

✓ PAC TAX & FINANCE TM

A REPUTABLE COMPANY

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PHONE 651-738-0457

FAX 651-734-9823

WEB www.pactax.net

ADDRESS 586 HAYWARD AVENUE N, OAKDALE MN 55128

What's new?

Social Security recipients will get a 3.6% Cola (Cost of Living Adjustment) in January, leaving many recipients wondering if they can still use the line "I'm living on a fixed income!"

Minnesota now conforms to some of the federal tax code. This change allows the deductions for educator expenses, student loan interest, the college tuition deduction and a few other previously unallowed deductions. Prior to this change these items had to be added to Minnesota taxable income.

Millionaires rejoice as the federal estate tax "aka death tax" limit has been raised from one million to five million dollars, causing caviar sales to skyrocket in the Hamptons. Minnesota's estate tax limit remains at one million dollars.

The \$400 Making Work Pay credit is gone in 2011. This should not affect most taxpayer's refunds because withholding tables should have been adjusted accordingly.

Participants in medical FSA's (Flexible Spending Accounts) can no longer use some Over-The-Counter medications.

Brokers must now track client's purchases of stocks, real estate, and securities and are required to report this information to IRS. Brokers will use the FIFO method (First In-First Out) method for the cost basis. The client may elect to average the cost basis, but is required to inform his broker.

The 2% payroll tax cut has been extended? As of press time, congress has yet to extend the 2% payroll tax cut. If it does pass, expect congress to do so at 11:59:59 PM on December 31st 2011.

The energy credit continues in 2011 but is only worth up to \$500 with lots of limitations!

The standard deduction, personal exemption and tax rates have all been raised.

Featuring new candy at the office!

Schedule Your Tax Appointment, Drop Off, Mail, Fax, or email your tax information.

Upon receipt of this mailing you can schedule your appointment. If you want the first week in February call now, evenings and weekends fill up fast. You can also drop off, mail, fax, or email your information. Getting your taxes done has never been O-SO-EZ-er! We get hundreds of calls the first week in February, so please call early in the season.

We DO NOT accept credit cards, so please bring a checkbook, cash, or bank information to pay for your tax preparation service.

Why free isn't free and simple isn't simple.

While they say the best things in life are free, tax preparation isn't one of them. Don't be snookered by software touted as free. They usually have a catch at the end. You will end up wasting your time and efforts for little very little satisfaction. There are some volunteer services that will prepare returns for free but the levels of expertise can vary greatly. Don't trust a "friend" to prepare it for free just because they said they knew what they were doing.

"The doorstep to the temple of wisdom is a knowledge of our own ignorance." Benjamin Franklin

Sometimes a taxpayer's return appears to be "simple". Many errors can befall these "simple" returns often causing more work to correct in the end. Preparing the return is only a portion of the service we provide. PAC is around year-long for advice or consultation. We will also archive your tax returns electronically for up to ten years, giving you piece of mind if you lose your copy.

PAC can also give you unbiased financial advice. Please discuss with your preparer if you would like to schedule a consultation regarding your finances outside of tax season.

Questions & Answers

Q: Why does PAC charge \$25 for a copy of my tax return?

A: PAC charges a \$25 fee for an extra copy of your tax return because of the high volume of requests (usually needing them ASAP) due to college applications, refinancing, etc. If someone requests a copy of your tax return don't give away your only original. **Make a copy and KEEP your original!**

Q: I don't have all my information? Can I still schedule my appointment?

A: Yes, **SCHEDULE YOUR APPOINTMENT SOON, EVENINGS AND WEEKENDS FILL UP FAST!** Most of your information should arrive by the first week of February. If you are missing a small item, you can still keep your appointment and we can enter missing item(s) later or look it up online. If you are missing your 1098 from your mortgage company you can usually get that information over the phone or online. Please reschedule your appointment if you don't have any of your information, we are not mind-readers.

Q: I have a few tax questions during the year. Can I contact my preparer outside tax season?

A: Yes, that is what we are here for. We want to give you advice before you do something not after. Unlike other professions, we won't bill you for a five minute phone conversation. If you want to talk for an hour then you will need to schedule an appointment. **CALL US BEFORE YOU DO SOMETHING, NOT AFTER!**

Q: My sixteen-year-old kid got a job. Do they need to file?

A: Sometimes yes, sometimes no. We recommend bringing in your dependents W-2's and we can see if they have a filing requirement. We will typically prepare a dependents return for a very minimal fee, and/or give you advice on how they should file and what they should claim on their W-4. It is also a good way to educate your children on their finances.

