

Year End Tax Planning 2011 – Individuals

- **Income and deductions** – Move income and deductions to the year with the expected lower tax rate. Examples include:
 - Deferring bonuses or compensation, if your employer is willing.
 - Paying expenses, including donations, with a credit card.
 - Bunching deductions in one year in order to itemize in one year.

Note that some deductions may not be available next year unless extended by Congress. These deductions include: the option to deduct state and local sales and use taxes instead of state and local income taxes; the above-the-line deduction for qualified higher education expenses; and the tax-free distributions by those age 70 ½ or older from IRAs for charitable purposes.

- **Capital gains and losses** – Realize losses on stock while substantially preserving your investment position. There are several ways this can be done. For example, you can sell the original holding, and then buy back the same securities at least 31 days later. It may be advisable for us to meet to discuss year-end trades you should consider making.

Long-term capital gains are taxed at a maximum rate of 15%. Taxpayers whose marginal tax rate does not exceed 15% are taxed on long-term capital gains at zero percent. This zero percent rate applies to a single person with a taxable income of less than \$34,501 for 2011 and married persons filing joint returns with a taxable income of less than \$69,001.

A planning opportunity exists for individuals that may exceed the income levels but could benefit their older children or elderly parents.

Please be aware of limitations imposed by the Kiddie tax in any attempt to take advantage of this opportunity.

- **Estimated tax payments** – Review your tax prepayments and your required “safe harbor”. State and local prepayments made before December 31 can be deducted for eligible itemizers.

If you expect to owe state and local income taxes when you file your return next year, consider asking your employer to increase withholding of state and local taxes (or pay estimated tax payments of state and local taxes) before year-end to pull the deduction of those taxes into 2011 if doing so won't create an alternative minimum tax (AMT) problem. This payment can help avoid an underpayment penalty.

- **AMT** – AMT can raise your tax bill. See if you'll have to pay it. Try the calculator. http://www.kiplinger.com/tools/AMT_Calculator/
- **Roth IRA** – If you believe a Roth IRA is better than a traditional IRA, and want to remain in the market for the long term, consider converting traditional IRA money invested in beaten-

down stocks (or mutual funds) into a Roth IRA, if eligible to do so. Keep in mind, however, that such a conversion will increase your adjusted gross income for 2011.

If you converted assets in a traditional IRA to a Roth IRA earlier in the 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 is 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 reconvert to a Roth IRA.

- **FSA/HSA** - Review FSA (flexible spending account) and HSA (health savings account) contributions to maximize deductions. Increase the amount you set aside for next year (FSA) if you set aside too little for this year. Also, be aware that you can no longer set aside amounts to get tax-free reimbursements for over-the-counter drugs, such as aspirin and antacids.
- **IRA/Pension** – Take required minimum distributions (RMDs) from your IRA or 401(k) plan (or other employer-sponsored retired plan) if you have reached age 70 ½. Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn. If you turned age 70 ½ in 2011, you can delay the first required distribution to 2012, but if you do, you will have to take a double distribution in 2012 – the amount required for 2011 plus the amount required for 2012. Think twice before delaying 2011 distributions to 2012 – bunching income into 2012 might push you into a higher tax bracket or have a detrimental impact on various income tax deductions that are reduced at higher income levels. However, it could be beneficial to take both distributions in 2012 if you will be in a substantially lower bracket that year, for example, because you plan to retire late this year.

If you are age 70 ½ 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. Such a transfer, if made before year-end, can achieve important tax savings. This is a step that exempts the distribution from inclusion in taxable income and in essence provides a deduction to a non-itemizer. The provision is set to expire December 31, 2011.

- **Energy Tax Credit** – If you are a homeowner, make energy saving improvements to your residence, such as installing extra insulation, energy saving windows, or an energy efficient heater or air conditioner. You may qualify for a tax credit if the assets are installed in your home before 2012. The possible lifetime credit is \$500. Install a geothermal system for a 30% tax credit (not a deduction).
- **Gifting** – 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 but you can't carry over unused exclusions from one year to the next. The transfers also may save family income taxes where income-earning property is given to family members in lower income tax brackets who are not subject to the kiddie tax. Also consider major gifts to utilize \$5,000,000/\$10,000,000 lifetime exclusion.

- **Savers Credit** – Taxpayers (yourself or your children), if working and contributing to a retirement plan at work (401(k), 403(b), SEP, IRA, SIMPLE) or a traditional IRA, can be eligible for a saver’s credit. Your income must be less than \$56,500 if married and \$28,250 if single. You must be at least 18 years of age, not claimed as a dependent, and not a full-time student. The credit can range from 10% to 50% of your contribution up to a maximum of \$1,000.
- **Education** – Unless Congress extends it, the up-to-\$4,000 above-the-line deduction for qualified higher education expenses will not be available after 2011. Therefore, consider prepaying eligible expenses if doing so will increase your deduction for qualified higher education expenses. Generally, the deduction is allowed for qualified education expenses paid in 2011, in connection with enrollment at an institution of higher education during 2011, or for an academic period beginning in 2011 or in the first 3 months of 2012.
- **Donations** - Consider fulfilling your charitable goals by contributing appreciated assets instead of cash. You can deduct the fair market value of long-term capital gain property contributed to charity, and you avoid paying taxes on the appreciation.