cents per mile
Medical & Moving Miles		
2012	23.5 cents per mile	23.5 cents per mile
2011	19 cents per mile	23.5 cents per mile
Charity Miles		
2012	14 cents per mile	14 cents per mile
2011	14 cents per mile	14 cents per mile

2011 / 2012 Retirement Plan Contribution Limits

Account Type	Limit Definition	2011 Limit	2012 Limit
IRA	Traditional and Roth IRA Contribution Limit	$ 5,000	$ 5,000
	Catch-up-Limit age 50+	$ 1,000	$ 1,000
SIMPLE IRA	Elective Deferral Limit	$ 11,500	$ 11,500
	Catch-up Limit Age 50+	$ 2,500	$ 2,500
SEP IRA	Maximum SEP Contribution	$ 49,000	$ 50,000
401(k), SARSEP, 403(b), 457(b)	Elective Deferral Limit	$ 16,500	$ 17,000
	Catch-up Limit age 50+	$ 5,500	$ 5,500
	Highly Compensated Employee Limit	$ 110,000	$ 115,000
Profit Sharing, 401(k) SEP and Money Purchase Pension	Defined Contribution Limit	$ 49,000	$ 50,000
	Employee Annual Compensation Limit	$ 245,000	$ 250,000
	Top Heavy Plan Key Employee Comp Limit	$ 160,000	$ 165,000

Where Do You Rank as a Taxpayer?

According to Kiplinger, the latest numbers from IRS are based on 2009 tax return data.

BREAKDOWN OF INCOME AND TAXES PAID BY CATEGORY		
Income Category	**AGI**	**Percentage of Federal Taxes Paid**
Top 1%	Over $343,927	37%
Top 5%	Over $154,643	59%
Top 10%	Over $112,124	70%
Top 25%	Over $66,193	87%
Top 50%	Over $32,396	98%
Bottom 50%	Under $32,396	2%

In 1986....

The top 1% of earners reported only 11% of all income and paid 26% of income taxes and the bottom 50% made 17% of all income and paid 6% of taxes.

Wishing you, your family and your business a very happy, healthy and successful 2012.

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