Q: Is Minnesota getting rid of the property tax refund (circuit breaker) in 2011?

A: No, Minnesota has changed the method of valuation from a credit to an exclusion.

Q: How will the change in valuation affect my property tax refund?

A: Higher value homes will pay a larger share of the taxes. Many homeowners may qualify for a Special Property Tax Refund even if they haven't in the past. If your taxes increase by more the 12%, you may qualify.

Q: I got an email from IRS and it has a link, should I click it?

A: **NO, THE IRS WILL NEVER CONTACT YOU VIA EMAIL.** You will always get a letter from the IRS if they want correspondence and will usually mail a copy to both spouses.

More Q & A

Q: How long should I keep a copy of my tax return?

A: It all depends. In general you can dispose of returns after five years from the filing date. We recommend keeping a copy of the return forever, but destroying the supporting information after five to seven years.

Q: What receipts/statements should I keep?

A: If it's not a deduction, don't keep the receipt. Don't keep receipts of items that aren't deductible (medical is an exception). You don't need to keep all your quarterly statements from your brokerage accounts, but keep all year end information. Keep receipts and cancelled checks from contractors for proof of payment.

Q: I switched jobs; do I need to move my 401(k)?

A: It depends on the plan rules. Most plans will let you keep the money in the plan if it is more than \$5,000. If the company pays you out, you have sixty days to rollover the money into an IRA or you will get stuck paying the tax and 10% penalty.

Q: I cashed in my 401(k) and/or IRA and they withheld 20% tax. I've paid the tax, right?

A: **WRONG**, you've paid part of the taxes. When you add up the federal tax, state tax, and penalty the tax rate usually winds up at about 45%, sometimes even higher. If you had only 20% withheld, figure you are about 25% short.

Q: Can I bring a friend with to my appointment and have you take a quick look at their return?

A: Absolutely, if we have time we can prepare their return at the same time, schedule an appointment or maybe give them some advice for next year.

Q: I moved some mutual funds and stocks around during the year, is that taxable?

A: If it is an IRA no, if it is not an IRA you will have to report a gain or loss. You will receive a 1099-B from your broker showing the sales.

Q: I moved to Wyoming with Sal, can PAC still prepare my return.

A: Yes, we prepare returns from all over the country!

Q: I moved to Algeria with Sal, can PAC still prepare my return.

A: No, we do not prepare international returns.

Q: How much can I gift a person before I need to file a gift tax return?

A: \$13,000 (per spouse) to as many people as you wish.

Money Sharks vs. Money Minnows:

The shark will harvest losses by selling the losers in his portfolio. The minnow hangs onto worthless stock in desperation of a comeback. Don't expect a big comeback from a company that makes cassette tapes or horse-drawn carriages. A minnow tends to sell his winners and keep his losers.

A shark stays in the market when things go south. A minnow jumps out when the going gets tough, then jumps back in when prices have already gone up. The minnow sells in times of crisis, while the shark buys when he smells blood.

The shark never pays an ATM fee.

A minnow files their taxes late, paying interest penalties, fines and late fees.

The shark avoids loaded mutual funds and doesn't buy a fund ending in "A", "B", or "C"!

A minnow ties up assets in long term annuities with high maintenance fees and surrender charges.

The shark always keeps some liquid cash available to start buying when the minnows are selling.

A minnow keeps contributing to his 401(k) but continues withdrawing it early.

The shark always contributes at least the employer matching minimum to their 401(k) and doesn't touch the money until he is 59-1/2 years old.

The shark gets a small refund or small balance due after filing his taxes. A minnow gets a huge refund, buys an eight ball and goes on a trip to Mexico.

A minnow buys US Savings Bonds for children. It's like buying something on sale and leaving the original price tag on it.

The shark avoids the 529 plans for children. Sorry Clark Howard and Suze Orman, but the maintenance fees on these accounts are excessive and yields are low. The shark knows that the first \$950 per year of interest earned on a dependents savings is not taxable.

A shark never buys an extended warranty knowing that the product will be obsolete in six months.

A minnow leases or buys brand new vehicles. A shark buys used.

A shark always carries his business card!

Overrated:

The home mortgage income deduction is highly overrated. With interest rates at all-time lows and the standard deduction at an all-time high, the home mortgage interest deduction has really lost its luster.

The office in home deduction is often touted as a great tax benefit, but with its high audit rate and limited tax savings the office in home deduction is far from a diamond in the rough.

