



BRIDGEWAY
FINANCIAL
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CPA Solutions™ **Accounting Newsletter**

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Dear John;

Welcome to the newest issue of CPA Solutions™, our flagship Accounting and Tax newsletter, designed to guide you confidently through the sometimes choppy and murky waters of tax and accounting issues. We understand you may not have a background in accounting, so we boil down every article to just the important parts affecting you and your business, so you can stay informed and not overwhelmed. Each issue we bring you short and insightful articles about issues that affect you, your bottom line and your business and we highlight important new tax laws or accounting issues that will make a difference to you and your business.

We hope you enjoy CPA Solutions™ as much as we enjoy putting together each issue, and we welcome your call or email if you have any questions concerning a particular matter.

Sincerely,
Joe H. Craft CPA/PFS, CFP



Joe Craft is a Certified Public Accountant (CPA) and our Chief Supervisory Accountant and handles the preparation of financial statements, corporate and personal tax returns, audit defense and representation. His expertise also extends into estate and gift tax planning, comprehensive and segmented personal financial planning. He is a member of the American Institute of Certified Public Accountants and has received certification as a Certified Financial Planner (CFP) and Personal Financial Specialist (PFS). Joe is the author of "Annual Record Keeping Kit for Small & Home Based Businesses" and co-author "It's How Much You Keep That Counts!" 4th edition. Joe lives with his wife in New Hampshire.

How to Avoid Identity Theft During Tax Season

In This Issue

Consumers should protect themselves against online identity theft and other scams that increase during--and after--the filing season. Such scams may appropriate the name, logo, or other appurtenances of the IRS or U.S. Department of the Treasury to mislead taxpayers into believing the communication is legitimate.



The Internal Revenue Service receives thousands of reports each year from taxpayers who receive suspicious emails, phone calls, faxes or notices claiming to be from the IRS. Many of these scams fraudulently use the IRS name or logo as a lure to make the communication appear more authentic and enticing. The goal of these scams, referred to as **phishing**, is to trick you into revealing your personal and financial information. The scammers can then use your information -- like your Social Security number, bank account or credit card numbers -- to commit identity theft or steal your money.

Scams involving the impersonation of the IRS usually take the form of e-mails, tweets, or other online messages to consumers. Scammers may also use phones and faxes to reach intended victims. Some scammers set up phony Web sites.

The IRS and E-mail

Generally, the IRS does not send unsolicited e-mails to taxpayers. Further, the IRS does not discuss tax account information with taxpayers via e-mail or use e-mail to solicit sensitive financial and personal information from taxpayers. The IRS does not request financial account security information, such as passwords and PIN numbers, from taxpayers.

Most Scams Impersonating the IRS are Identity Theft Schemes

In this type of scam, the scammer poses as a legitimate institution to trick consumers into revealing personal and financial information - such as passwords and Social Security, PIN, bank account and credit card numbers - that can be used to gain access to their bank, credit card, or other financial accounts.

Attempted identity theft scams that take place via e-mail are known as phishing. Other scams may try to persuade a victim to advance sums of money in the hope of realizing a larger gain. These are known as advance fee scams.

How an Identity Theft Scam Works

Typically, a consumer will receive an e-mail that claims to come from the IRS or Treasury Department. The message will contain an enticing or intimidating subject line, such as "Tax Refund," "Inherited Funds," or "IRS Notice." Usually, the message will state that the recipient needs to provide the IRS with information to obtain the refund or avoid some penalty. The message will instruct the consumer to open an attachment or click on a link in the e-mail. This may lead to an official-looking IRS Web site. The look-alike site will then contain a phony but genuine-looking online form or

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interactive application that requires personal and financial information, which the scammer then uses to commit identity theft.

Alternatively, the clicked link may secretly download malware to the consumer's computer. Malware is malicious code that can take over the computer's hard drive, giving the scammer remote access to the computer, or it could look for passwords and other information and send them to the scammer.

Phony Web or Commercial Sites

In many IRS-impersonation scams, the scammer sends the consumer to a phony Web site that mimics the appearance of the genuine IRS Web site, IRS.gov. This allows the scammer to steer victims to phony interactive forms or applications that appear genuine but require the targeted victim to enter personal and financial information that will be used to commit identity theft.

The official Web site for the Internal Revenue Service is IRS.gov, and all IRS.gov Web page addresses begin with <http://www.irs.gov/>.

In addition to Web sites established by scammers, there are commercial Internet sites that often resemble the authentic IRS site or contain some form of the IRS name in the address but end with a .com, .net, .org, or other designation instead of .gov. These sites have no connection to the IRS. Consumers may unknowingly visit these sites when searching the Internet to retrieve tax forms, publications, and other information from the IRS.

Frequent or Recent Scams

There are a number of scams that impersonate the IRS. Some of them appear with great frequency, particularly during and right after filing season, and recur annually. Others are new.

