December 2012

To our Clients:

No matter who you are, no matter what your position in life, rich or poor, powerful or complaint, we all have our own little "piece of hell" to deal with in our lives. Everyone has a price they pay for just being who they are. I know it sound a bit strange, but it's true.

This "Hell" that I speak of can be as little as dealing with the everyday trials and tribulations of life; having to retie your shoe laces, facing a long commute with heavy traffic, forgetting where you parked your car (mostly a senior moment), or my personal favorite, getting caught in the wrong line at the bank.

Conversely, your little "piece of hell" can be as big as life itself. Issues concerning family health and well being, financial stability, and the death of a love one are but a few of the harder pieces of hell we must each face, whether we like it or not. It's just part of life.

Some of us seem to have a bit more hell to deal with than others. Some of us less. And some of us simple create our own. It's an ever expanding and contracting part of our lives that we try to manage. Yet for most of us we simple pass from problem to problem hoping that it will all work out for the best.

It's just part of being human. I see it more as a coming of age kind of thing; part of the rights of passage from childhood to adulthood. For it is how we learn to deal with our own little "piece of hell" in our lives that defines us as who we are!

As our economy makes its' slow ascent towards recovery, the piece of hell for many in this country remains a consuming burden. Though somewhat down in recent months, families are still losing their homes to foreclosure, and businesses are losing the fight to keep their doors open. We continue to struggle to get our unemployed back to work, which has kept our economy from moving further towards a full recovery. Unfortunately, much of the hell that we now pay is a result of a lack of action by our Congressional leadership over the past several years.

I am however somewhat surprised at the resilient nature of our economy. The most recent information indicates that the economic recovery we have been awaiting has begun to take shape despite Washington's failure to take action to assist. For the first time in many months the residential real estate markets have shown signs of improvement, with homes values actually increasing just slightly. New home starts have also taken a jump in recent months. As anticipated this past year, I believe that we have reached the bottom of the market. I am therefore hopeful that this recent strengthening and stabilization of the residential real estate marketplace will continue as the number of foreclosures goes down and people get back to work.

The unemployment numbers have also improved in recent months although there is a question as to how those numbers are calculated by our government. Nevertheless, clearly more people are getting back to work, which could only assist in the strengthening of our real estate markets as well as our economy in general. We have a consumer driven economy, so it will take more people getting back to work in order for us to see continued, sustainable growth to our economy in the future.

In order for us to reach the continued growth necessary to sustain our recovery, our elected officials in Washington must be willing to take action and deal with the "piece of hell" that they have been unwilling or unable to face in the past. With the elections having been completed, it is now time for our leaders to find a way to work together for the best interest of the many, as the interests of the few can no longer be accepted as the norm. They must act now to reform income tax, corporate tax and the estate tax laws! Any further delay in reformation in these areas can only serve to slow down the recovery by get in the way of businesses consideration of expanding their operations, which will in turn keep them from hiring new employees.

Legislative reforms in spending also need to take place immediately, as we must fight the problem we face from both ends; not just the revenue source part. We need our leaders to set aside their political differences and do what is right for the country for a change, instead of continuing the same old politics of bending to any special interest that money can buy. Should Congress fail us yet again and attempt to shift the burden of the hard decisions that need to be made "down the road" (kick the can so to speak), then the recovery we presently find ourselves in could be short lived!

I am sorry to sound so down on our government, but after watching them do close to nothing for the past 4 years, I think we all have a right to be somewhat disappointed. Nonetheless, it is time for our country's elected leaders/officials to take action in order to sustain this surprisingly unexpected growth of our economy. It's time for our electorate to get to the job that they so desperately wanted to do by getting themselves elected to the job. I think Nike says it best…."Just do it!"

Even though it remains difficult to navigate thru these troubling times, and worse that there are likely more difficult times ahead of us, there are always positives to consider regarding the present state of our economy. Both short and long term interest rates remain very low. Perhaps the lowest rates we have ever seen, or will ever see in the future. I do not foresee a serious rise in these rates for quite some time; however, they will not stay this low forever. With continued improvement of the economy, and the stabilization of the residential real estate markets, it is likely that rates will begin to rise sometime in the future. Should you be able to qualify for a mortgage (very stringent rules these days), there is no better time to buy a home. Even the investment rental markets are looking more promising with the low rates available to today's qualifying investors.

On another positive economic note, the stock and investment markets have had another banner year of gains (at least thru the date of this letter). Most of Corporate America has had a strong year of profitability in 2012. At present, the stock market reflects a positive outlook for the immediate future. This, along with falling unemployment and the stabilization of the residential real estate markets, does offer confidence that the recession has become a thing of the past. Consumers must feel the same way having just spent a record $59 billion on Black Friday (up 14% over last year). Though I am extremely pleased with the direction of the markets for this past year, as previously explained, our country's economy remains in a very fragile condition. Should we not get some clarity over our pending economic troubles (a balanced budget plan, and a long-term debt reduction plan) soon; the markets could take a downturn just as easily as they have come back to life in the recent past.