The energy tax credit is in its final phase. If you took it before, you can't take it again and it is limited to a maximum of \$500.

Avoid companies that claim they can settle with the IRS for pennies on the dollar. These firms charge high up front fees, and usually offer little or no success in settling your back taxes.

The Wisconsin homestead credit Schedule "H" is nearly impossible to qualify for.

Charitable donations including Goodwill will only save you about 20 cents on the dollar. If you give \$1,000 to charity it will only benefit your refund by about \$200 and that's only if you itemize your deductions.

Underrated:

A Flexible Spending Account is a proven tax saver. Medical expenses are rarely deductible on the tax return, so an FSA can be a great tax saver. If you use your FSA for Day Care you are saving the social security tax on up to \$5,000.

The first \$950 of a dependents unearned income (i.e. interest, dividends, proceeds, etc.) is not taxable. The shark gifts money to his dependents and the earnings are tax free.

Veterans that are at least 70% disabled (or their surviving spouses) are eligible for a market exclusion on their property value of up to \$300,000. If you are 100% Disabled or Blind, a special homestead classification is offered; this will greatly reduce your property taxes Contact your county assessor to apply for this program.

You may be able to claim your non-working partner as a dependent, as long as the relationship doesn't violate local law.

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Most Common Errors and Omissions:

If you receive a letter from IRS or state government you should contact your preparer immediately. The typical omissions are missing W-2's, 1099-R (401k/IRA) or a 1099-B from a sale of stock/mutual funds. Don't panic if it has scary balance due on the notice. It may, or may not be correct. Contact your preparer for a course of action. **DO NOT IGNORE LETTERS FROM THE IRS!** PAC does not pay any interest or penalties for errors or omissions regardless of who is at fault. Our goal is not to point fingers but to resolve the issue in an expeditious manner.

Minnesota tries simplifying things; by making it more complicated.

After much taxpayer angst about the end of reciprocity between Minnesota and Wisconsin, Minnesota is now adding a survey along with your multi-state return. Expect a lot more yes/no questions during your multi-state tax preparation.

Minnesota changes the rules after the game has been played.

Effective March 21st 2011 Minnesota changed the 2010 tax code retroactively (just 25 days prior to the filing deadline). Minnesota was supposed to correct any returns that would be affected by this change and issue refunds. If you claimed student loan interest, educator expense, or the college tuition deduction you may have received a check, if not consult your preparer.

Most Loyal Tax Client Contest:

We appreciate your loyalty and referrals. Our mission is to provide prompt, professional service and to be your tax preparer for a lifetime. Bring in your oldest copy of a tax return prepared by PAC (or Ace Tax Service) and you could win a \$150 cash prize. Bring in your oldest preparation sheet and you could win a \$75 cash prize. Bring in the oldest PAC/ACE Tax business card and you could win a \$50 cash prize. Hint: Must be older than fifteen years.

Directions to ✓PAC TAX & FINANCE

Latitude 44.957, Longitude -92.957

From the west (Minneapolis)...Take I-94 east to I-694 and go north. Take the first exit, (Exit 57) and turn right on 10th St, go 0.4 miles east on 10th St and take the second right on Helmo Ave N. Go 0.3 miles south on Helmo Ave N and take a right on Hayward Ave N. Go 0.2 miles west on Hayward Ave N and the building will be on your right hand side.

From the east (Wisconsin, Michigan)... Take I-94 west to (Exit 250) Radio Drive/Inwood Ave and go 0.5 miles north. Take a left on 4th St/Hudson Rd and go 1.1 miles west. Turn right on Hayward Ave N. Go 0.3 miles north on Hayward and the building will be on your left hand side.

From the north (Coon Rapids, Duluth, Roseau)...Take I-694 east, then south towards I-94; take Exit 57 and turn left on 10th St, go 0.4 miles east on 10th St and take the second right on Helmo Ave N. Go 0.3 miles south on Helmo Ave N and take a right on Hayward Ave N. Go 0.2 miles west on Hayward Ave N and the building will be on your right hand side.

From the south (Bloomington, Albert Lea)...Take I-494 east, then north past I-94; take Exit 57 and turn right on 10th St, go 0.4 miles east on 10th St and take the second right on Helmo Ave N. Go 0.3 miles south on Helmo Ave N and take a right on Hayward Ave N. Go 0.2 miles west on Hayward Ave N and the building will be on your right hand side.

