

BottomLine

Just a quick chat from your accounting firm

FREDRICKZINK & Associates
A professional corporation. | CPAS

Fall 2012



It's leaf peeping season.

Yes, that's a real term. We looked it up on Wikipedia. Here's what they said: "**Leaf peeping** is an informal term, commonly used in the United States, for people who travel to view and photograph the fall foliage in areas where foliage changes color"...like here in Colorado. New England, of course, is the gorilla in the category, but we live here, so we're going to talk about Colorado.

To some, leaf peeper translates into "slow driver with license plates from out of the area or RVs that say RENT ME on the side." And to others, it means tourists, guests, visitors and economic inflow in terms of vacation spending. Heck, there are even people who get together for Leaf Peepshows (parties full of people showing off their leaf peeping pictures). Seriously.

THERE'S GOLD IN THEM THAR HILLS

We like that there are Colorful Colorado signs all over the borders of our state. We like even more that they are proudly displayed all year round, not just when the aspen leaves are that amazing gold/yellow/orange color. And we found out that people love to have their photo taken under the Colorful Colorado signs and post them on Google Images.

But what does COLORFUL COLORADO mean? It's not our tourism slogan. It's not the state nick name or motto. At one time it was used on license plates, but not now. So we thought we'd take a moment and ask ourselves what "colorful colorado" means to us. Here's a rainbow of thoughts on the subject:

- **Red:** Chili peppers and delicious summer tomatoes.
- **Orange:** You know that color we see in the evening sometimes...crazy. Like a cream-cicle.

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HOW TO SAVE \$\$\$ ON YOUR NEXT AUDIT

1. Record journal entries from the prior year audit. At the conclusion of an audit, when your staff is celebrating jubilantly, posting the recommended journal entries is often overlooked.
2. Tie your beginning balances to the prior year's audited ending balances, paying special attention to the equity section (net assets section for non-profit organizations).
3. Prepare supporting schedules for every balance sheet account. Non-profit organizations also need to document board designated amounts and restricted amounts.
4. Prepare your financial statements. Remember, it is the auditor's responsibility to audit your financial statements, not to correct your accounts. Analyze revenue and expense accounts in order to identify misclassifications.
5. Prepare all of the documents requested by the auditor, and have the information ready the morning your auditor arrives.



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Taxmageddon



The expiration of the Bush-era tax cuts, combined with the expiration of the payroll tax holiday and newly enacted and effective healthcare legislation has been dubbed "taxmageddon". Unless congress acts before midnight on December 31st individuals can expect to pay more taxes beginning in 2013.

HOW MUCH WILL IT COST YOU?

The exact amount depends on your income and tax situation, but one study estimates that the average household will face a tax increase of \$3,800 if congress doesn't act. Regardless of your tax situation, you are probably going to be subject to higher taxes in 2013 due to one of the following:

1. **Higher tax rates.** Tax brackets are expected to increase beginning in 2013:

2012	10%	25%	33%	35%
2013	15%	28%	36%	39.6%

2. **Higher capital gains and dividends taxes.** Currently the maximum tax rate on long-term capital gains and dividends is 15%. If congress doesn't act, the maximum tax rate on long-term gains will be 20% (with exceptions), and the tax rate on dividends will be 39.6%.

	2012	2013
Long term capital gains	15%	20%
Dividends	15%	39.6%

3. **The marriage penalty.** There are two components to the marriage penalty: tax brackets and the standard deduction. The Bush tax cuts include a provision to eliminate the marriage penalty for the lowest income brackets by exactly doubling the single tax bracket. If congress doesn't act the MFJ brackets will contract resulting in higher tax liabilities. The standard deduction is set to be approximately **167% of the single deduction (it is currently 200% of the single deduction)**.
4. **Phase-out rule for itemized deductions.** Individuals with higher incomes benefited from the abatement of the phase-out rules in 2010. If congress doesn't act, individuals with AGI above \$179,000 will again be subject to reduced itemized deductions.
5. **Phase-out rule for personal exemptions.** In 2010 the phase-out rule for personal exemptions was eliminated entirely, but if congress doesn't act higher-income taxpayers will again be subject to this phase-out rule (AGI above \$269,000 for MFJ).
6. **Payroll tax holiday.** In 2012 taxpayers have benefited from a 2% reduction of the social security taxes they pay on the first \$110,100 of wages or self-employment income.

NEW TAXES

In addition to the expiring tax provisions mentioned above, taxpayers will be subject to the following provisions enacted by the healthcare law.