Although Congress has done little towards changing the tax code for 2012, as always there are changes to the code for this year that affects almost every taxpayer. There are in fact a number of provisions that have expired for 2012 and even more expiring at the end of this year. For tax year 2012, Energy Credits for home improvements are gone, Educator expense deductions are gone, Education Tuition and Fee deductions are gone, Mortgage Insurance Premium deductions are gone, Sales Tax deduction options are gone, Adoption Credits have been reduced, direct contribution to charities from an IRA are gone, first year depreciation of business assets reduced to 50%, and Sec 179 limited to $139k in 2012. Most importantly, Congress has made no attempt to provide us with an AMT patch for 2012 as of the date of this letter. Without this annual fix to the AMT problem, which Congress has done every year in the recent past, many middle and higher income families in this country will face a significant tax increase for 2012.

More importantly, the changes to come (2013 and beyond) will likely be much greater, and harder to swallow for most of us. Capital gains tax rates (presently 15%) on investment held for longer than one year are set to expire at the end of 2012. And I have it on good authority that they will not remain that low in the future. Should you have appreciated positions in investment assets you have owned for more than one year, you should strongly consider selling them before the end of the year. Should you desire to remain in the investments, repurchase them immediately! However, not selling the position at this lower tax rate will only cost you more tax to pay when sold in the future. Therefore, you should strongly consider stepping up your basis in your investments, if possible, by selling and repurchasing them before the end of the year, and take advantage of this low tax rate while it is still here.

Many other provisions in the tax code are set to expire at the end of 2012 as well, including the Capital Gains tax rate (as mentioned directly above), Qualified Dividend will become taxable as ordinary income, the 10% tax rate for low income individuals will disappear, a decrease in Dependency Care Credits, a decrease in Child Credits, American Opportunity Credit (College educ. Credits) expires (HOPE Credits will still be available), serious changes to Earn Income Credits, return of the dreaded Marriage Penalty tax, reduced Adoption Credits, phase-out of Itemized Deductions will return for certain taxpayers, and discharge of debts due to foreclosure of a principle residence will expire as well. These are but a highlight of the many changes due to take place on January 1, 2013.

As much as I would like to inform you of the "new" tax laws for 2013 and beyond, as of the date of this letter Congress has yet to determine what those "new" laws might be. I can tell you that it is likely that tax rates will be going up in the future for many, but not for all taxpayers. The deductions that many taxpayers have become accustom to taking advantage of in the past will also likely be limited in some manner. Therefore, based on the above, I would consider accelerating income (if possible) in 2012 (especially long-term capital gains), as well as accelerating deduction in 2012. It may also be a very good time to consider completing a Roth IRA conversion for 2012, depending on certain other variables with your taxable situation for the year.

The changes that I do know for this coming year (2013) are as follows: Healthcare expense deduction limitation will increase from 7.5% to 10%, there will be an additional 0.9% Medicare Tax charged to all taxpayers with income greater than the $200-250k, and a 3.8% Tax surcharge on all unearned income (interest, dividends, capital gains and passive investment income) for taxpayers with income greater than $200-250k. And there will likely be many more changes to come, most of which will not be very favorable to the America taxpaying public.

For the 2012 tax year, year-end tax planning is now more important than ever. Planning for future tax events, such as retirement or major assets sales should always be considered before you act. Whether you are considering harvesting stock losses before year-end, or making a Roth conversion of your IRA funds, you should attempt to take advantage of all that the tax code has to offer in order to reduce your tax burden for the year. However, with the possibility that tax rates will be increasing in the very near future, proper tax planning has become essential. Therefore, you may want to take a few minutes to review our 2012 Tax Change Update, which is located on the firms' web site.

As I mentioned in last year's letter, in an effort to get a handle on the compliance with the tax code, Congress passed tax laws several years ago that require all taxpayers to disclose all assets they may own outside the US. The FBAR rules (Foreign Bank Account Reporting) require all taxpayers with financial accounts outside the US, having a balance greater than $10,000 at any time during the year, to disclose them to the IRS. Additionally, new rules also require taxpayers to disclose the ownership of any asset valued greater than $50,000, located outside the US. Although there is no tax due on the disclosure, there are severe penalties for not doing so. Please take serious consideration of these rules as you are preparing to complete your 2012 income tax returns.

As has been the case for several years now, the IRS requires that all income tax preparers and professional preparing more than ten (10) returns per year be licensed with the IRS. Along with the new licensing requirements has come an enhanced level of responsibility placed on the tax preparer to properly review, audit and report your relevant information to the IRS. Although it may seem that you are providing much of the same information we have previously required in order to complete your returns in the past, due to the heightened responsibility and preparer liabilities now placed upon us by the IRS, we may require additional confirmation of certain items, as well as further discussion of certain issues regarding your returns in order to properly complete them under the "new" guidelines.

A prime example of this is the reporting of capital transactions (stock sales) on a Schedule "D". What use to be a fairly easy and somewhat simple process has now become a logistical nightmare in many cases! If you have a significant number of trades per year (25+), then the preparation of your returns will likely be significantly more difficult and time consuming, and therefore likely more expensive to have prepared. Other issues like charitable contributions and self-employed business expenses are also under greater scrutiny by the IRS and will therefore likely take greater amount of time to properly deal with on your return.

