



STORM-LARSEN & COMPANY, INC.

WWW.STORM-LARSEN.COM

AUGUST 2012

RAGNAR'S CORNER

Proud Father and Mother: Our daughter Malia has a new name Malia Storm-Henderson. She married Brian Henderson on May 5, 2012, on the beach in Malibu. Beautiful wedding, beautiful couple.

Greetings from Storm-Larsen & Company, Inc.! Now that we are halfway through the year, the purpose of this Tax Newsletter is to prepare you for the 2012 tax year and to begin to plan for the 2013 tax year.

It is true: the IRS has hired an additional 13,000 examiners to focus on individuals with Schedule C Tax Returns. The audit potential for Schedule C filers has increased six times over what it was in 2008. If you get a letter from the IRS about an audit, please send it to us right away, so we can respond quickly.

Please visit our website (www.Storm-Larsen.com) and review our most recent articles on Back Door IRA Roth Accounts!! This is a way to roll nondeductible IRA traditional accounts to your Roth IRA accounts and not pay any taxes. The article about how to do this was in the April 8, 2012 Wall Street Journal. I checked it out and it really works. If you still have any questions after reading the article, please call us. So what will the 2013 year bring for new tax-increases? This reminds me of the same question about 2010. My comment then and now is the same "Who knows?" We may continue to see the same movement towards changes to an increased tax rate for long term Capital Gains and Investment Income until after the election. These changes will be indexed depending on your taxable income.



WHERE IS MY REFUND?

To check a refund online, you must have the taxpayers:

- Social Security Number
- Mailing address
- Refund amount

Go to:

www.ftp.ca.gov/online/refund/

#1 Tax Scam

IDENTITY THEFT

For more information

Go to :

www.IRS.gov/identitytheft

Jerry Brown's Tax Initiative

In addition to the cuts in government spending, the Governor has presented a tax initiative that will appear on the 2012 ballot. The initiative imposes tax increases beginning January 1, 2013.

- ◆ Increasing sales and use tax by 0.25% for four years
- ◆ Raising income taxes on taxpayers with income of more than \$250,000 for seven years

10.3 % (1 % increase) on income of:	*\$250,001-\$300,000 for single/MFS *\$340,001-\$408,000 for HOH
11.3% (2% increase) on income of:	*\$300,001-\$500,000 for Single/MFS *\$408,001-\$680,000 for HOH *\$600,001-\$1,000,000 for MFJ
12.3% (3% increase) on income of:	*More than \$500,000 for Single/MFS *More than \$680,000 for HOH *More than \$1,000,000 for MFJ

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Help with the next Biggest Debt Hurdle, Student Loan Debt

By Liz Weston

Unlike federal student loans, private loans have variable interest rates, limited repayment options, no forgiveness possibilities and fewer consumer protections. Using private loans to pay for an education is a lot like using credit cards, except that credit card debt can be erased in Bankruptcy Court. Private student loans typically can't.

You needn't be quite so anxious about paying back your federal student loans. The interest rates are relatively low and fixed, plus you have a number of repayment and forgiveness options. Often the best approach is to consolidate your federal loans into the longest payback period offered. This reduces your required payments on the federal loans freeing up more money to pay down your private loans. Once your private loans are paid off, you can make bigger payments toward your federal loans and speed out of debt.

Several programs offer stipends to help pay student loans, and some offer at least partial forgiveness of federal student loans. Serving in AmeriCorps or Volunteers in Service to America can generate a \$4,725 stipend to repay loans. Peace Corps volunteers may apply for deferment of federal loans and partial cancellation of Perkins Loans. Those who serve in the Army National Guard may be eligible for up to \$41,000 toward student loans.

There are also debt forgiveness programs for those who teach or practice medicine in certain places. You can find more information and a complete list at the Financial Aid website. People employed in public service can qualify for forgiveness of their remaining federal student loan debt after 10 years of payments. Those employed in other jobs can erase their debt after 25 years (the period will be cut to 20 years starting next year. By the way, don't stint your retirement in your enthusiasm to get out of debt. You can't make up for lost time when it comes to retirement savings. So, try to contribute at least 10% of your income, and preferably 15% to your workplace retirement program or an IRA.



Behold the New Investment Tax

By Ragnar Storm-Larsen

The Supreme Court Health-Care Ruling Means the 3.8% Surtax on Investments is for Real. Here's how to prepare:

What's Taxed	What's Not Taxed
Dividends	Retirement Account Payouts
Capital Gains	Social Security Benefits
Rents	Pension Payouts
Royalties	Life Insurance Proceeds
Interest	Municipal-Bond Interest
Some Annuities	Veteran's Benefits

The new tax, which congress passed in 2010 affects the net investment income of most joint filers with adjusted gross income of more than \$250,000 (\$200,000 single filers). Starting on January 1, 2013, the tax rates on long-term capital gain and dividends will jump from their current historic low of 15% to 18.8%, assuming Congress extends the current law.

Military Armed Forces Tax Deductions

by Daneille Smith-Fricke

I currently have two sons serving in the military I thought you would like to see the tax deductions available to those serving in our military and their families. Please let me know if I can help with any military questions.

If you are in active duty, these deductions can be taken as an adjustment against gross income and not as a miscellaneous deduction on Schedule A.

Uniform allowance: The cost of uniforms and their up-keep is generally deductible if your base restricts wearing them off-duty. You must reduce your expenses by any allowance or reimbursement you receive.

Moving expenses: Active duty members of the military do not have to meet the time and distance tests required of non-military individuals. You can deduct your unreimbursed moving expenses on Form 3903. You can find this form on the IRS website: <http://www.irs.gov/>

Combat Pay: If you serve in a combat zone (see IRS publication 3 for list of current combat zones) you can exclude your combat pay from your income. For Officers, the monthly exclusion is capped at the highest enlisted pay, plus any hostile fire or imminent danger pay received. Although you exclude this income for your tax liability, you can use combat pay to calculate any IRA deduction or Earned Income Credit.

Travel to Reserve Duty: If you are a member of the Reserves, you can deduct unreimbursed travel expenses for traveling more than 100 miles away from home to perform your reserve duties.

Sale of Home: You may not have to pay tax on all or part of the gain from the sale of your main home.

Extension of Deadlines: The deadline for filing tax returns, paying taxes, filing claims for refund and taking other actions with the IRS is automatically extended for qualifying members of the military. These generally include service in a combat zone or deployment outside the United States away from your permanent duty station while participating in a contingency operation.

Transitioning Back to Civilian Life: You may be able to deduct some costs you incur while looking for a new job. These include travel, resume preparation fees, and placement agency fees. Moving expenses may be deductible if you are required to move for your new job.



Incredible Shrinking Refund: Where does the Money go?

Taxpayers shouldn't rush out and spend their tax refund before the money arrives. If you owe state back taxes or debts to other state agencies you may receive less than you originally anticipated.

Priority of debts

- Delinquent child or family support cases enforced by a district attorney
- Delinquent spousal support case enforced by a district attorney
- Unpaid restitution fines
- Unemployment benefits overpayment cases
- Unpaid bail referred by the courts
- Debts owed for nonpayment of bridge tolls and toll lane fees
- All other state agency debts
- Private debts and post-secondary education debts
- IRS debts

The Franchise Tax Board notes that taxpayers should expect the intercepted amount to take three to four months to post to their account with the corresponding state agency.