UPDATE

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Tax Changes to be Aware of …

2013 is a year for many tax increases which will affect just about everyone across the board. The tax increases will be a result of expiring temporary tax benefits as well as increases in current taxes.

New Taxes

Additional Medicare Tax. In 2013, an additional tax on individuals with earned income over $200,000 for single filers and $250,000 for married couples will take effect. This tax will be an additional 0.9% Medicare tax on earnings over the threshold amounts. This additional tax will only be paid by the employees and does not have to be matched by the employer. This could be avoided by S corporation shareholders by minimizing earned income. Instead of cash flowing to shareholders as wages, it may be more advantageous to distribute monies as a profit.

"Unearned Income" Tax. Starting in 2013, a 3.8% tax will affect taxpayers whose modified adjusted gross income exceeds $200,000 as a single filer and $250,000 on a joint return. The exact definition of what is considered to be unearned income has yet to be determined by lawmakers. Unearned Income is very broad and includes taxable interest, dividends, net capital gains, annuities, rents and royalties. This 3.8% tax will also apply to estates and trusts with undistributed income of over approximately $12,000.

Estate Tax Change

Under current law, in 2013 the Estate Tax exemption is scheduled to drop significantly while the estate tax rate will increase. The exclusion amount, which is the amount of money or the value of a property or other inheritance that you can receive or give without paying any federal taxes, will be dropping from $5.12 million in 2012 to $1 million in 2013. After you hit the $1 million mark, the top estate tax rate will be 55% in 2013.

Note: You are still allowed to give up to $13,000 worth of assets each to any number of recipients. This rises to $14,000 in 2013.

Payroll - Social Security Change

- The 2% social security payroll tax cut, for employees, is scheduled to expire at the end of 2012. Currently, workers pay 4.2% of income to social security. In 2013, this percentage will increase to 6.2% of income.
- The maximum amount of earnings subject to social security tax will increase $3,600 in 2013 to $113,700, up from $110,100 in 2012.

Inside this issue:

Small Business Health Care Tax Credit

The new health care reform legislation provides a tax credit to small businesses that offer health insurance coverage to their employees. The credit is available in two phases. For the years 2012-2013, the maximum credit is 35% of the employer's premium expenses. For tax years 2014 and 2015, the maximum credit increases to 50%.

To be eligible for the tax credit, the following conditions must be met:

- An employer must have fewer than 25 full-time equivalent employees for the tax year.
- Average annual wages of full time equivalent employees must be less than $50,000 .
- The Employer must contribute at least 50% of the premium cost of a qualifying health plan offered to employees.

Frequently Asked Questions

How is the number of full-time equivalent employees (FTE) determined?

The number of an employer's FTEs is determined be dividing (1) the total hours of service for which the employer pays wages to employees during the year (but not more than 2,080 hours for any employee) by (2) 2,080. The result, if not a whole number, is then rounded to the next lowest whole number.

How is the amount of annual wages determined?

The amount of average annual wages is determined by first dividing (1) the total wages paid by the employer during the tax year to employees by (2) the number of the employer's FTEs for the tax year. The result is rounded down to the nearest $1,000.

Which workers are excluded in the calculations?

Seasonal workers are disregarded in determining FTEs and average annual wages unless the seasonal worker worked for the employer on more than 120 days during the tax year. Although, premiums paid on their behalf may be counted in determining the amount of the credit.

A sole proprietor, a partner in a partnership, a shareholder owning more than two percent of an S Corporation and any owner of more than five percent of other businesses are not considered employees for purposes of the credit. Their wages or hours are not counted in determining the number

Frequently Asked Questions Cont'd

of FTEs or amount of annual wages. Premiums paid on their behalf are not counted in determining the amount of the credit.

A family member of any of the business owners or partners listed or a member of such a business owner's or partner's household is not considered an employee for the credit. Their wages and hours are not counted in determining the number of FTEs or annual wages and their premiums paid are not counted in calculating the amount of the credit.

