

# Word to the *Wise*



A Newsletter for Clients and Friends of Wouch, Maloney & Co., LLP



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## ACT 32 Reminder

Act 32 went into effect on January 1, 2012 for all Pennsylvania employers. The Act requires that PA employers withhold local earned income taxes from an employee's pay at the higher of the employee's resident tax rate (where the employee lives) or the employer's nonresident tax rate (where the employee works).

In conjunction with this change, employers must now obtain Residency Certificates from their employees. In addition, businesses should verify that they are registered with the appropriate tax collector for your County as their local earned income tax collection agency may have changed. Remember to coordinate these changes with the business's payroll service provider (or internal accounting department).

## Last-Minute 2011 Deal Reached on Payroll Tax Cut

On December 23, 2011, Congress finally approved a two-month extension of the payroll tax cut for American workers. The agreement was reached after weeks of partisan bickering. Though both Democrats and Republicans wanted a one-year extension of the tax cut, they could not agree on how to pay for a year-long extension and settled on a paid-for two-month extension.

The new law extends the 4.2% social security tax on wages through February 29, 2012. Without this extension, the tax rate would have gone to 6.2% on the first \$110,100 of wages earned in 2012.

The law also extends benefits for the long-term unemployed for two months and prevents a scheduled cut in fees paid to Medicare providers from taking effect January 1, 2012.

These extensions will be paid for by an increase in fees charged by government-backed mortgage companies (Fannie Mae and Freddie Mac) for new home loans.

Included in the agreement is a requirement that President Obama make a decision within 60 days on the construction of the 1,700 mile Keystone oil pipeline.

Finally, the agreement calls for a House-Senate conference committee to negotiate an agreement that would extend the payroll tax cut through the end of 2012, extend unemployment benefits, and prevent cuts in payments to Medicare doctors.

## IRS Expands Innocent Spouse Relief

If you file a joint income tax return with your spouse, you are considered "jointly and severally" liable for the payment of all taxes owed. The IRS can come after either you or your spouse for the entire amount of tax due, plus any penalties and interest due.

The law has "innocent spouse" rules that may limit an individual's responsibility for unpaid taxes resulting from filing a joint return. If the "innocent spouse" can establish that he or she did not know, or have reason to know, that there was an understatement of tax when signing the joint return, relief can be requested. Under previous rules, this relief had to be requested within two years after collection proceedings were initiated by the IRS.

In a new 2011 ruling, the IRS has decided to eliminate the two-year time limit for requesting innocent spouse status under the "equitable relief" provision in the law.

## ■ Watch Out For Scams When Selling Your Business

You've spent years developing your business, building its value, enhancing its reputation. Now you're ready to move on. You place a "Business for Sale" advertisement in the Internet classifieds, and the next day an eager – overly eager – buyer approaches you with a deal that seems too good to be true. The buyer offers full price and wants to structure the deal as a stock sale. A stock sale means the buyer will get the entire business, including all its assets (cash, checking accounts, receivables, inventory and so on) at closing. The buyer doesn't ask tough questions about the firm and seems in a hurry to close the sale. He or she offers a 10% down payment and says the full balance will be paid off within a year.

Seller beware! Business owners and regulators have found that scam artists use these types of transactions to strip value from companies, pulling out cash, and leaving the seller with a fistful of worthless stock. Within days of closing the sale, the buyer factors (sells) the receivables for cash, runs up company credit cards, sells off inventory, and empties cash accounts. The firm's creditors don't get paid. Your formerly prosperous business becomes an empty shell.

How can you avoid these types of scams when selling your business? Here are a few suggestions.

Perform an extensive background check on any potential buyer, including a review of the person's credit reports, litigation history, tax liens, and so forth. A skilled attorney can often help with this research.

Beware of sales that go too smoothly. Legitimate buyers will perform due diligence, asking tough questions, inspecting financial records, and calling customers and vendors. If the buyer wants to close the sale in a hurry and doesn't seem interested in the firm's ongoing prospects, beware!

## ■ It's Tax Time Again

It's time to file various tax returns once again. If any of the following tax deadlines will apply to you, circle the dates on your 2012 calendar.

January 17 – Due date for the fourth quarterly installment of 2011 estimated taxes for individuals unless you file your tax return and pay any taxes due by January 31.

January 31 – Employers must furnish 2011 W-2 statements to employees. Payers must furnish payees with Form 1099s for various payments made. The deadline for providing Form 1099-B and consolidated statements to customers is February 15.

January 31 – Employers must generally file annual federal unemployment tax returns.

February 28 – Payers must file information returns, such as Form 1099s, with the IRS. This deadline is extended to April 2 for electronic filing.

February 29 – Employers must send Form W-2 copies to the Social Security Administration. This deadline is extended to April 2 for electronic filing.

March 1 – Farmers and fishermen who did not make 2011 estimated tax payments must file 2011 tax returns and pay taxes in full.

April 17 – Individual income tax returns for 2011 are due.

### Going Green?

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