

# Carr Talks

**TAXLOGIC**



**WEEKLY SUMMARY**

This week saw a home grown terrorist, in Norway, arguably one of the most liberal of western democracies; kill more had 90 innocent people. Then word of the collapse of budget talks between Republicans and the President, and a new round of bail out funding for Greece, with a default in name only.

The current USA debt situation is not the deficit; it is overspending. Federal spending in the 2008 fiscal year was \$2.9 trillion, and Washington will now spend \$3.8 trillion in the fiscal year that ends on Sept. 30. (30% more). Raising taxes are what politicians do instead of reforming and reducing the cost of government.

Advocates of larger government prefer to talk about deficits rather than spending. Why? Because there are two solutions to a deficit problem: spend less or raise taxes. The issue is Washington's inability to deal with its own overspending. There is only one fix for a spending problem: spend less.

With only 9 days until the final crunch time, Washington is playing a deadly game of chicken.

At this point, even if a last minute deal is crafted to avoid debtapocalypse, the faith and confidence in our political elite has reached a new all time low. If they continue to delay making meaningful structural changes – it will be more damaging in the long term.

## Tax Increases for those on 6 figures are already in place

Congressional gridlock over whether to cut or raise income taxes is obscuring a different threat to six-figure earners: a host of stealth taxes implemented in the name of deficit reduction.

Many of the provisions, as with the dreaded alternative minimum tax, have never been adjusted for inflation. As a result, they have morphed into tax traps for upper-middle-income earners. Here are three of the most glaring examples.

Two of the new stealth taxes were created by last year's landmark health care reform bill.

First, the Medicare payroll tax is going up. The tax is now 2.9% on all wages; employers and employees each pay 1.45%. Starting in 2013, individuals making more than \$200,000 (and couples making more than \$250,000) will have to kick in an additional 0.9% on wages above that amount.

A second, much heftier increase also takes effect in 2013, in the form of an unprecedented new 3.8% Medicare tax on investment income. It will strike filers whose "modified adjusted gross income" -- roughly speaking, wages plus investment income -- tops \$200,000 for individuals or \$250,000 for couples. (The tax will apply to whichever is less: investment income or the amount by which modified adjusted gross income exceeds the income threshold.)

Investment income will include taxable capital gains, dividends, interest income, annuities, royalties, and rents. The thresholds for both of the new Medicare taxes will not be indexed for inflation. So they'll snag an increasing number of

taxpayers over time.

Thirdly, there's the taxation of Social Security benefits. In 1984, when the Social Security system faced a funding crisis, Congress enacted a law to make the wealthiest recipients pay income taxes on their benefits. Specifically, up to 50% of Social Security benefits became taxable when half of these benefits, plus a retiree's other income -- including retirement plan payouts and investment income -- exceeded \$25,000 a year (\$32,000 for couples).

Back then, only about 10% of retirees had incomes that topped that level. In 1994 a second layer of tax was put in place: 85% of your Social Security benefits became taxable if half of your Social Security benefit plus your "other" income topped \$34,000, or \$44,000 as a couple.

Once again, none of those crucial thresholds were indexed to inflation; today the Social Security tax still kicks in at \$25,000. As a result, about a third of retirees are now paying federal income tax on their Social Security benefits. A decade from now, an estimated 45% will owe the tax.

Don't expect relief from the government on any of those stealth taxes. Your best bet is to generate as much income as possible from sources that don't trigger them. One way to accomplish that is to put your retirement savings into a Roth IRA or Roth 401(k), where contributions are made with after-tax dollars, and all future investment gains and withdrawals are tax-free. At the end of the day, you may never be able to shield yourself completely from stealth taxes. But you can at least minimize the bite.

By Janice Revell, contributor @FortuneMagazine

	Last Week	End of Week	Next Week	12/31/2011
Gold	\$1,594.50	\$1,599.60	\$1,620.00	\$1,600.00
Oil	\$97.49	\$99.87	\$100.00	\$120.00
Dow Jones	12,479.73	12,681.16	12,500.00	12,250.00
Prime Rate	3.25 %	3.25 %	3.25 %	4.00 %
Unemployment	9.20 %	9.20 %	9.20 %	9.50 %



## Services that we provide:

- Tax preparation, individuals, corporations, LLC's, partnerships, overseas residents, non resident aliens, prior year returns
- Annual minutes for your company
- Ability to use Quickbooks and Quicken files, Online Quickbooks
- Certified Quickbooks Pro Advisor
- Monthly accounting – we will prepare your financial statements, bank reconciliations and depreciation calculations
- Payroll preparation and filing – we offer turnkey payroll solutions
- Human Resource Management – we can prepare an employee handbook for your particular situation
- Entity selection and compliance with various State and Federal regulations
- Efficient tax strategies – we can **recommend** the most appropriate strategy for your particular situation
- Financial planning - we can give you appropriate financial planning and budgeting information
- Forensic accounting – we can investigate “white collar” crime committed against you, or your business
- Valuation services – we can assist with the valuation of your business and investment assets for specific applications, estate planning, divorce, buy and sell agreements

## New for 2010 tax year in 2011:

- You will be able to check on the status of your refunds [www.irs.gov](http://www.irs.gov)
- We will store your source documents online in a PDF file format for easy access in future years
- Electronic filing of Sub S and C Corporations and Partnerships
- We will be able to file multiple state returns this year – in the past we were limited to the number of state returns we could file for you
- Medical records – we are giving you the opportunity to have all your medical records in one secure location – [www.allmymedicalrecords.com](http://www.allmymedicalrecords.com)
- Charitable donations. Maintain your charitable deductions during the year at [www.allmydeductions.com](http://www.allmydeductions.com). In that way whether you use cash, credit card, debit card, checks, or donation of clothes etc you won't miss any deductions. Use our convenient list of accepted valuations to value your donated goods to Goodwill, Salvation Army, church, etc
- Entity selection – we have extensive information on company formation, whether it be an LLC, S Corporations, or C Corporations. Once you are incorporated we will walk you through the setup process
- Federal Identification applications – we can file and receive federal identification numbers – all on line for your convenience
- On line legal forms – we have the ability to prepare basic legal forms online
- Payroll preparation – we offer a comprehensive, competitively priced online payroll preparation service



## Payroll Processing Services

### You provide:

- Hours worked and employment information and forms for the staff. You can email, (Karen@psspaysroll.com) fax (580) 286 5818 or call toll free (800) 937 8868 to give us this information

### We will provide the following services:

- No long term contract
- Payroll preparation for your employees and direct deposit of payroll checks and ACH transfer of payroll amount
- Payroll calculation within 24 hours
- Compliance with all government and state withholdings requirements
- Detailed invoice for all payroll related costs

### Each Pay Period you will get:

- Payroll stubs for employees
- Management report detailing cost breakdown but only one amount to pay for all federal and state taxes
- Direct deposit of net payroll

### Each Quarter

- We will file all required state and federal quarterly reports

### What we need to get started:

- W4's for each employee
- I-9's for each employee
- Direct deposit information for the employees
- Bank details for the company's payroll account
- Your Federal ID number for the business