Therefore, due to the many changes in the filing requirements (some of which are mentioned above), we have found it necessary to make some changes to the manner in which we provide services to our clientele in order to better accommodate all of our clients' needs and continue providing quality services at a reasonable cost. We have determined over the years that many of our clients use our tax prep services because they have a complex tax return; one which they themselves do not feel comfortable preparing. Or they are facing a difficult decision or a change in their lives (retirement, employment change, complicated investment issues, etc.) and need advice in order to fully understand their particular situation. Consequently, the necessity to come visit our offices to obtain the necessary tax or financial advice, or specialized tax work, is very important in those situations. And with the many changes that are due to take place this coming year, this will be a year to consider such a visit.

Unfortunately, our price structure for return preparation does not always accommodate clients with basic or simple return preparation (not that many returns are considered basic any longer). If you consider your tax return to be "basic" in nature and it is simply "peace of mind" that brings you back to us, and you feel that an office visit is unnecessary in order to complete your returns for the coming year, please consider forwarding your information to us by mail or courier (fax). We will make every effort to hold the cost of your return preparation fees to a minimum. Of course, you may call the office to discuss your income tax issues with us at any time.

Beyond the income tax services offered by the firm, I continue to offer services and advice regarding basic estate planning and estate probate areas of the law, as well as basic Corporate legal processes. I also continue to remain a source of counseling, advice and referral for all of your legal and personal needs, as I have been in the past. Having now spent 27 years in the legal and tax business, I have gained access to many of the top legal and financial professionals in the Atlanta area. Therefore, if you have questions, concerns or problems with other areas in your life in which you feel that I may be of help, please let me know if I can be of assistance to you in resolving them. That's what I'm here for!

The firm continues to maintain its' long-standing relationship and association with the financial retirement experts at Raymond James & Associates. Our local RJ representative, Glen Merritt has taken up where our past advisor, Tash Elwyn left off, providing superior performance in the financial retirement services area for our local clients. Although they handle all types of investments, the retirement investment arena is where the advisors at R/J can likely assist you the most.

The firm also maintains a relationship with Merrill Lynch financial advisor, Daniel Kaufman. Daniel has been working for Merrill (now part of Bank of America) in their professional advisory program for approximately four (4) years. Even though our professional relationship is relatively new, I have come to rely on Daniel for much of my personal efforts in the investment markets. I believe him to be a very impressive addition to the P&A financial resources team. Both Daniel and his firm (ML) bring many investment resources to our clients that were not previously available.

On that note, it is my pleasure to remind you that it is once again time to start thinking about putting your tax information together for the 2012 tax year. A PDF copy of our annual tax planner, "Tax Facts" can be downloaded on your computer from the firm's web-site (***Popkinandassociates.com***). A copy should be available in early January, 2013. If you do not have Internet access, please call the office and we will be happy to mail your copy directly to you.

I have personally had my fair share of "hell" to deal with this past year. Mold issues at my office, personal health issues due to the exposure to mold (again), and the death of too many friends and clients this past year, just to name a few. Yet while dealing with my own piece of hell, I did find time to enjoy myself this past year. Traveling to Hawaii for the first time, Bandon Dunes, Oregon to play some amazing golf courses, and a quick stop in Las Vegas (as a tourist this time) to see some great shows and eat some good food. It was also another great year as a music lover and concert enthusiast. Bands like The Who, Chicago and the Dobbie Brothers, Yes and Procol Harem, the Allman Bros, Jethro Tull's Ian Anderson, and Peter Gabriel to name just a few, were all on the got to see list. Many bands that will likely not tour again. So along with facing some tuff times this past year, there have been some great times as well. And as much as I would prefer not to face the personal "hell" that comes with life, it does make the good times that much more pleasant and easy to appreciate.

Please note that my billing rate for both legal and tax preparation services for 2012 will remain at $350 per hour. During these difficult times, we will try to make every effort to hold down the cost of completing your income tax returns. However, please remember that the cost of preparing your tax work may differ from year to year based on changes to law and/or your filing requirements. The cost of your return may also be affected by the "new" compliance and licensing rules and regulations recently put in to place by the IRS. Of course, the calculation of charges relating to your tax work is always based strictly on the amount of time and complexity of work for your particular situation. If you have any questions or concerns about any possible changes to your fee structure, please feel free to contact our offices prior to your interview. I'll be happy to speak with you regarding potential fees for your preparation service for the coming tax season.

Also please note that there is a minimum charge of $350.00 for any office visit during the tax season (as has been the case in the past) regarding income tax preparation. If you choose not to visit the office when having your returns prepared, charges for preparation of your returns may otherwise cost less.

Please accept my apology for the lengthy letter (once again, I had a lot to say this year). As always, I wish to sincerely thank you for the opportunity to be of service to you and your family in the past. Your continued business is so very much appreciated. I look forward to seeing you during the coming tax season.

Please have a happy and safe Holiday Season and best wishes to you and yours throughout the coming New Year!

POPKIN & ASSOCIATES, P.C.
Mark J. Popkin
For the Firm