

2011 YEAR-END TAX PLANNING

As we approach the end of the year, now is the time to assess your 2011 tax situation. Year-end tax planning is especially challenging this year. There is uncertainty over whether Congress will enact sweeping tax reform that could have a major impact in 2012 and beyond. Even if there's no major tax legislation in the immediate future, Congress next year still will have to grapple with a host of thorny issues, such as whether to once again “patch” the alternative minimum tax, and what to do about the post-2012 expiration of the Bush-era income tax cuts and the expiration of favorable estate and gift rules.

We have compiled a checklist of actions based on current tax rules that may help you save tax dollars if you act before year-end. Not all actions will apply in your particular situation, but you will likely benefit from many of them.

- Increase the amount you set aside for next year in your employer's health flexible spending account (FSA) 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 become eligible to make health savings account (HSA) contributions in December of this year, you can make a full year's worth of deductible HSA contributions for 2011.
- Realize losses on stock while substantially preserving your investment position.
- Postpone income until 2012 and accelerate deductions into 2011 to lower your 2011 tax bill. Postponing income also is desirable for those taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances. Note, however, that in some cases, it may pay to actually accelerate income into 2011. For example, this may be the case where a person's marginal tax rate is much lower this year than it will be next year.
- Consider converting traditional-IRA money invested in beaten-down stocks or mutual funds into a Roth IRA if eligible to do so.

- Consider using a credit card to prepay expenses that can generate deductions for this year.
- If you expect to owe state and local income taxes when you file your return next year, consider asking your employer to increase your state withholding before year-end to pull the deduction of those taxes into 2011 if doing so won't create an alternative minimum tax (AMT) problem.
- Estimate the effect of any year-end planning moves on the alternative minimum tax (AMT) for 2011.
- Accelerate big ticket purchases into 2011 in order to assure a deduction for sales taxes on the purchases if you will elect to claim a state and local general sales tax deduction instead of a state and local income tax deduction.
- You may be able to save taxes this year and next by applying a bunching strategy to “miscellaneous” itemized deductions, medical expenses and other itemized deductions.
- If you are a homeowner, make energy saving improvements to the residence, such as putting in extra insulation or installing energy saving windows, or an energy efficient heater or air conditioner.
- Unless Congress extends it, the up-to-\$4,000 above-the-line deduction for qualified higher education expenses will not be available after 2011. Thus, consider prepaying eligible expenses if doing so will increase your deduction for qualified higher education expenses.
- Purchase qualified small business stock (QSBS) before the end of this year. There is no tax on gain from the sale of such stock if it is (1) purchased after September 27, 2010 and before January 1, 2012, and (2) held for more than five years.
- If you are age 70-1/2 or older, own IRAs and are thinking of making a charitable gift, consider arranging for the gift to be made directly by the IRA trustee.
- Take required minimum distributions (RMDs) from your IRA or 401(k) plan (or other employer-sponsored retired plan) if you have reached age 70-1/2.

- Make gifts sheltered by the annual gift tax exclusion before the end of the year and thereby save gift and estate taxes. You can give \$13,000 in 2011 to each of an unlimited number of individuals.
- Businesses should consider making expenditures that qualify for the business property Section 179 expensing option. For tax years beginning in 2011, the expensing limit is \$500,000 and the investment ceiling limit is \$2,000,000. A limited amount of expensing may be claimed for qualified real property. However, unless Congress changes the rules, for tax years beginning in 2012, the dollar limit will drop to \$139,000, the beginning-of-phaseout amount will drop to \$560,000, and expensing won't be available for qualified real property.
- Businesses also should consider making expenditures that qualify for 100% bonus first year depreciation if bought and placed in service this year. This 100% first-year writeoff generally won't be available next year unless Congress acts to extend it.
- Nail down a work opportunity tax credit (WOTC) by hiring qualifying workers (such as certain veterans) before the end of 2011.
- Make qualified research expenses before the end of 2011 to claim a research credit, which won't be available for post-2011 expenditures unless Congress extends the credit.
- If you are self-employed and haven't done so yet, set up a self-employed retirement plan.
- Depending on your particular situation, you may also want to consider deferring a debt-cancellation event until 2012, and disposing of a passive activity to allow you to deduct suspended losses.
- If you own an interest in a partnership or S corporation you may need to increase your basis in the entity so you can deduct a loss from it for this year.

These are just some of the year-end steps that can be taken to save taxes. Again, by contacting us, we can tailor a particular plan that will work best for you.

VANCE FLOUHOUSE & GARGES, PLLC