THE SMALLBIZ BUILDER

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**THIS MONTH:**

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## Increased Withholding May Avoid Estimated Tax Penalty

As the year comes to a close, you may find that the amount of tax withheld from your salary or paid in estimated tax vouchers isn't enough to cover your required estimated tax payments. Increasing your 4th quarter estimated tax payment will not avoid penalties, since these payments are applied in installments. However, you may avoid the penalty by increasing the income tax with-held by your employer. This is because the heavy year-end with-holding will be treated as paid equally over the four installment due dates. Stay tuned as the Presidential election unfolds to determine how the tax rates for 2012 will affect your individual tax situation.

## Employer Provided Cell Phones

When an employer provides an employee with a cell phone primarily for non-compensatory business reasons, the business and personal use of the cell phone is generally nontaxable to the employee. The IRS will not require recordkeeping of business use in order to receive this tax-free treatment. The IRS announced a similar administrative approach that applies to small businesses that provide cash allowances and reimbursements for work-related use of personally-owned cell phones. Under this approach, employers that require employees, primarily for non-compensatory business reasons, to use their personal cell phones for business purposes may treat reimbursements of the employees' expenses for reasonable cell phone coverage as nontaxable. However, this treatment does not apply to reimbursements of unusual or excessive expenses or to reimbursements made as a substitute for a portion of the employee's regular wages.

## The Waiting Game

Congress may have some surprises in store for taxpayers over the next few months. Your taxes might go up! They could stay the same! They probably won't go down, despite political campaign promises. Whatever the final outcome, you likely won't know <u>until the very last second</u>! For those who haven't heard, many decisions need to be made by year-end to address the expiring "temporary" tax cuts. If Congress does nothing and the tax cuts lapse, income-tax rates for most Americans will rise and many tax deductions will shrink. One thing we know for sure is that nothing will happen until after the November elections, since future tax policy depends on who will control Congress and the White House over the next several years. For now, taxpayers are simply waiting…

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## Tips On Deducting Charitable Donations

**1.The organization must qualify**: Charitable contributions must be made to "qualified organizations" as provided by IRS Publication 526. Remember, you can't deduct donations to specific individuals or political organizations.

**2. You must itemize**: Charitable contributions are deductible only if you itemize deductions using Form 1040, Schedule A.

**3. What you can deduct**: You can deduct cash contributions and the fair market value of most property you donate. Clothing and household items must be in "good used condition or better" to be deductible.

**4. Receive something in return?**: If your contribution entitles you to receive merchandise, goods, or services, you can deduct the amount exceeding the fair market value of the benefit received.

**5. Pledges and payments**: Only contributions actually made during the tax year are deductible. For example, if you pledged $500 in May but paid the charity only $200 by year end, you can only deduct $200.

**6. Recordkeeping**: You must keep records of the contribution. Save a cancelled check, bank or credit card statement, or a dated/ written receipt from the charity with the amount of the contribution. For text message donations, keep your phone bill showing the receiving organization, the date, and the amount.

**7. Donations made near year end**: Include credit card charges and payments by check in the year you donate to the charity, even if you don't pay the credit card bill or draft from your bank account until the next year.

**8. Large donations**: For contributions of $250 or more, you need more than a bank record. You need a dated/written receipt from the charity. Stating the dollar amount donated and whether the organization provided goods or services in exchange for the gift. If you donated large items, the receipt must include a description of the items and a good faith estimate of value. For items valued at $500 or more you must complete a Form 8283, *Noncash Charitable Contributions*, and attach the form to your return. To claim deductions for a contributions of noncash property worth more than $5,000. You must obtain an appraisal and complete Section B of Form 8283 with your return.