CPA Solutions TM
Accounting Newsletter

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Dear John;

Welcome to the newest issue of CPA Solutions TM , 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 TM 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.

In This Issue

Sell Your Home But Keep the Profits

If you're looking to sell your home this year, then it may be time to take a closer look at the exclusion rules and cost basis of your home in order to reduce your taxable gain on the sale of a home.

The IRS home sale exclusion rule now allows an exclusion of a gain up to $250,000 for a single taxpayer or $500,000 for a married couple filing jointly. This exclusion can be used over and over during your lifetime, as long as you meet the following Ownership and Use tests. However, it cannot be used more frequently than every 24 months.

During the 5-year period ending on the date of the sale, you must have:

- Owned the house for at least two years - Ownership Test
- Lived in the house as your main home for at least two years - Use Test
- During the 2-year period ending on the date of the sale, you did not exclude gain from the sale of another home.

Tip: The Ownership and Use periods need not be concurrent. Two years may consist of a full 24 months or 730 days within a 5-year period. Short absences, such as for a summer vacation, count in the period of use. Longer breaks, such as a 1-year sabbatical, do not.

If you own more than one home, you can exclude the gain only on your main home. The IRS uses several factors to determine which home is a principal residence: place of employment, location of family members' main home, mailing address on bills, correspondence, tax returns, driver's license, car registration, voter registration, location of banks you use, and location of recreational clubs and religious organizations you belong to.

Tip: As we mentioned earlier, the exclusion can be used repeatedly, every time you reestablish your primary residence. When you do change homes, let us know your new address so we can ensure the IRS has your current address on file.

Note: Only taxable gain on the sale of your home needs to be reported on your taxes. Further, loss on the sale of your main home cannot be deducted. Ask us for details.

Improvements Increase the Cost Basis

Additionally, when selling your home, consider all improvements made to the home over the years. Improvements will increase the cost basis of the home and thereby reduce the capital gain.

Additions and other improvements that have a useful life of more than one year can be added to the cost basis of your home.

Examples of Improvements
Examples of improvements include: building an addition; finishing a basement; putting in a new fence or swimming pool; paving the driveway;

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landscaping; or installing new wiring, new plumbing, central air, flooring, insulation, or security system.

> **Example:** The Kellys purchased their primary residence in 2002 for $200,000. They paved the unpaved driveway, added a swimming pool, and made several other home improvements adding up to a total of $75,000. The adjusted cost basis of the house is now $275,000. The house is then sold in 2012 for $550,000. It costs the Kellys $40,000 in commissions, advertising, and legal fees to sell the house.
>
> These selling expenses are subtracted from the sales price to determine the amount realized. The amount realized in this example is $510,000. That amount is then reduced by the adjusted basis (cost plus improvements) to determine the gain. The gain in this case is $235,000. After considering the exclusion, there is no taxable gain on the sale of this primary residence and, therefore, no reporting of the sale on the Kelly's 2012 personal tax return.
>
> **Tip: Residential Energy Efficient Property Credit.** This tax credit helps individual taxpayers pay for qualified residential alternative energy equipment, such as solar hot water heaters, solar electricity equipment and wind turbines. The credit expires on December 31, 2016 and is 30 percent of the cost of qualified property. There is no cap on the amount of credit available, except for fuel cell property.
>
> Generally, you may include labor costs when figuring the credit and you can carry forward any unused portions of this credit. Qualifying equipment must have been installed on or in connection with your home located in the United States; fuel cell property qualifies only when installed on or in connection with your main home located in the United States.
>
> Not all energy-efficient improvements qualify so be sure you have the manufacturer's tax credit certification statement, which can usually be found on the manufacturer's website or with the product packaging.
>
> Please contact us for more information about residential energy tax credits.

Partial Use of the Exclusion Rules

Even if you do not meet the ownership and use tests, you may be allowed to exclude a portion of the gain realized on the sale of your home if you sold your home because of health reasons, a change in place of employment, or certain unforeseen circumstances. Unforeseen circumstances include, for example, divorce or legal separation, natural or man-made disasters resulting in a casualty to your home, or an involuntary conversion of your home. If one of these situations applies to you, please call us for additional details.

Recordkeeping

Good recordkeeping is essential for determining the adjusted cost basis of your home. Ordinarily, you must keep records for 3 years after the filing

due date. However, you should keep records proving your home's cost basis for as long as you own your house.
The records you should keep include:

- Proof of the home's purchase price and purchase expenses
- Receipts and other records for all improvements, additions, and other items that affect the home's adjusted cost basis
- Any worksheets or forms you filed to postpone the gain from the sale of a previous home before May 7, 1997

Questions?

Tax considerations surrounding the sale of a home can be confusing. If you have any questions on taxes related to the sale of your home, give us a call.

Eight Ways Children Lower Your Taxes

Got kids? They may have an impact on your tax situation. Here are eight tax credits and deductions that can help lower your tax burden.

