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SPRING
2012

How to succeed in business with a spouse

Starting and running a business is rarely a safe or simple process, and doing so with one's spouse creates an additional layer of complexity. Whether that complexity will have a positive or negative effect depends on several factors. Here are some of the questions you need to discuss before going into business with your spouse.

How well do you work together at home? If you cooperate and collaborate for domestic chores, you'll probably carry that pattern into your workplace. If you bicker constantly over how to do the laundry or maintain the yard, working together in business might be a risky option.

Even if you work well together, some disagreements are inevitable. How do you handle differences of opinion? The answer is particularly relevant if you'll have employees or customers on the premises. At a minimum, noisy flare-ups will ruin your business ambience.

Do you and your spouse have similar goals and values? For example, one partner's fixation on maximizing income may not be compatible with the other's goal of job satisfaction or adhering to strong

ethical principles. If the two of you have such differences, it's important to recognize them and either arrive at an acceptable compromise or reconsider your proposed venture.

Will your business be adequately capitalized? You won't have an outside salary to fall back on during hard times.

Will there be other partners or employees? Each spouse's role and responsibilities with respect to co-workers and subordinates should be clearly defined. Spouses with drastically different management styles can make life miserable for employees and each other.



Will one of you be supervising the other and/or reviewing the other's work? You'll need to concentrate on treating one another with respect, especially when giving or taking constructive criticism. Conversely, continually over-looking your spouse's mistakes or failings may drag down employee morale or otherwise harm your business.

Are your strengths complementary or redundant? For example, if you're a pair of engineers starting an engineering firm, you might leave functions such as marketing and accounting to employees or outside services so you can work together within your area of expertise. If you find your professional decisions tend to clash, consider splitting up your clients or processes and working separately within two divisions. Of course, if you're lucky enough to have complementary strengths and weaknesses, the division of labor should be simple.

When spouses work well together, a family business can be enormously satisfying. We can help you address the relevant issues and devise a business plan based on your capabilities, personalities, and desires. Call us for an appointment to explore the possibilities. ♦



IRSTAX NOTES

Credit for hiring vets

A law signed in November 2011 created new tax credits for employers who hire unemployed veterans.

Employers may qualify for the “Returning Heroes Tax Credit” of up to \$5,600 for hiring a veteran who has been unemployed for more than six months. A credit of up to \$2,400 is available for hiring a vet who has been unemployed for more than four weeks but less than six months.

The “Wounded Warriors Tax Credit” is available to employers who hire a vet with service-connected disabilities. The credit maximum is \$9,600; the vet must have been unemployed for more than six months.

Basis reporting expands

Your broker statement for 2011 reported the basis in the stocks you acquired last year. This basis reporting requirement expands this year to include mutual fund shares and stock acquired in a dividend reinvestment plan. The cost basis for these investments is included in reports that brokers send to the IRS. The IRS will compare this information with the basis you report on your tax return when you sell the investment.

More small business audits

The IRS plans to conduct random audits of 2,500 returns from 2010 filed by corporations with less than \$250,000 in assets. The results will be used to update the IRS formulas for selecting returns for audit.

The IRS is also trying to improve tax compliance among sole proprietors. According to a Treasury report, sole proprietors accounted for 20% of the \$345 billion tax gap calculated for 2001. ♦



Many small businesses fail to take this tax credit

Health care legislation passed in 2010 included a tax credit for small businesses that provide health care coverage for their employees. Recent surveys have shown that the majority of small companies that might qualify for the credit have failed to take it. The reasons given for ignoring the credit ranged from being unaware of it to finding the credit too complicated to compute.

Take another look

If your business or nonprofit organization might be eligible, perhaps you should take another look at the requirements and be sure you're taking advantage of this tax break.

If you qualify, you can use this tax credit to offset your federal income tax liability by up to 35% of the cost of health insurance premiums you pay for employees. Since this is a tax credit, not a deduction, it will reduce your tax bill dollar-for-dollar.

The basic requirements

In general, the credit is available to employers that have fewer than 25 full-time equivalent (FTE) employees paying average annual wages of less than \$50,000 per employee. Eligibility is based partially on FTEs, not the number of employees; therefore, an employer with fewer than 50 half-time workers could qualify for the credit.

The maximum credit goes to those employers with ten or fewer employees who pay annual average wages of \$25,000 or less.

When you're self-employed, either as a partner or a sole proprietor, or if you own more than 2% of an S corporation, you're not considered an employee for purposes of the credit.

Tax-exempt organizations can use the credit to offset payroll tax liability (up to 25% of qualified premiums paid).

For assistance in determining eligibility and calculating the credit, contact our office. ♦

Thanks! We appreciate you.

Thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time. Also, thank you for recommending us to your family, friends, and associates. We appreciate your referrals.

These 12 tips could improve your financial health in 2012

It's not too late to make a New Year's resolution to improve your financial situation in 2012. Here are a dozen tips for individuals and small business owners to follow.

1 Get organized.

This applies on both a personal and business level. You have a better chance of being successful this year if you approach your finances methodically instead of haphazardly.

2 Create a budget.

It's easy to get into financial trouble if you spend more than you earn. Develop a monthly plan for living within your means.

3 Obtain a free credit report.

Go to www.annualcreditreport.com. Check to ensure the data in your report is accurate and dispute any errors by contacting the applicable parties.

4 Review your asset allocation.

If you've already developed an asset allocation plan, adjust your portfolio to ensure it is still meeting your objectives. The start of the year is also a good time to tweak the percentages or establish an asset allocation plan for the future.

5 Pay down debt.

Start chipping away at your liabilities through a series of regular payments. Investigate whether it makes sense to consolidate outstanding debts at a reasonable interest rate.

6 Check your coverage.

Don't assume that the coverage you acquired years ago still provides adequate protection for your business or family. Dust off those old policies to determine if adjustments are needed. Contact your insurance advisor for guidance.

7 Focus on business talents.

Stop worrying about what you can't do. Structure new business initiatives to emphasize what you do best. This is a logical way to make your business grow.

8 Don't hesitate to delegate.

At the same time, you may be stretched too thin if you usually think that you're the best person to do every job. Learn to trust others with tasks that don't require your personal input.

9 Diversify your investments.

Don't expect the recent volatility in the financial markets to abate in 2012. Protect yourself against the inherent risks by diversifying within different classes of investments.

10 Get rid of the clutter.

Donate items that are in good condition and throw out those that are simply taking up space. You might even be able to take a charitable deduction for your donation.

11 Plan ahead for retirement.

Take advantage of tax-favored retirement plans such as a 401(k) at work. Both the contributions and earnings are tax-deferred and can compound over time. The 401(k) contribution limit for 2012 is \$17,000 (\$22,500 if you're age 50 or over).

12 Save for emergencies.

What would happen to your family if your business fails or you lose your job? Set aside enough in an emergency fund to last for several months in a worst-case scenario.

If you follow through on your 2012 resolutions, it's likely you'll be in better financial shape at the end of the year. ♦



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New foreign investment requirement

New form alert! If you own foreign investments, you may have an additional federal tax filing requirement this year.

Form 8938, "Statement of Specified Foreign Financial Assets," is due April 17, 2012, and is filed as part of your individual tax return. You'll use Form 8938 to disclose interests in certain foreign financial accounts when your ownership exceeds the reporting requirements.

What are the reporting requirements? They vary depending on where you live and your filing status. For example, say you're married and live in the United States, and you'll file a joint tax return for 2011. You'll include Form 8938 with your tax return when the total value of your reportable assets on the last day of 2011 is more than \$100,000, or if the value exceeds \$150,000 at any time during the

year (\$50,000 and \$75,000 for singles).

Tip: In some cases, you may also need to file Form 8938 for tax year 2010.

Reportable assets include investment accounts you own that are held in foreign financial institutions, interests in foreign entities, and stocks or securities issued by foreign individuals or companies.

You've probably noticed the reporting requirements are similar to the "Report of Foreign Bank and Financial Accounts" (FBAR), a separate return you may already be filing. Be aware the new Form 8938 does not replace the FBAR, which you'll still need to complete by June 30.

Penalties for failure to file Form 8938 start at \$10,000. We urge you to contact us so we can help you evaluate your filing requirements for foreign investments. ♦

NOTE: This newsletter is issued quarterly to provide you with an informative summary of current business, financial, and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.

We appreciate your business. Please call any time we can be of assistance to you in your tax, financial, or business affairs.

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March 15 – Deadline for calendar-year corporations to elect S corporation status for 2012.

March 15 – Deadline for filing 2011 tax returns for calendar-year corporations.

April 2 – Deadline for payers who file electronically to file 2011 information returns (such as 1099s) with the IRS.

April 2 – Deadline for employers who file electronically to send copies of 2011 W-2s to the Social Security Administration.

April 17 – Deadline for filing 2011 individual tax returns.

April 17 – Deadline for filing 2011 partnership returns.

April 17 – Deadline for filing 2011 gift tax returns.

April 17 – Deadline for making 2011 IRA contributions.

April 17 – First installment of 2012 individual estimated tax is due.

May 15 – Deadline for calendar-year nonprofit organizations to file information returns. ♦