GENERAL INFORMATION AND INCOME

<p>✓ APPOINTMENTS CALL 651-738-0457</p> <p>Appointment Date:</p> <p>Appointment Time (AM/PM):</p> <p>Preferred Tax Preparer:</p> <p align="center"> <input type="checkbox"/> ROBERT <input type="checkbox"/> GEORGE <input type="checkbox"/> JENNIFER <input type="checkbox"/> MARK <input type="checkbox"/> DAVE <input type="checkbox"/> KATE </p>	<p>✓ INCOME (list only if you DO NOT have statements)</p> <p>Salaries and Wages (Bring W-2's)</p> <p>Interest (Bring 1099-INT's)</p> <p>Dividends (Bring 1099-DIV's)</p> <p>Capital Gains/Losses (Bring 1099-B's) <i>If your gain/loss is not furnished on your 1099, you must provide the property cost basis (what you paid for it) and when the property was acquired and/or purchased.</i></p> <p>Unemployment (Bring 1099-G)</p> <p>Social Security (Bring 1099-SSA)</p> <p>Railroad Retirement (Bring 1099-RRB)</p> <p>Pensions / IRA's / Ins Benefits (Bring 1099-R's)</p> <p>Gambling Winnings (Bring W-2G's)</p> <p>Alimony Received</p> <p>Business Income (Bring itemized list)</p> <p>Rental Income (Bring itemized list)</p> <p>Cash and Coin Found in Sofa</p> <p>Other (Jury Duty, Prizes, Illegal Income, etc.)</p>
<p>✓ METHOD OF PREPARATION</p> <p align="center"> <input type="checkbox"/> APPOINTMENT <input type="checkbox"/> FAX <input type="checkbox"/> MAIL <input type="checkbox"/> EMAIL <input type="checkbox"/> DROP-OFF </p> <p>Please pick a method which best suits your needs. Please return this PINK PREP SHEET along with all W-2's, 1099's, K-1's, Brokerage Accounts, and any other reported income items (copies are acceptable).</p>	<p>✓ REFUNDS AND PAYMENTS</p> <p>Previous State Refund (New clients only)</p> <p>Previous State Balance Due (New clients only)</p> <p>Federal Estimated Tax Payment</p> <p>State Estimated Tax Payments</p>
<p>✓ CONTACT INFORMATION</p> <p>Primary Contact Name</p> <p>Home Phone</p> <p>Cell Phone</p> <p>Work Phone (If OK to call)</p>	<p>✓ DISCUSSION ITEMS</p> <p>W-4 and Withholding <input type="checkbox"/></p> <p>IRA Contributions <input type="checkbox"/></p> <p>IRA and Pension Distributions <input type="checkbox"/></p> <p>ROTH Contributions <input type="checkbox"/></p> <p>Mutual Fund Selection <input type="checkbox"/></p> <p>Estimated Tax Payments <input type="checkbox"/></p> <p>IRA Contributions <input type="checkbox"/></p> <p>Life Insurance (Buy Term) <input type="checkbox"/></p> <p>Sale of Stock or Property <input type="checkbox"/></p> <p>Annuities (Why most should avoid) <input type="checkbox"/></p> <p>Starting Your own Business <input type="checkbox"/></p>
<p>✓ FILING STATUS (List changes from last year)</p> <p align="center"> <input type="checkbox"/> SINGLE <input type="checkbox"/> MARRIED <input type="checkbox"/> MARRIED FILING SEPARATE <input type="checkbox"/> HEAD OF HOUSEHOLD <input type="checkbox"/> QUALIFYING WIDOWER WITH DEPENDENT CHILD </p>	<p>✓ CONSULTATIONS</p> <p>While we will do our best to answer your many questions during your appointment, our primary goal is to get your tax return prepared. We are available year round for individual consultations. We can show you the tax impact of direct investment, mutual funds, 401K, pension or annuities. Consider both the contribution and distribution. We sell no product, so our advice is impartial. This service is especially important to individuals who are just entering retirement. With a little tax planning, a soon to be retiree can save thousands in taxes. Don't be pennywise and pound foolish, set up a separate consultation if you will have significant tax changes in the near future.</p>
<p>✓ DEPENDENTS (List changes from last year)</p> <p><i>Bring your new dependents Social Security Number, Birth date and full legal name</i></p> <p>Full Name</p> <p>Date of Birth</p> <p>Social Security Number</p> <p>WE PREPARE DEPENDENTS RETURNS AT SPECIAL RATES! Tax time is great way to educate your children on their finances. We can give you the best overall advice if you have your returns filed as a family. Don't file your dependents return based on incomplete or erroneous information. With the many education, child credits, and other factors, we can file with the best interests of all.</p>	
<p>✓ PROPERTY TAX REFUND</p> <p>Property Tax Statement (WE HAVE YOU COVERED!)</p> <p>PAC has made filing your property tax O-SO-E-Z-R! All you have to do is; NOTHING! We will record your name in a database if you haven't received your 2012 property tax statement when you have your appointment. We will file it electronically at a later date and mail you a copy for your records. This service is included in your preparation fee and there is no additional fee!</p>	