1. Dependents: In most cases, a child can be claimed as a dependent in the year they were born. Be sure to let us know if your family increased this year and we'll take a look at whether you can claim the child as a dependent this year.
2. Child Tax Credit: You may be able to take this credit on your tax return for each of your children under age 17. If you do not benefit from the full amount of the Child Tax Credit, you may be eligible for the Additional Child Tax Credit. The Additional Child Tax Credit is a refundable credit and may give you a refund even if you do not owe any tax.
3. Child and Dependent Care Credit: You may be able to claim this credit if you pay someone to care for your child under age 13 while you work or look for work. Be sure to keep track of your child care expenses so we can claim this credit accurately.
4. Earned Income Tax Credit: The EITC is a benefit for certain people who work and have earned income from wages, self-employment, or farming. EITC reduces the amount of tax you owe and may also give you a refund.
5. Adoption Credit: You may be able to take a tax credit for qualifying expenses paid to adopt a child.
6. Coverdell Education Savings Account: This savings account is used to pay qualified expenses at an eligible educational institution. Contributions are not deductible; however, qualified distributions generally are tax-free.
7. Higher Education Credits: Education tax credits can help offset the costs of education. The American Opportunity and the Lifetime Learning Credit are education credits that reduce your federal

income tax dollar for dollar, unlike a deduction, which reduces your taxable income.

8. Student Loan Interest: You may be able to deduct interest you pay on a qualified student loan. The deduction is claimed as an adjustment to income so you do not need to itemize your deductions.

As you can see, having children can make a big impact on your tax profile. If you're a parent, we'll go over your situation with you to make sure you're getting the appropriate credits and deductions.

Start Planning Now for Next Year's Tax Return

This year's tax deadline may have come and gone already but it's never too early to start planning for next year. With that in mind, here are six things you can do now to make next April 15 easier.

1. Adjust your withholding. Why wait another year for a big refund? Now is a good time to review your withholding and make adjustments for next year, especially if you'd prefer more money in each paycheck this year. If you owed at tax time, perhaps you'd like next year's tax payment to be smaller.

Give us a call if you need assistance in adjusting your withholding.

2. Store your return in a safe place. Put your 2012 tax return and supporting documents somewhere secure so you'll know exactly where to find them if you receive an IRS notice and need to refer to your return. If it is easy to find, you can also use it as a helpful guide for next year's return.

3. Organize your recordkeeping. Establish a central location where everyone in your household can put tax-related records all year long. Anything from a shoebox to a file cabinet works. Just be consistent to avoid a scramble for misplaced mileage logs or charity receipts come tax time.

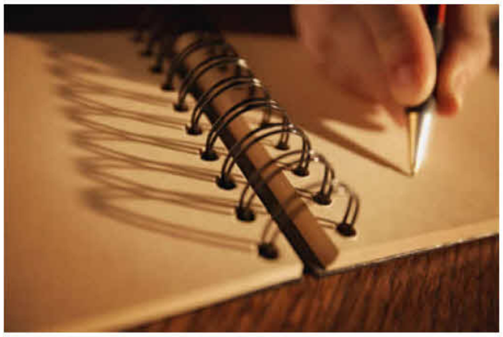
4. Review your paycheck. Make sure your employer is properly withholding and reporting retirement account contributions, health insurance payments, charitable payroll deductions and other items. These payroll adjustments can make a big difference on your bottom line. Fixing an error in your paycheck now gets you back on track before it becomes a huge hassle.

5. Consult a tax professional early. If you are planning to use a tax professional to help you strategize, plan and make financial decisions throughout the year, then contact us now. You'll have more time when you're not up against a deadline or anxious for your refund.

6. Prepare to itemize deductions. If your expenses typically fall just below the amount to make itemizing advantageous, a bit of planning to bundle deductions into 2013 may pay off. An early or extra mortgage payment, pre-deadline property tax payments, planned donations or strategically paid medical bills could equal some tax savings. If you need help with tax planning for 2013 please give us a call. We can help you prepare an approach that works best for you.

Each household's financial circumstances are different so it's important to fully consider your specific situation and goals before making large financial decisions. Feel free to contact us any time you have questions or concerns. We can help you stay abreast of tax law changes throughout the year--not just at tax time.

8 Facts to Know if You Receive an IRS Letter



The IRS sends millions of letters and notices to taxpayers for a variety of reasons. Many of these letters and notices can be dealt with simply, without having to call or visit an IRS office. Here are eight things you should know about IRS notices and letters.

1. There are a number of reasons why the IRS might send you a notice. Notices may request payment, notify you of account changes, or request additional information. A notice normally covers a very specific issue about your account or tax return.

2. Each letter and notice offers specific instructions on what action you need to take.

3. If you receive a correction notice, you should review the correspondence and compare it with the information on your return.

4. If you agree with the correction to your account, then usually no reply is necessary unless a payment is due or the notice directs otherwise.

5. If you do not agree with the correction the IRS made, it is important to contact us before responding. We'll help you to prepare a written explanation to send to the IRS of why you disagree and make sure it includes any information and documents the IRS should consider that support your case. You should hear from the IRS within 30 days regarding your correspondence.

6. Most correspondence can be handled without calling or visiting an IRS office. In order to handle any issues that arise more quickly, we ask that that you please have a copy of your tax return, as well as any correspondence from the IRS available when you speak to us.

7. It's important to keep copies of any correspondence with your other tax records.

8. IRS notices and letters are sent by mail. The IRS does not correspond by email about taxpayer accounts or tax returns.

If you have received a letter or notice from the IRS and have questions or concerns don't hesitate to call us.
