

TAX TIPS & news

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Last Year for Tax-Free Charitable Donations from IRAs

If you are 70.5 years of age or older and are considering making a donation to a charity, you may wish to consider the option of making the contribution from your IRA account.

For 2011, you can donate up to \$100,000 to your favorite charity, provided it is an eligible charitable organization, tax free from your traditional IRA, Roth IRA, or a SEP or SIMPLE IRA. To be considered valid, the distribution from the IRA to the charity must be made directly. It cannot pass through your hands or other accounts. Note: These distributions are not permitted from ongoing SEP or Simple Plans, i.e. plans to which a contribution has been made for the year.

Here are the pertinent facts related to making a donation using this provision of the law:

- The distribution is not taxable and does not add to your income for the year. The advantage is that your income remains low and helps to minimize taxable Social Security income and tax disadvantages associated with higher income.
- There is no charitable donation, as the distribution was tax free. However, this can be a considerable benefit to taxpayers who take the standard deduction and do not itemize anyway.
- If you have not already taken your required minimum distribution (RMD) for the year, the charitable distribution can count toward this year's RMD. Without Congressional action, 2011 will be the last year in which this option will be available.

Please call this office for additional information related to this tax provision and how it might help your tax picture for 2011.

Without a Fix, the AMT will Snare Millions of Taxpayers – Are You in the Crosshairs?

A recently released Congressional Research Service (CRS) Report entitled "The Alternative Minimum Tax for Individuals" examines the effects of the Alternative Minimum Tax (AMT) without yet another Congressional fix.

The AMT is another way of computing an individual's income tax with limited deductions and the elimination of certain tax preferences. Taxpayers pay the higher of the regular computed tax and the AMT.

When calculating the AMT, taxpayers are allowed to deduct a specified amount that is not taxable; this is called the AMT exemption. This exemption is not automatically inflation-adjusted, like most other tax deductions, but Congress has been adjusting it annually. For example, the permanent exemption amounts are \$33,750 for unmarried taxpayers and \$45,000 for joint filers. Congress has temporarily increased these amounts over the years, and for 2011, the exemption amounts were \$48,450 for unmarried taxpayers and \$74,450 for joint filers. Without Congressional action, these AMT exemption amounts will revert to the permanent amounts in 2012.

Another temporary adjustment to the AMT allows a number of personal credits to be deducted from the AMT. The credits affected include child and dependent care credit, elderly and disabled credit, mortgage credit, and the Hope and Lifetime education credits. These will no longer offset the AMT after 2011 unless Congress acts.

The CRS Report notes that without Congressional action, an estimated 30 million taxpayers (approximately 20% of all taxpayers) will be hit by the AMT in 2012. Compare this to the roughly 600,000 taxpayers (approximately 1% of all 1997 taxpayers) who were subject to the AMT in 1997.

A permanent fix to the AMT without adjustments to the regular tax could be expensive. For example, the CRS Report notes that if the AMT is repealed, the lost revenue would be over \$1.3 trillion between 2011 and 2022 if the Bush era tax cuts are not extended and over \$2.7 trillion if they are extended.

It is difficult to say what the Congressional Tax Reform committee (also referred to as the "super committee") will come up with in November. But one thing is for sure: some taxpayers will have to pay more to fix the deficit problem.

Last-Chance Opportunity to Deduct General Sales and Use Taxes?

For 2011, taxpayers have the option of deducting the amount of state and local income tax that they paid during the year or, if they so elect, of deducting their state and local general sales and use taxes as an itemized deduction on their federal income tax return. This choice is currently scheduled to expire at the end of 2011.

If a taxpayer elects to deduct the sales and use tax, then the taxpayer may opt to deduct the actual sales and use taxes paid or use the amount indicated in the tables published by the IRS, alongside certain big ticket items, such as vehicles, motor homes, boats, aircraft, and mobile and prefabricated homes. The IRS tables take the state of residence, taxpayer's income, sales and use tax rates, and family size into account.