- **Refund Scam:** This is the most frequent IRS-impersonation scam seen by the IRS. In this phishing scam, a bogus e-mail claiming to come from the IRS tells the consumer that he or she is eligible to receive a tax refund for a specified amount. It may use the phrase "last annual calculations of your fiscal activity." To claim the tax refund, the consumer must open an attachment or click on a link contained in the e-mail to access and complete a claim form. The form requires the entry of personal and financial information. Several variations on the refund scam have claimed to come from the Exempt Organizations area of the IRS or the name and signature of a genuine or made-up IRS executive. In reality, taxpayers do not need to complete a special form to obtain their federal tax refund. Refunds are triggered by the tax return they submitted to the IRS.
- **Lottery winnings or cash consignment:** These advance fee scam e-mails claim to come from the Treasury Department to notify recipients that they'll receive millions of dollars in recovered funds, lottery winnings, or cash consignment if they provide certain personal information, including phone numbers, via return e-mail. The e-mail may be just the first step in a multi-step scheme in which the victim is later contacted by telephone or further e-mail and instructed to deposit taxes on the funds or winnings before they can receive any of it. Alternatively, they may be sent a phony check of the funds or winnings and told to deposit it but pay 10 percent in taxes or fees. Thinking that the check must have cleared the bank

and is genuine, some people comply. However, the scammers, not the Treasury Department, will get the taxes or fees. In reality, the Treasury Department does not become involved in notification of inheritances or lottery or other winnings.

- **Beneficial Owner Form:** This fax-based phishing scam, which generally targets foreign nationals, recurs periodically. It's based on a genuine IRS form, the W-8BEN, Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding. The scammer, though, invents his or her own number and name for the form. The scammer modifies the form to request passport numbers, information that is often used for account security purposes (such as mother's maiden name), and similar detailed personal and financial information, and states that the recipient may have to pay additional tax if he or she fails to immediately fax back the completed form. In reality, the real W-8BEN is completed by banks, not individuals.

Other Known Scams

The contents of other IRS-impersonation scams vary but may claim that the recipient will be paid for participating in an online survey or is under investigation or audit. Some scam e-mails have referenced Recovery-related tax provisions, such as Making Work Pay, or solicited for charitable donations to victims of natural disasters. Taxpayers should beware an e-mail scam that references underreported income and the recipient's "tax statement," since clicking on a link or opening an attachment is known to download malware onto the recipient's computer.

How to Spot a Scam

Many e-mail scams are fairly sophisticated and hard to detect. However, there are signs to watch for, such as an e-mail that:

- requests detailed or an unusual amount of personal and/or financial information, such as name, SSN, bank or credit card account numbers, or security-related information, such as mother's maiden name, either in the e-mail itself or on another site to which a link in the e-mail sends the recipient;
- dangles bait to get the recipient to respond to the e-mail, such as mentioning a tax refund or offering to pay the recipient to participate in an IRS survey;
- threatens a consequence for not responding to the e-mail, such as additional taxes or blocking access to the recipient's funds;
- gets the Internal Revenue Service or other federal agency names wrong;
- uses incorrect grammar or odd phrasing (many of the e-mail scams originate overseas and are written by non-native English speakers);
- uses a really long address in any link contained in the e-mail message or one that does not start with the actual IRS Web site address (<http://www.irs.gov>). The actual link's address, or url, is revealed by moving the mouse over the link included in the text of the e-mail.

What to Do

Taxpayers who receive a suspicious e-mail claiming to come from the IRS should take the following steps:

- Do not open any attachments to the e-mail, in case they contain malicious code that will infect your computer.

- Do not click on any links, for the same reason. Alternatively, the links may connect to a phony IRS Web site that appears authentic and then prompts for personal identifiers, bank or credit card account numbers, or PINs.
- Do not respond to the email. Instead, visit the [IRS website](#) to use the "Where's My Refund?" interactive tool to determine if you are really getting a refund.
- Forward the suspicious e-mail or url address to the IRS mailbox phishing@irs.gov, and then delete the e-mail from your inbox. Alternatively, you can visit the [IRS website](#) and click on "Report Phishing" at the bottom of the home page.
- Consumers who believe they are or may be victims of identity theft or other scams may visit the [U.S. Federal Trade Commission website](#) for guidance on what to do. The IRS is one of the sponsors of this site.

If you've received an email claiming to be from the IRS, call us to talk it over before taking any action. We don't want you to fall victim to a scam.

Financial Troubles? 5 Ways to Improve Your Situation

If you are having trouble paying your debts, it is important to take action sooner rather than later. Doing nothing leads to much larger problems in the future, whether it's a bad credit record or bankruptcy resulting in the loss of assets and even your home. If you're in financial trouble here are some steps to take to avoid financial ruin in the future.



If you've accumulated a large amount of debt and are having difficulty paying your bills each month, now is the time to take action--before the bill collectors start calling.

1. Review each debt. Make sure that the debt creditors claim you owe is really what you owe and that the amount is correct. If you dispute a debt, first contact the creditor directly to resolve your questions. If you still have questions about the debt, contact your state or local consumer protection office or, in cases of serious creditor abuse, your state Attorney General.