ITEMIZED DEDUCTIONS, EXPENSES, CREDITS, AND SPECIALTY ITEMS

✓ MEDICAL (Must exceed 7.5% of AGI)		✓ SCHOOL AND EDUCATION	
Bring itemized list of Medical Expenses		KG-12 School Tuition	
✓ TAXES		KG-12 Enrichment (<i>Dance, Band, etc.</i>)	
Real Estate Taxes Main Home		KG-12 Supplies	
Real Estate Taxes Second Home		KG-12 Computer Expense	
Property Tax Refund from Last Year		College and Secondary Education Tuition	
Auto License (<i>Less \$35 base fee per auto</i>)		<i>Bring 1098-T's. Include books and supplies only if the fees and expenses must be paid to the institution as a condition of enrollment or attendance. First two years qualify for Hope Credit, then the Lifetime Learning Credit applies.</i>	
Sales Tax IS OUT IN 2011	XXXX		
✓ INTEREST EXPENSE		Educator and Teacher Expenses	
Home Mortgage (<i>Bring 1098's</i>)		✓ RETIREMENT CONTRIBUTIONS	
Second Mortgage		Traditional IRA Contributions	
Line of Credit		Roth IRA Contributions	
Points (<i>Paid on purchase or refinance</i>)		SEP or Keogh	
Investment Interest Expense		Health or Medical Savings Account	
Student Loan Interest		401K contributions are listed on W-2's	
✓ CONTRIBUTIONS		Other	
Receipted Contributions (<i>Church, Temple, etc.</i>)		✓ DAY CARE	
Petty Cash and Miscellaneous		Daycare Expense	
Goods (<i>If more than \$500, bring list</i>)		<i>Bring providers name, address, and SS# or Federal ID number. This information is required even if you participated in a pre-tax spending account.</i>	
Charitable Mileage			
✓ MISCELLANEOUS (Must exceed 2% of AGI)		✓ SPECIALTY ITEMS	
Tax Preparation and Consulting		Residential Energy Credit (Amount Spent)	
Union and Professional Dues		Casualty Losses (<i>Must exceed 10% AGI</i>)	
Safety and Protective Equipment		Hybrid or Electric Vehicle (<i>certain golf carts</i>)	
Uniforms		Alimony Paid (<i>Bring recipients SS#</i>)	
Tools and Supplies		Gambling Losses (<i>Only up to winnings</i>)	
Cell Phone and ISP		Adoption Expenses	
License and Recertification		Moving Expenses	
Training and CEU's		Military Combat Zone Credit *INCREASED IN 2009*	
Meals and Entertainment		<i>You can receive up to \$120 credit for each month of service in a Combat Zone if you are a Minnesota resident. Bring copies of your DD-214's</i>	
Mileage or Auto Expense		✓ AUDIT OR INQUIRY HELP	
Liability and Malpractice Insurance		<p>While your chances of a full blown audit are very rare, adjustment or correction letters are very common. If your return is audited or adjusted, please call us. If you receive a written notice of inquiry, adjustment, or correction please fax or send us a copy. Even if you agree with the changes, sending us a copy allows us to update your file. If your federal return is adjusted your state return will probably have to be amended as well. PAC does NOT pay either the penalty or interest on corrected or amended returns.</p> <p align="center">NEVER PAY ANY BALANCE DUE FROM A LETTER WITHOUT CONTACTING US FIRST!</p>	
Subscriptions and Professional Journals			
Job Search			
Travel and Passport (<i>If used for work</i>)			
Safe Deposit Box			
Travel			
Business Cards			
IRA Custodial Fees			
Business Use of Home			
Total Square Footage of Home			
Business use Square Footage			
Utilities (<i>Water, Electricity, Trash, etc</i>)			
Insurance			
Repairs			
Major Improvements			
Phone Expense			