Although the sales tax option primarily benefits taxpayers in states with no state income tax, it can also benefit taxpayers who make big-ticket purchases. Their sales tax deduction may exceed their state income tax deduction when they itemize their deductions.

Thus, if you are considering a big-ticket purchase, making the purchase prior to the end of the year may enable you to benefit from a potentially increased tax deduction. If you do plan on deducting sales tax in 2011 and you are paying state income tax estimates, you should avoid paying the fourth-quarter estimate installment until after the first of the year. Paying it in 2011 provides no additional benefit for 2011 on your federal return when electing to deduct sales and use tax.

Congress has extended this tax provision before, but at this time, there is no way of telling if it will do so again. Please give this office a call if you have concerns about how the sales tax election and purchasing big-ticket items before the end of the year might benefit you.



Maximize Your Charitable Deductions

As the end of the year approaches, there are still things you can do to increase and properly document your charitable contributions for 2011. Here is a brief rundown:

Non-cash contributions – If you have used clothing or household goods that are in good or better condition that you don't use any longer, contribute them to a charity thrift shop before the end of the year. Don't forget: a receipt from the charity is required to document the gift. If the gift's fair market value (FMV) is more than \$500, you will also need an itemized list of the items contributed, how and when each was acquired, and the cost. If the FMV of what you've donated is greater than \$5,000, or you contributed a vehicle, call this office for additional documentation requirements. A receipt from the charity is not required if the gift's value is less than \$250 and the donation was made at an unattended drop site. However, you will need to document the donation yourself.

Cash Donations – All cash donations must be documented either by a receipt from the charity or by a bank record such as a check, bank statement,

or credit card payment. You can no longer claim contributions of cash dropped into the offering plate or Christmas kettle. So, be wise and drop a check instead. If you regularly tithe at a house of worship, you might consider pre-paying your 2012 tithing and moving the deduction into 2011. In doing so, some taxpayers that marginally itemize may be able to itemize every other year and take the standard deduction in alternate years.

Charity Volunteer Expenses – If you volunteer your time for a charity, you may qualify for some tax breaks. Although no tax deduction is allowed for the value of services performed for a charity, there are deductions permitted for out-of-pocket costs incurred while performing the services. Possible expenses might include:

- Away-from-home travel expenses while performing services for a charity, plus lodging and meals at 100 percent, provided there is no significant element of personal pleasure associated with the trip.
- Use of your personal vehicle while performing services for the charity, generally at 14 cents per mile. Be sure to keep a written record of the name of the charity, the date the vehicle was used for charitable purposes, and the number of miles driven.
- Upkeep and cost of uniforms that aren't suitable for everyday use and if worn while performing the charitable service.

No charitable deduction is allowed unless the contribution is substantiated with a written acknowledgment from the charitable organization. The documentation must specify the need for your services and include an acknowledgement by the charity that the expenses claimed were required; be sure to maintain the receipts for the expenses.

Vehicle Donations – Generally, the deduction for used cars, boats, planes, etc. is limited to \$500. More than \$500 can be claimed based upon the charity's use of the vehicle or the actual amount the charity received from the sale of the vehicle. You will need Form 1098-C from the organization to claim the deduction and attach it to your return. Call for further details related to claiming more than \$500.

Timing of Acknowledgments – Whenever you are required to have an acknowledgment from a charity for donations you've made, you must have that letter or statement in your hands by the earlier of the date you file the return for the year of the donation or the extended due date of that return.

If you have additional questions or would like to determine how a specific donation will impact your tax return, please give this office a call.

Year-end Capital Gains Strategies

2011 has produced some significant gyrations in the financial markets that have had an impact on everyone's portfolios. But for tax purposes, gains and losses are not measured by the increased or decreased value of your portfolio, but by gains and losses recognized from the sale of capital assets during the year. So you still have until the end of the year to structure your gains and losses to suit your particular tax situation.