2. Contact your creditors. Let your creditors know you are having difficulty making your payments. Tell them why you are having trouble--perhaps it is because you recently lost your job or have unexpected medical bills. Try to work out an acceptable payment schedule with your creditors. Most are willing to work with you and will appreciate your honesty and forthrightness.

Tip: Most automobile financing agreements permit your creditor to repossess your car any time you are in default, with no advance notice. If your car is repossessed you may have to pay the full balance due on the loan, as well as towing and storage costs, to get it back. Do not wait until you are in default. Try to solve the problem with your creditor when you realize you will not be able to meet your payments. It may be better to sell the car yourself and pay off your debt than to incur the added costs of repossession.

3. *Budget your expenses.* Create a spending plan that allows you to reduce your debts. Itemize your necessary expenses (such as housing and health care) and optional expenses (such as entertainment and vacation travel). Stick to the plan.

4. *Try to reduce your expenses.* Cut out any unnecessary spending such as eating out and purchasing expensive entertainment. Consider taking public transportation or using a car sharing service rather than owning a car. Clip coupons, purchase generic products at the supermarket and avoid impulse purchases. Above all, stop incurring new debt. Leave your credit cards at home. Pay for all purchases in cash or use a debit card instead of a credit card.

5. *Pay down and consolidate your debts.* Withdrawing savings from low-interest accounts to settle high-rate loans or credit card debt usually makes sense. In addition, there are a number of ways to pay off high-interest loans, such as credit cards, by getting a refinancing or consolidation loan, such as a second mortgage.

Tip: Selling off a second car not only provides cash but also reduces insurance and other maintenance expenses.

Caution: Be wary of any loan consolidations or other refinancing that actually **increase** interest owed, or require payments of points or large fees.

Caution: Second mortgages greatly increase the risk that you may lose your home.

You can regain financial health if you act responsibly. But don't wait until bankruptcy court is your only option. If you're having financial troubles, don't hesitate to call us. We can help you get back on your feet.

IRS Updates Withholding Guidance for 2013

The Internal Revenue Service has released updated income-tax withholding tables for 2013 and supersede the tables issued on December 31, 2012. The newly revised version contains percentage method income-tax withholding tables and related information that employers need to implement these changes.

In addition, employers should also begin withholding Social Security tax at the rate of 6.2 percent of wages paid following the expiration of the temporary two-percentage-point payroll tax cut in effect for 2011 and 2012. Payroll tax rates were not affected by the legislation signed into law on January 2.

Employers should start using the revised withholding tables and correct the amount of Social Security tax withheld as soon as possible in 2013, but not later than February 15, 2013. For any Social Security tax under-withheld before that date, employers should make the appropriate adjustment in workers' pay as soon as possible, but not later than March 31, 2013.



Employers and payroll companies will handle the withholding changes, so workers typically won't need to take any additional action, such as filling out a new W-4 withholding form.

As always, it's prudent for workers to review their withholding every year and, if necessary, fill out a new W-4 and give it to their employer. For example, individuals and couples with multiple jobs, people who are having children, getting married, getting divorced or buying a home, and those who typically wind up with a balance due or large refund at the end of the year may want to consider submitting revised W-4 forms.

Give us a call if you have any questions about income tax withholding in 2013. We're here to help.

Missing Your Form W-2?

You should receive a Form W-2, Wage and Tax Statement, from each of your employers for use in preparing your federal tax return. Employers must furnish this record of 2012 earnings and withheld taxes no later than January 31, 2013 (if mailed, allow a few days for delivery).



If you do not receive your Form W-2, contact your employer to find out if and when the W-2 was mailed. If it was mailed, it may have been returned to your employer because of an incorrect address. After contacting your employer, allow a reasonable amount of time for your employer to resend or to issue the W-2.

If you still do not receive your W-2 by February 15th, contact the IRS for assistance at 1-800-829-1040. When you call, have the following information handy:

- the employer's name and complete address, including zip code, and the employer's telephone number;
- the employer's identification number (if known);
- your name and address, including zip code, Social Security number, and telephone number; and
- an estimate of the wages you earned, the federal income tax withheld, and the dates you began and ended employment.

If you misplaced your W-2, contact your employer. Your employer can replace the lost form with a "reissued statement." Be aware that your employer is allowed to charge you a fee for providing you with a new W-2.

You still must file your tax return on time even if you do not receive your Form W-2. If you cannot get a W-2 by the tax filing deadline, you may use Form 4852, Substitute for Form W-2, Wage and Tax Statement (available on the IRS website), but it will delay any refund due while the information is verified.

If you receive a corrected W-2 after your return is filed and the information it contains does not match the income or withheld tax that you reported on your return, you must file an amended return on Form 1040X, Amended U.S. Individual Income Tax Return.

If you have questions about your Forms W-2 and 1099 or any other tax-related materials, please call or email our office.

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If you received Form 1099-C, but aren't sure what to do with it, give our office a call. We'll help you figure out whether your cancelled debt is taxable--or not.

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