



## NEW IRS RULES FOR INVESTMENTS

Starting in 2012, your fund manager or broker is required to report to the IRS the cost basis of any new mutual fund or exchange traded fund shares you have purchased. Your fund company or broker will probably send a form asking you to choose how you want the cost basis determined for any shares you buy.

The cost basis is the amount paid for the investment plus any dividends or capital gains that were reinvested. When you sell the investment, any amount over the cost basis is profit and taxed at the capital gains rate. The new law covers two categories: "covered" shares (those bought after January 1, 2012); and "uncovered" shares (all older purchases).

*Average Cost* and *Specific Identification* are used to determine the cost basis in an investment.

Historically, most companies used *Average Cost*, which is the total amount invested – including reinvested dividends and capital gains – divided by the number of shares owned. The IRS had previously assumed that the taxpayer sold the oldest shares first, which does not take into account all the other shares purchased through the years. This category will now be divided into long-term and short-term shares. You will need to instruct your broker or mutual fund company which share category you intend to sell. Once you choose, all remaining shares must be sold using the same method. This can affect tax planning going forward.

*Specific Identification* allows you to choose which shares you wish to sell. As a tax planning tool to minimize taxes, you may choose to sell shares with the highest cost basis and therefore have the lowest tax liability. If you have sold investments at a loss, you may choose those shares with the lowest cost basis to offset any gains. There is only one current method for specific identification and that is First In-First Out (FIFO), selling the oldest shares first.

Please check with your broker or mutual fund company to learn your options. Note that you will need to monitor your investments more carefully to minimize any tax liability. This new rule will also expand the tax reporting requirements when filing your tax returns going forward.



## SOCIAL SECURITY QUESTIONS?

The Social Security Website ([www.ssa.gov](http://www.ssa.gov)) is a useful, comprehensive site. Click "Retirement" on the top toolbar for many online services, including:

- Request a Proof of Income letter verifying your Social Security Information
- Block electronic and automated telephone access to your personal information
- Get a replacement Medicare card
- Obtain or change a password
- Change your address or telephone number
- Check your information on file with the Social Security Administration
- Start or change direct deposit of your Social Security benefits



## 2012 TAX ISSUES TO KNOW ABOUT

### #1. Surtax on home sales

Our clients have received correspondence or read newspaper articles stating that there will be an additional 3.8% surtax applying to **all** home sale profits after 2012. This is **INCORRECT!** Most gains on sales of primary residences will still be exempt from any tax. Only the portion of profits exceeding the \$250,000 (Single) or \$500,000 (Married, Filing Jointly) exclusion will be subject to the tax. Single filers with adjusted gross incomes (AGI) over \$200,000 or joint filers with AGI over \$250,000 will be affected. The 3.8% surtax will be levied on the smaller of the filer's net investment income (including capital gains) or the excess of their AGI over the current threshold amounts. Please note that profits on sales of rental properties and second homes will be affected by the surtax, based on the AGI.



### #2. Real estate transfer audits

The IRS is increasing audits of taxpayers who transfer real estate to family members for little or no cash. This transfer is considered a gift (amounts over \$13,000) and a Gift Tax return is required. The IRS has been checking 15 states, including Connecticut, Florida, Hawaii, New Jersey, New York, and Pennsylvania.

### #3. S Corp audits

The IRS continues to audit companies with "S" Corporation status. Many of these small businesses have their owners take low salaries so they can receive most of the corporation's benefits as dividends, which are not subject to payroll taxes. The courts have sided with the IRS in requiring owners to take reasonable compensation.

### #4. Most frequently audited taxpayers

We are often asked "What are our chances of being audited by the IRS?" Based on the latest statistics from 2010, the overall audit exam rate is 1.1%. These taxpayer classes were audited the most: filers with incomes of \$200,000 but less than \$1 million; business returns with gross receipts of at least \$25,000 or more, Schedule C filers (sole proprietors and single owner Limited Liability Companies), and those filers claiming the Earned Income Tax Credit (EITC).

*Thank You  
for  
Your Business*

*As always, please do not hesitate to contact us with any questions or concerns you may have about any issues covered in the newsletters or any other issues important to you. Your business continues to be appreciated.*

Please call us with your tax and financial questions. Steinberg Enterprises provides confidential, convenient services based on over 25 years of practical financial management and tax experience.

*We are committed to improving our clients' financial well being.*

#### **Steinberg Enterprises, LLC**

119 Tunicflower Lane  
West Windsor, NJ 08550  
609.443.0469 609.443.0499 fax  
LSteinberg@SteinbergEnterprises.com  
www.SteinbergEnterprises.com