Penalty Taxes Encourage Employers to Offer Coverage

Although employers aren't required to provide health-care coverage to employees, a new excise tax will encourage them to do so. Beginning in 2014, a penalty tax will be assessed on employers who do not offer health care coverage to employees if:

- The employer has 50 or more full-time equivalent employees, and
- At least 1 full-time employee purchases health insurance coverage through a state exchange, and is entitled to a tax credit or cost-sharing reduction. An employee doing so must be a result of an employer's coverage consisting of a plan that pays less than 60% of the total allowed cost benefits or an employer's coverage being considered unaffordable for an employee.

2013 Social Security Earnings Limitations

Change for 2013

Age	Earnings Limit	Reduction Rate
Age 62 to "full retirement age"	$ 15,120 ($ 1,260/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 $ 40,080 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. To determine your "full retirement age" visit www.ssa.gov

In Other News...

Social Security Payments to Recipients

- On March 1, 2013, the United States Treasury will stop mailing paper checks to social security beneficiaries, Payments must be received via direct deposit to a bank or credit union or loaded onto a Direct Express Debit Mastercard.
- Social Security payments will increase by 1.7% in 2013 as well, which is much less than the 3.6% cost of living adjustment retirees received in 2012. Payments are adjusted each year to reflect inflation measurements.

Medical Expenses

For many years, taxpayers have been able to deduct medical expenses if they exceed 7.5% of adjusted gross income.

In 2013, for taxpayers under age 65, the floor for medical expenses deduction becomes 10%.

For Taxpayers over age 65, the 10% floor will start in 2017.

Section 179 & Bonus Depreciation

- For 2012, Section 179 Deduction Limit is $139,000.
- In order to be eligible for Section 179 depreciation, the limit for total equipment and software that can be purchased in 2012 is $560,000.
- If the $560,000 limit in capital equipment purchases is reached, Bonus Depreciation on qualified assets placed in service during 2012 can be taken at 50%. Bonus Depreciation is for new assets only. Businesses which will have a net operating loss in 2012 may still utilize this depreciation method.
- For 2013, as of our print date, Bonus Depreciation is set to expire while Section 179 is set to reduce to $25,000.

To take advantage of the current Section 179 deduction and Bonus Depreciation, your equipment must be in place on or before December 31, 2012.

Back to Basics IRAs

Back to Basics IRAs

Required Minimum Distributions for Traditional IRAs

- You must begin receiving distributions by April 1 of the year following the year in which you reach 70.5.
- The RMD for any year after the year in which you reach age 70.5 must be made by December 31 of that year.

  Example:

  You reach 70.5 on September 26, 2012. For 2012, you must receive the RMD from your IRA by April 1, 2013. You must receive the RMD for 2013 by December 31, 2013.
- Amounts that must be distributed during a particular year are not eligible for rollover treatment
- If the IRA owner dies after reaching the age of 70.5, but before April 1 of the next year, no minimum distribution is required because death occurred before the required beginning date.
- Even if you begin receiving distributions before you reach age 70.5, you must begin calculating and receiving RMD's by your required beginning date.
- After reaching 70.5, if you do not take a distribution or if the distribution is not large enough you will be subject to a 50% excise tax.

Are you eligible to make a Roth IRA Contribution for 2012?

This table shows whether your contribution to a Roth IRA is affected by the amount of your modified AGI as computed for Roth IRA purposes.

If your filing status is...	And your modified AGI is...	Then you are eligible to contribute...
Married filing jointly or **qualifying widow**(er)	Less than $173,000	Up to the limit
	Greater than or equal to $173,000 but less than $183,000	A reduced amount
	Greater than or equal to $183,000	zero
Married filing separately and you lived with your spouse at anytime during the year	Less than $10,000	A reduced amount
	Greater than or equal to $10,000	zero
Single, head of household, or **Married filing separately** and you did not live with your spouse at any time during the year	Less than $110,00	Up to the limit
	Greater than or equal to $110,000 but not less than $125,000	A reduced amount
	Greater than or equal to $125,000	Zero

Payroll Service

Levin, Bengtson & Smith, P.C. Also Provides a Convenient Payroll Service to Suit Your Company's Needs!!

