

Weinblatt & Associates, PA

Accounting / Tax / Consulting Services

Monthly Client Newsletter

appy tax filing month. To help celebrate, this month's newsletter includes a fun tax quiz. In addition, there are articles outlining recent credit card changes and IRS tax collection updates.

April 2013

In this issue:

2013 Income Tax Quiz How well do you know tax facts?

The Interchange Change The IRS Collects \$2.2 Trillion in 2012

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This month:

✓ **April 15th**Tax Returns Due

April 15th
1st Quarter 2013
estimated tax

payments due

Past Issues:

Current

March 2013

February 2013

January 2013

December 2012

November 2012

October 2012

September 2012

August 2012

July 2012

June 2012

May 2012

2013 Income Tax Quiz

How well do you know tax facts?

As April is tax month, included here is a short quiz to see how well you know your taxes. Enjoy!

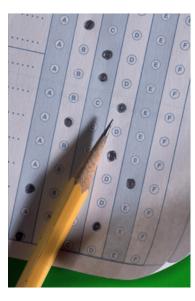


Match the highest (nominal) federal income tax rate with the correct tax year.

| 70% | 2013 |
|-------|------|
| 50% | 1990 |
| 40.5% | 1983 |
| 28% | 1970 |
| 7% | 1913 |
| | |

70% - 1970; 50% - 1983; 40.5% - 2013; 28% - 1990; 7% - 1913. While available deductions varied greatly over these same tax years, there is little doubt when comparing the 7% marginal tax rate applied to incomes over \$500,000 in 1913 that income tax rates are much higher today.

Note: The tax rate noted for 2013 is 39.6% plus a .9% surtax to help pay for health care legislation.





If you steal someone's property do you owe tax on it?

Yes, according to the IRS. But don't expect the person whose property was stolen to issue you a Form 1099. Tax instructions tell you to list this as "stolen property" on your tax return. Perhaps listing it as "other income" might be a better idea as it does not lead to self-incrimination.

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[?]

Which famous personalities have crossed paths with the IRS and lost?

| \square Pete Rose (baseball player) | |
|---------------------------------------|--|
| ☐ Nicolas Cage (actor) | |
| ☐ Willie Nelson (singer) | |
| ☐ Wesley Snipes (actor) | |

☐ All of the above

All of the above. While each case was different, all the above celebrities ended up owing significant amounts in back taxes; Pete Rose, for failing to report income from autograph signings, Willie Nelson, for having tax shelters disallowed, Wesley Snipes, for failing to file tax returns while taking a position that federal taxes were unconstitutional and Nicolas Cage who settled part of his tax bill for over \$6 million.

Charles and the control of the contr



State tax law can also take the oddest twists. Match the state with the unique tax positions they have taken now or in the past:

- 1. will tax hiking boots, but not cowboy boots
- 2. will tax disposable diapers, but not cloth diapers
- 3. has a tax credit for double amputees
- 4. allows an anonymous tax on illegal substances
- 5. allows a \$50 deduction for a dead deer donation to the poor
- 6. places a tax on fresh fruit purchased from a vending machine, but not fruit purchased at a
- 7. has an odd pumpkin tax; pumpkin purchased to eat? no tax; carve it? then taxed

- A. California
- B. Oregon
- C. South Carolina
- D. Texas
- F. Tennessee
- F. Iowa/Pennsylvania/New Jersey
- G. Wisconsin

1-D, 2-G, 3-B, 4-E, 5-C, 6-A, 7-F. The moral of the story? Logic does not drive A tax laws, legislatures do.

The Interchange Change

Retailers and other Merchants have long been plagued by increasing costs associated with

taking credit card payments without reasonable control over the expense of those payments. There is now a proposed settlement in a long-standing price fixing lawsuit between Visa/Mastercard and retailers that may change the playing field. Here is what you need to know.

Background

Retailers and "merchants" of all sorts that accept credit cards as a form of payment have to pay an interchange fee every time a credit card is used to pay for purchases. This fee varies, but



can be as much as 3 - 5% of the transaction cost. Larger merchants, like Target and Walmart, can often negotiate a lower fee. The interchange collected is then split between many providers including; the card issuing bank, the credit card company, the merchant's bank, the credit card gateway provider, and any other distributors.

The Problem

The merchants in this system are often powerless at controlling their costs. Why?