Conventional wisdom has always been to minimize gains by selling "losers" to offset gains from "winners," and, where possible, generate the maximum allowable \$3,000 (\$1,500 for married taxpayers filing separately) capital loss for the year.

As a reminder, the maximum long-term (assets held for more than a year) capital gains are still at the all-time low maximum rate of 15%, and unless changed by Congress, will remain at that rate through 2012. Taxpayers who are in the 15% or lower marginal tax rate actually enjoy a 0% tax rate on long-term capital gains and should do whatever is possible to take advantage of that tax benefit. The capital gains rates are currently scheduled to revert to 20% (10% to the extent a taxpayer is in the 15% or lower tax bracket) in 2013.

Assets that are not held long-term, referred to as short-term capital gains, do not receive the benefits of the special rates afforded long-term capital gains. Taxpayers achieve a better overall tax benefit if they can arrange their transactions so as to offset short-term capital gains with long-term capital losses.

If you exercised incentive (qualified) stock options with your employer this year and you are still holding the stock, selling the stock before year's end to avoid phantom income created by the alternative minimum tax may be appropriate.

If you are planning substantial gifts to charity or to relatives and have capital assets that have appreciated in value, gifting the appreciated assets rather than cash may be beneficial.

Finally, as an advance warning, the reporting of the sale of capital assets will become significantly more complicated this year. With the advent of brokerage firms being required to track and report basis for stock sales, the transactions for the year will have to be segregated into four possible groups: those for which the broker reported basis and those for which the broker did not know basis, and each of those categories split by short- and long-term transactions. The IRS has developed the new Form 8949 for this purpose. Each category of transactions must be reported on a separate Form 8949, and then the totals transferred to a redesigned Schedule D. The IRS requires this separation of transactions to facilitate its computer matching of transactions.

The actions mentioned above may have additional factors that must be considered and require careful planning. You are encouraged to consult with this office before acting on any of the suggested strategies.



Medical Checklist

After 2012, the limitation on deductible medical expenses increases for most taxpayers from the current 7.5% of AGI to 10% (it remains at 7.5% for taxpayers age 65 and over through 2016). So if you need some dental work, laser eye surgery, or other elective but deductible medical procedures, you might consider doing so sooner than later to take advantage of the current lower AGI limit. (But forget that face lift or other nip and tuck procedure you've been thinking about – cosmetic surgery costs aren't deductible unless related to a physical injury or disfiguring disease.) Also, if you are paying for a procedure over time, it might be appropriate to pay it all at once to increase your currently deductible medical expenses.

Determining whether the tax benefits after the AGI limit is applied warrant the current expenditure can be complicated, and you may wish to call this office for assistance.

The following is a checklist of deductible medical expenses. The list is by no means all-inclusive, and some of the deductions listed may have additional restrictions not included here.

- Ambulance
- Artificial Limb
- Artificial Teeth
- Birth Control Pills
- Braille Books and Magazines
- Abortion, Legal
- Acupuncture
- Alcoholism Treatment
- Chiropractor
- Christian Science Practitioner
- Contact Lenses
- Crutches
- Dental Treatment
- Drug Addiction Treatment
- Drugs (Prescription)
- Eyeglasses
- Fertility Enhancement
- Guide Dog
- Hearing Aids
- Hospital Services
- Impairment-Related Expenses
- Insurance Premiums
- Laboratory Fees
- Laser Eye Surgery
- Lead-Based Paint Removal
- Learning Disability
- Medical Services
- Medicines, Prescribed
- Mentally Retarded, Special Home for
- Nursing Home
- Nursing Services
- Operations
- Optometrist
- Organ Donors
- Osteopath
- Oxygen
- Prosthesis
- Psychiatric Care
- Psychoanalysis
- Psychologist
- Special Schools and Education
- Sterilization
- Stop Smoking Programs
- Surgery
- Therapy
- Vasectomy
- Weight-Loss Program
- Wig (Cancer Patient)

Please call this office with questions regarding these or other potential medical deductions.