Services we Provide:

- Process an array of pay periods best suitable for your company to cater to your specific needs - Weekly/Bi-Weekly/Monthly Payroll
- Flexible methods of providing hours to us
- Both direct deposit and paper checks for your employees
- We withhold the proper taxes so that you don't have to worry about the tax tables
- Prepare and process your quarterly and annual tax reports
- Respond to any notices the IRS sends you concerning Payroll
- Keep all documents on premises for quick and easy review by our trained staff
- Supply W-2's to employees at year end
- Provide online access to all of your payroll information

Please Call us if you are interested in learning more about this service or if you would like to get started today!

860-678-5160

Employer 2013 Payroll Tax Update

EMPLOYER TAX	RATE	2013 WAGE CAP	MAXIMUM AMOUNT
SOCIAL SECURITY	6.2 %	$ 113,700	$ 7,049.40
MEDICARE	1.45 %	NO MAXIMUM	NO MAXIMUM
SELF-EMPLOYMENT	15.3%	$ 113,700	15.3% OF INCOME UP TO $113,700. 2.9% OF THE EXCESS
FUTA	0.6%	$ 7,000	$ 42 PER EMPLOYEE
CT SUTA	VARIES BETWEEN 1.9%-6.8% (4.2% FOR NEW EMPLOYERS)	$15,000	AMOUNT CALCULATED PER EMPLOYER BASED UPON ASSIGNED RATE AND TAXABLE WAGES

Depreciation on Vehicles

The 50% additional first year depreciation deduction has been extended to qualified property acquired and placed in service before January 1, 2013. The Internal Revenue Code increases the first year depreciation allowed for vehicles subject to the luxury vehicle limits, unless elected out, by $8,000, to which the first year depreciation adjustment applies.

Dollar Limitations are imposed on the depreciation deduction for the year the taxpayer places the passenger automobile in service within its business and for each succeeding year.

Passenger Automobiles

The maximum depreciation limits for passenger automobiles first placed in service by the taxpayer during the 2012 calendar year are:

- $11,160 for the first tax year ($3,160 if bonus depreciation not taken);
- $5,100 for the second tax year;
- $3,050 for the third tax year; and
- $1,875 for each tax year thereafter.

Trucks and Vans

The maximum depreciation limits for trucks and vans first placed in service during the 2012 calendar year are:

- $11,360 for the first tax year ($3,360 if bonus depreciation is not taken);
- $5,300 for the second tax year;
- $3,150 for the third tax year; and
- $1,875 for each tax year thereafter.

Sport Utility and pickup trucks with a gross vehicle weight rating in excess of 6,000 pounds are exempt from the luxury vehicle depreciation caps.

Standard Mileage Rates

Purpose	Rate
Business Miles	
2013………………………………	56.5 cents per mile
2012………………………………	55.5 cents per mile
Medical & Moving Miles	
2013………………………………	24 cents per mile
2012………………………………	23 cents per mile
Charity Miles	
2013………………………………	14 cents per mile
2012………………………………	14 cents per mile

2012/ 2013 Retirement Plan Contribution Limits

Account Type	Limit Definition	2012 Limit	2013 Limit
IRA	Traditional and Roth IRA Contribution Limit	$ 5,000	$ 5,500
	Catch-up-Limit age 50+	$ 1,000	$ 1,000
SIMPLE IRA	Elective Deferral Limit	$ 11,500	$ 12,000
	Catch-up Limit Age 50+	$ 2,500	$ 2,500
SEP IRA	Maximum SEP Contribution	$ 50,000	$ 51,000
401(k), SARSEP, 403(b), 457(b)	Elective Deferral Limit	$ 17,000	$ 17,500
	Catch-up Limit age 50+	$ 5,500	$ 5,500
	Highly Compensated Employee Limit	$ 115,000	$ 115,000
Profit Sharing, 401(k)	Defined Contribution Limit	$ 50,000	$ 51,000
SEP and Money	Employee Annual Compensation Limit	$ 250,000	$ 255,000
Purchase Pension	Top Heavy Plan Key Employee Comp Limit	$ 165,000	$ 165,000

“Thank You”

We would like to thank you for

the opportunity to have you as our trusted and most valued client. It continues to be our privilege to

provide you with professional expertise regarding your tax, financial and accounting needs. We look forward to working with you in the years ahead.

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Wishing you, your family and your business a very happy, healthy and successful 2013.

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