Merchants cannot differentiate. If they accept a card, like Visa, they cannot charge you any extra for using the card. So if a customer who pays with a Visa costs a merchant 2% more than someone who writes a check, the merchant cannot pass that additional cost on to the customer.



Prices are not fluid. Banks are the historic owners of Visa and Mastercard, and the pricing models used are very inflexible. In other words, according to many merchants, the credit card pricing is fixed between providers.



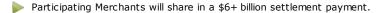
Losses flow downhill. If there is a problem with the credit card transaction, often the merchant is the one taking the loss. Why? The credit card banks have auto access to the merchant's bank account and if a disputed claim is ruled against them, there is little practical recourse other than to accept the loss.



Rewards cards become penalty cards to merchants. If you use a credit card with a rewards program, the merchant is the one who foots the extra cost. Theoretically, two customers could use the same type of credit card (Visa, Mastercard, American Express), but the credit card cost to the merchant can vary depending on the reward program attached to the card.

What is Happening Now

In a recent class action lawsuit, merchants have challenged Visa/Mastercard over their business practices claiming price fixing. The merchants wish to recapture some of their pricing authority. If the proposed settlement is accepted:



Merchants will be able to add a fee if you use a Visa or Mastercard to pay your bill, as

- long as you are located in a state that does not prohibit a credit card surcharge.
- Merchants will see a .10% drop in their credit card rate for a 6 9 month period of time.

Why Care?

Ultimately, merchants must pass the cost of these credit cards on to the consumer. Here are some ideas to use this information to your benefit:

- Negotiate cost. If purchasing an expensive item, offer to pay cash for a discount. If it is a small merchant you might suggest a 1 - 3% discount to share in the interchange savings.
- ▶ Be aware of surcharges. Given the nature of the settlement, it is unlikely that large retailers will be adding credit card surcharges, but smaller retailers might do so. Please be aware of the store's policy before you buy.
- Leverage your credit card costs. Being aware of the interchange profits being made on your credit card provides you negotiating leverage on your credit card bill. Remember, your bank is making money every time you use your card, even if you pay your bill in full each month. Consider challenging a late fee or credit card interest on a late payment.

The IRS Collects \$2.2 Trillion in 2012

Each year the IRS releases a Data Book that recaps Internal Revenue Service activities for the prior fiscal year ending in September. The 2012 Data Book was recently published which recaps the 2011 tax year. Here is what you need to know:

- \checkmark
- The \$2.2 trillion in gross revenue collected was up 4.3% from the prior year
- \$1.3 trillion of the revenue collected came from individual income tax returns
- 2 million notices were sent out involving 2.7 million math errors on tax returns
- Approximately 1% of all individual tax returns were audited
- Automated programs yielded over \$13 billion in additional tax assessments

Of specific interest was the data that recapped two of the major automatic programs in place at the IRS; the Automated Under Reporter Program and the Automated Substitute for Return Program.

Automated Under Reporter Program

Description: This is the IRS computer program that compares information returns (W-2s and 1099s) provided by third parties with the information provided by taxpayers on their tax return. If there is a mis-match, the program automatically sends out a form to have you explain the difference.



- Results: The 2.2 billion information returns received by the IRS identified 4.5 million discrepancies resulting in \$7.1 billion additional tax assessments.
- Action: This program is an efficient way for the IRS to find missing revenue. Make sure you receive all your information forms and that the information stated on them is correct. Errors can be corrected on your tax return, but it is always best to get your employer or provider (bank, brokerage or customer) to issue a corrected 1099 or W-2 form.

Automated Substitute for Return Program

- **Description:** This is the IRS computer program that uses third party information and automatically creates a tax return with that information if you do not file one.
- **Results:** This program identified 803 thousand non-filed tax returns. The created returns yielded an additional \$6.7 billion in tax assessments.
- ▶ Action: If 1099s or W-2s have been issued, the IRS expects you to file a tax return or will do it for you if you don't. While it is possible that this might create a refund, do not expect the IRS to grant you all your available deductions. It is always best to file a return, or file an extension if needed to provide some time to get your information to them.

The IRS Data Book is loaded with useful information. Next month: What is your chance of being Audited? A look at updated IRS audit information.

As always, should you have any questions or concerns regarding your situation please feel free to call.

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