December 2011

Freeman & Williams, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Articles:

Dear Clients and Friends,

As year-end approaches, it's a good time to focus on any last minute tips that can reduce your 2011 tax liability. Here are some options you may want to consider before the end of the year. Contact us if you have any questions about which ideas may be appropriate for you, or if you want to discuss other tax-saving strategies.

Gifting – The Sooner the Better:

Currently, the estate and gift tax exemption of $5 million is set to expire at the end of 2012. After that expiration date, the gift and estate exemption amounts will roll back down to $1 million if no action is taken by Congress. It was rumored that the recently formed "Super Committee" was going to propose a reduction in the gift tax exemption from $5 million to $1 million effective January 1, 2012. In addition, there was other speculation the estate tax exemption will be reduced from $5 million to $3.5 million. Even though there has been no credible evidence found to support the rumors, we are not completely comfortable that the current exemption of $5 million will remain until the end of 2012. The moral to our story is that if you have plans to make gifts under the $5 million gift exemption, sooner is better than later. Please feel free to contact our office if you have any questions about how this could apply to you.

Annual Gift Tax Exclusion:

If you would like to begin transferring wealth out of your estate to avoid gift and estate taxes, this is time to take advantage of the annual gift tax exclusion. Each year, you can give up to $13,000 to any person, related to you or unrelated, without incurring gift tax or using your lifetime gift tax exemption. The $13,000 limit applies to a gift from an individual to an individual, so a married couple can give up to $26,000 to another person, and you may make these gifts to an unlimited number of people. For example, if a married couple wants to start gifting money to their son and his family, the mother and the father can each give $13,000 to their son and $13,000 to their daughter-in-law for a total of $52,000. In addition, if the son has children, the couple can give $13,000 to each grandchild without any gift tax consequences under this exclusion if the gift is properly structured. Because this is an annual exclusion, now is the time to take advantage of it.

Retirement Account Contributions:

If you have a 401(k) plan at work, now is the time to tell the company how much you want to set aside for 2012. Contribute as much as you possibly can, but at least as much as the company will match, if they have a matching program in place. If you meet the vesting requirements, you give up "free" money when you fail to contribute enough to get the full employer match.

If you are not eligible for a 401(k) plan, consider making a contribution to a traditional or Roth IRA. You have until the due date of your return to make the contribution, but now is the time to make a plan so that you can have the funds in place and in order to coordinate with other tax planning opportunities which must be acted on before year-end. Keep in mind, you will not get a deduction for contributing to a Roth IRA, but the investments grow tax-free and other benefits can be significant.

If you are not eligible for a 401(k) plan, consider making a contribution to a traditional or Roth IRA. You have until the due date of your return to make the contribution, but now is the time to make a plan so that you can have the funds in place and in order to coordinate with other tax planning opportunities which must be acted on before year-end.

If you already have a traditional IRA and have considered converting it to a Roth IRA, we can assist you. Because Roth contributions have already been taxed, you will have taxable income in the amount of the transferred balance, so the ideal time to do a conversion is when your income for the year is expected to be low and the value of your IRA investments is depressed.

Early Retirement Distributions:

If you are in a position where you absolutely must take an early distribution from a pension or other retirement account, try to hold off until January so you can push the taxable income and any penalties into 2012. If you can't wait that long, try taking a portion now and the rest in January. Deferring your tax impact to next year can make a significant difference during difficult economic times.

Donations from Your IRA:

If you're age 70 ½ or older, you can arrange to transfer up to $100,000 of otherwise taxable IRA funds to charity. Instead of having taxable income from your IRA withdrawal, along with an itemized charitable deduction, your IRA withdrawal will be completely non-taxable. This is great for taxpayers who don't itemize, and the withdrawal counts towards your required minimum distribution. This provision expires in 2011, and may not be extended to 2012, so this may be your last chance to take advantage. In order to qualify, the funds must be transferred directly from the IRA custodian to the charity and you must not receive anything from the charity in return.

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Donating Appreciated Stock:

If you have appreciated stock that you've held more than one year, you can donate the stock directly to a qualified charity in order to get a charitable deduction for the full market value of the stock without having to sell the stock and pay tax on the gain. If the stock is depressed in value, it is better to sell the stock, take your capital loss, and then give the cash to charity.

Depreciated Stock Values:

Now may be the time to sell off any under-performing stocks that have decreased in price since you purchased them in order to take a capital loss. Keep in mind, these losses can offset your capital gains for the year, but if you have capital losses in excess of capital gains, only $3,000 can be used to offset other types of taxable income. Any losses in excess of $3,000 will be carried over to be deducted in future years.

Bonus Depreciation & Section 179 Expense for Business Assets:

Section 179 and a newer provision for "bonus depreciation" provide for immediate expensing of otherwise depreciable qualifying business assets purchased during the year. The limits in 2012 will be much less generous than 2011 if the higher limits are not extended by Congress.

In 2011, the maximum amount of new assets that can be expensed under section 179 is $500,000. Also, certain real property can qualify for the expense deduction. This allowance is phased out if the company purchases more than $2,000,000 of qualifying property. For 2012 the section 179 maximum is scheduled to be only $139,000 with a phase out after $560,000 in purchases. In addition, real property will no longer qualify in 2012.

In 2011, the bonus depreciation for qualified property is 100% of the cost. In 2012, the bonus depreciation is scheduled to be reduced to 50%.

We look forward to seeing you in the upcoming year, but would be even happier to hear from you in the meantime if we can assist you with any of these tax-saving year-end strategies.

Questions?

If you have any questions about the articles in this newsletter or any tax issue, please feel free to contact our office at (775) 882-3201. You can also find a copy of this newsletter as well as our other updates and notices at www.fwcpas.com.