TAX TIPS & news

The purpose of this newsletter is to provide current information on tax, financial and business developments. It suggests general tax planning ideas that may only be appropriate when claiming tax benefits in a manner consistent with the statutes and Congressional purpose. The information and opinions are generalizations and may not apply to all taxpayers and cannot be used by a taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer. Therefore, it is important that you seek appropriate advice before implementing any of the ideas suggested.

Since You Asked...



November-December 2011:

It's time for 2011 year-end and 2012 tax planning. Call for an appointment if you have substantial increases in income or fewer deductions.

December 31, 2011:

- This is the last day to pay deductible expenses for the 2011 return. This doesn't apply to IRA, SEP or Keogh contributions, all of which can be made after December 31, 2011.
- This is the last day to set up a Keogh Retirement Account if you plan to make a 2011 contribution.
- This is the last day to take advantage of the IRA to charity direct rollover for taxpayers who are age 70.5 and over.

January 17*, 2012:

- The fourth quarter 2011 federal individual estimated tax payment is due unless the 2011 return is filed by January 31, 2012 and the entire balance due is paid with the return.

January 31, 2012:

- This is the deadline for businesses to provide 1099s and W-2s to those people they paid during 2011. If you are a business owner and you paid \$600 or more for the services of individuals (other than

employees) during the year, you will need to provide 1099s to those workers by January 31, 2012. "Services" can mean everything from labor and professional fees to rents on property. In addition, in order to avoid a penalty, copies of 1099s need to be sent to the IRS by February 29, 2012. This firm can prepare these documents for you.

February 29, 2012:

This is the deadline for filing (sending) 1099s and W-2s.

April 17*, 2012:

- This is the deadline for individuals to file a 2011 federal income tax return or request an extension of time to file.
- The first installment of the 2012 federal individual estimated tax payment is due. Caution: Some states may have different filing dates for state estimated payments.
- The first installment of the 2012 defined benefit pension plan contributions is due.

**Note that the normal due date would be the 15th, but because it falls on a weekend and with the 16th being a Federal holiday, the due date is the 17th. Caution: some states have different due dates.*

Tax Calendar

You Asked: I heard there was a new Federal sales tax on the sale of a home. Is that true?

Answer: That is a false rumor that has been going around, and it is based on the new 3.8% Medicare tax surtax that will apply to unearned (investment) income of higher income taxpayers beginning in 2013. Unearned income includes capital gains. So if: (1) you had profit from the sale of your home, (2) the profit was not excludable using the \$250,000 or \$500,000 home gain exclusion, and (3) your modified adjusted gross income for the year exceeded \$200,000 (\$250,000 for joint filers), it is possible that the gain in excess of the home gain exclusion would be subject to the 3.8% surtax. As you can see, the rumor left out a lot of details, most particularly that the gross sales price is not subject to a 3.8% sales tax as the rumor would imply.

You Asked: I have been reading all of these ads about selling personal jewelry for the gold value, and I was wondering if there were any tax ramifications?

Answer: Generally, when you sell a personal use asset there are no tax ramifications since personal use items such as a car, furnishings, clothing, etc., usually are sold for less than you paid for them, and losses are not allowed. However, if you sell a personal use item for a profit, then the profit is taxable. Your jewelry is a personal use item. Gold has increased in value by approximately 500% since 2000. So there is a good chance of having a profit in selling old jewelry, and that profit would be a long-term capital gain taxable at the current Federal tax rate of no more than 15%. However, the problem is determining the profit. If you received it as a gift, what did the purchaser pay for it? If you bought it yourself, what did you pay for it? How can you document the cost? Without being able to determine a cost (basis), the reportable gain will be the entire amount you receive for selling the jewelry. Another issue is if any of the jewelry includes gold coins. Gold bullion and rare coins are considered "collectables" and are taxed at Federal rates up to 28%.