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2011 Year End Tax Planning

Year-end tax planning is usually a challenge when Congress leaves things up in the air until the last minute. This year is a little different because it looks like they may not enact any new legislation at all. There are several tax issues due to expire at the end of this year but we at least have some certainty about 2011.

In 2012 we will have to deal with:

- The “patch” for the alternative minimum tax.
- What will happen with the post-2012 expiration of the Bush income tax cuts
- Whether to enact the surtax on the biggest earners
- Whether to limit itemized deductions
- What to do about the low tax rates for long-term capital gains and qualified dividends, and
- How to handle the expiration of the favorable estate, gift and generation-skipping transfers made after Dec. 31, 2012

Regardless of what Congress does late this year or early next, there are still tax savings that we can still take advantage of for 2011. They may be gone next year unless they get extended.

For individuals:

- The option to deduct state and local sales and use taxes instead of state and local income tax;
- The above-the-line deduction for qualified higher education expenses; and
- Tax-free distributions from IRA’s for charitable purposes by those who are 70 ½ or older

For businesses:

- 100% bonus first-year depreciation for most new machinery, equipment and software
- An extraordinarily high $500,000 expensing limitation(and within that dollar limit, $250,000 of expensing for qualified real property); and
- The research tax credit

What's New for 2011

Payroll Tax Holiday. Employees are currently paying 4.2% (instead of the usual 6.2%) Social Security tax on compensation received during 2011 up to $106,800. This is set to expire at the end of 2011. Self-employed persons will pay only 13.3% on their self-employment tax. Currently President Obama would like to see an even further reduction for 2012. He has proposed a 3.1% Social Security tax for the employee and employer matching. Stay tuned. The cap for the Social Security of $106,800 will increase to $110,100 for 2012.

Energy Savings for Home Improvements. You may still be eligible for energy tax credits, but they are stricter than the 2010 rules. You can only claim 10% credit for qualified energy property placed in service in 2011 up to a $500 lifetime limit (with no more than $200 from windows and skylights). Unfortunately, the credit can't exceed $500 less the credits you claimed for all earlier tax years after Dec. 31, 2005.

Mileage Reimbursement Rates for 2011. The optional mileage allowance for owned or leased autos (including vans, pickups or panel trucks) for business travel taking place from **January 1, 2011 through June 30, 2011 is .51 per mile.** The rate increases 4.5 to **.551/2 per mile from July 1, 2011 through Dec. 31, 2011.** The rate for medical and moving expenses was .19 per mile and increases to .231/2 in July.

New Stock Broker Reporting Rules. Effective Jan. 1, 2011 every broker required to file an information return reporting the gross proceeds of a "covered security" such as corporate stock must include in the return the customer's adjusted basis in the security and whether any gain or loss is short-term or long-term. This will be stated on any 1099-B that you receive when selling stock. If you have sold stock this year you'll also notice an additional form that has been created to accompany the Schedule D.

Self-Employed 1099-K. New this year, anyone accepting credit card payment or other electronic payments such as pay pal will be receiving a 1099-K. This must be separately reported on your Schedule C income line. The IRS is matching reported electronic payments to tax returns. This applies to self-employed Schedule C and rental Schedule E.

Year-end Tax Planning Strategies during a Recession. Year-end tax techniques usually involve postponing income and accelerating deductible expenses to reduce taxes for the current year. But, because the economic downturn continued through 2011, some of us will have significantly less income in 2011 than we expect to have in 2012. Doing things in reverse (deferring expenses and accelerating income) may save more in taxes if you will be in a higher tax bracket for 2012 than in 2011. But, of course, you will have to factor in the time-value of money to see if this strategy is worthwhile.

2011 Year-End Tax Tips
Use this Checklist and then call me

Not all of these tips will apply in your particular situation, but you may benefit from many of them.

- **Increase the amount you set aside for next year in your employers' health flexible spending account (FSA) or (HSA), if you set aside too little for this year. Don't forget that you can no longer set aside amounts to get tax-free reimbursements for over-the counter drugs, such as aspirin and antacids. (If you would like a list of deductible and non-deductible medical expenses feel free to contact me) It may actually help remind you of things you may not have thought of.**

- **Postpone income until 2012 and accelerate deductions into 2011 to lower your 2011 tax bill. This strategy may enable you to claim larger deductions, credits, and other tax breaks for 2011 that are phased out over varying levels of adjusted gross income. These credits include the child tax credit, higher education tax credits, the above-the-line deduction for higher-education and deductions for student loan interest.**

- **If you converted assets in a traditional IRA to a Roth IRA earlier this year, the assets in the Roth IRA account may have declined in value, and if you leave things as-is you will wind up paying a higher tax than necessary. You can back out of the transaction by recharacterizing the rollover or conversion, that is, by transferring the converted amount (plus earnings, or minus losses) from the Roth IRA back to a traditional IRA via a trustee-to-trustee transfer. You can later convert to a Roth IRA.**

- **If you expect to owe state and local income taxes when you file your return next year, consider asking your employer to increase withholding to state and local taxes before year-end to pull the deduction of those taxes into 2011.**

- **The same technique for self employed individuals can be used. If you pay State or Local tax estimates you can pay them before Dec. 31, 2011 (instead of the Jan. 15, 2012 due date) to have them count towards your 2011 federal deductions.**

- **Make sure to keep all goodwill and amvet receipts with a list of the items donated. They are supposed to be in good condition to be deductible. A good way to show the deduction is to take a picture of the items before you donate them.**

- **In order to take the medical expense deduction you need to have at least 7.5% of your AGI. It's not as hard as you may think to get to that amount. If you are paying health insurance that is not pre-tax that can amount to several thousand dollars. If you have been putting off a procedure it may pay to have it done this year. If you are unsure of your AGI or have any questions concerning any deduction give me a call.**

There are several other tax savings ideas that may pertain to you individually. If you have any questions regarding your situation the best time to review them is before the year end. Feel free to call or email me if anything comes up.

You can set up your tax appointment as soon as you think you'll have everything together. If you don't have time for an appointment or your situation just hasn't changed much you can mail in or drop off your information as soon as you get it together.

If you would like a tax organizer sent to you let me know.

I look forward to another exciting tax season!

Robyn Urig