1. **Medicare tax on higher-income individuals.** Beginning in 2013, taxpayers will be subject to an additional .9% Medicare tax on income over \$200,000 for single taxpayers (\$250,000 for MFJ).
2. **Medicare contribution tax.** High income taxpayers (\$200,000 for single taxpayers, \$250,000 for MFJ) will be subject to an additional 3.8% Medicare tax on net investment income.
3. **Healthcare FSA contributions.** Beginning in 2013 the maximum amount an individual can contribute to a medical FSA account will be \$2,500. Currently there is no statutory limit on FSA contributions although many plans impose their own limit.
4. **Medical Expense Deductions.** Currently a taxpayer can deduct medical expenses that exceed 7.5% of AGI if they claim itemized deductions. Beginning in 2013, the floor will be raised to 10% of AGI.

Before and After a Casualty

Multiple natural disasters in 2012 should have you thinking about what you need to do in order to prepare. Here are some recommendations of what you should do before and after a disaster.

HOMEOWNERS

Before a loss: Keep your policy up-to-date. If you have built an addition or remodeled you may need to increase your coverage. If your home has increased/appreciated in value, or depreciated in value, you may need to adjust your insurance amount.

Basic policies will provide protection for fire, smoke, windstorms, vandalism, and lightning. Floods, earthquakes, war, and nuclear accidents are typically excluded and coverage **MUST** be purchased separately. Mudslides are common in Southwestern Colorado. Many homeowners don't know that a mudslide is generally considered a flood. If you don't have flood insurance you may be at risk.

Understand what your policy covers: personal items, landscaping, personal liability coverage, outlying structures, and living expenses may be included in your policy. Review the limits, and add coverage where you need to.

Inventory your property: take photos of everything including all the buildings on the property, jewelry, artwork, everything. Keep a copy in your safe deposit box, along with the originals of the important documents you would need in an emergency.

After a loss:

- Take photos of the damage as soon as possible.
- Compile a list of damaged/lost items.
- Make reasonable, temporary repairs to prevent further damage.
- Do not accept an unfair settlement – insurers will negotiate.

Questions to ask you insurance carrier:

- Does my policy cover the damage?
- What is the procedure?
- How long will the claim take to process?
- Are living expenses covered?

BUSINESSES

Be prepared to document income losses – many claims are denied because there isn't sufficient documentation of income and expenses.

Before a disaster: establish a disaster recovery plan.

SMALL BUSINESS CREDIT MARKET: OPEN FOR BUSINESS!

FredrickZink & Associates, CPAs is hosting a roundtable discussion on business loans. Representatives from several banks in Durango will be on-hand to answer questions about commercial lending.

Participants will learn:

1. What the bank is asking for and why it is important
2. How to get the best terms on a commercial loan
3. Common loan conditions and restrictions
4. How FZA can save you money

WHEN: Friday, October 12, 2012, 8:30 am – 11:30 am

WHERE: Durango Public Library

Cost: \$15 (\$10 for FZA clients)

Register: Call Ginny at 247-0506 or email gjohnson@durangocpas.com to reserve your seat.



IT'S POLITICS UNUSUAL

Sid Zink has been asked by our own *Durango Herald* to write a political opinion column. So every couple of weeks, you'll see Sid's by-line in the politics section. Check it out on durangoherald.com. Click on politics, scroll down to Community Voices, and click on Sid Zink.

CHUCK FREDRICK APPOINTED TO: AICPA PCPS EC

This is Not a Word Jumble! Chuck's appointment to the PCPS (Private Companies Practice Section) Executive Committee for the AICPA (American Institute of Certified Public Accountants) begins in October. This appointment will bring a direct line to all of the resources available for CPA firms like FZA to the FZA team.

WELCOME TO COLORFUL COLORADO *Continued from cover story*

- **Yellow:** Like the kernels in Olathe corn or the brightness of the sun...nearly every day.
- **Green:** Sustainable and concerned for the environment.
- **Blue:** The big daytime skies of course.
- **Indigo:** Wrangler, Levi, Lee, NYDJ, DKNY, you name it....jeans.
- **Violet:** If there was ever a place that inspired "purple mountains majesty" this is it.

PAINT BY NUMBERS

Somehow, we thought we'd bring this story around to accounting. After all, we are a CPA firm.

Here's what we think about the fall season — about the changing leaves, the changing temperatures, the chaos of the political scene. We think it's a good time to sit back and take a look at where you are. Take inventory of your senses, your finances, your assets, your friends and family. How are you feeling — physically and emotionally? Are you happy? Are there things you'd like to change? Is there a different scene you'd like to paint. Do you need to give some thought to a new career or retirement, business succession or starting something new? Is everything in your life black and white with some gray? Then maybe it's time to add a little color.

After all, we live in Colorful Colorado.



Chuck Fredrick, CPA



Sidny Zink, CPA

Change is good. Leaves change in the fall. People change for the better. A little change in your pocket goes ding-a-ling-a-ling. This colorful autumn season...make a change for good.

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