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2011 YEAR-END INDIVIDUAL TAX PLANNING LETTER

Dear Client:

December 2011

As we gear up for another busy season, we want to make you aware of some year-end planning opportunities and recap some of the changes affecting 2011 personal income taxes. **Please visit our website anytime to view our on-line 2011-2012 Tax Planning Guide. (www.bollenback.com).**

There are solid tax savings to be realized by taking advantage of tax breaks that are on the books for 2011 but may be gone next year. We have compiled a checklist of actions based on current tax rules that may help you save tax dollars. As always, please call us if you have any questions about items on this list or on any other tax planning issues.

- If you become eligible to make health savings account (HSA) contributions at any date during this year, you can make a full year's worth of deductible HSA contributions for 2011 before year end.
- If you did not set aside enough funds in your employer's health flexible spending account (FSA) during 2011, make sure you do that during 2012. Don't forget that over-the-counter drugs, such as aspirin and antacids are no longer eligible for FSA reimbursement.
- Consider whether you should sell securities to generate capital losses to be used against capital gains. You can sell securities at a loss and retain your loss if you wait at least 31 days to buy back the securities. Please let us know if you would like to meet to discuss this.
- 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 (AGI). These include child tax credits, higher education tax credits, the above-the-line deduction for higher-education expenses, and

deductions for student loan interest. Postponing income also is desirable for those taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances. However, 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.

- If your circumstances cause a Roth IRA to be better for you than a traditional IRA, and you plan to remain in the market for the long term, and do not need the funds, consider converting traditional-IRA money into a Roth IRA if eligible to do so. Keep in mind, however, that the amount converted will add to your 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. This recharacterization transfer can occur on or before the due date (including extensions) for filing the individual's income tax return for the tax year for which the recharacterized contribution was made to the Roth IRA. For example, a conversion made during 2011 can generally be recharacterized on or before October 15, 2012 (for calendar year taxpayers). You can consider reconverting to a Roth IRA at a later time.
- Consider using a credit card to pay business expenses and charitable contributions that can generate deductions for this year.
- If you are facing a penalty for underpayment of estimated tax and the increased withholding option is unavailable or won't sufficiently address the problem, consider taking an eligible rollover distribution from a qualified retirement plan before the end of 2011 so that income tax will be withheld from the distribution and will be applied toward the taxes owed for 2011. You can then timely roll over the gross amount of the distribution to a traditional IRA. No part of the distribution will be includible in income for 2011, but the withheld tax will be applied pro rata over the full 2011 tax year to reduce previous underpayments of estimated tax.
- Estimate the effect of any year-end planning moves on the alternative minimum tax (AMT) for 2011, keeping in mind that many tax breaks allowed for purposes of calculating regular taxes are disallowed for AMT purposes. These include the deduction for state property taxes on your residence, state income taxes or state sales tax, miscellaneous itemized deductions, and personal

exemption deductions. Other deductions, such as medical expenses, are calculated in a more restrictive way for AMT purposes than for regular tax purposes. As a result, in some cases, deductions should not be accelerated. Call us for a tax projection.

- If you are planning to purchase a big ticket item that qualifies for the sales tax deduction, make that purchase in 2011, because unless Congress acts, this deduction won't be available after 2011.
- Certain itemized deductions have a floor that limits the deduction, such as “miscellaneous” itemized deductions, medical expenses and other itemized deductions. You may be able to increase your deduction this year by bunching the deductions for two years into one year.
- If you are a homeowner, consider making energy saving improvements to your residence, such as putting in extra insulation or installing 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. For detailed information visit www.energystar.gov and click on “tax credits for energy efficiency”.
- Unless Congress extends the up-to-\$4,000 above-the-line deduction for qualified higher education expenses, it will not be available after 2011. Thus, 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.
- 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. In addition, such sales won't cause AMT preference problems. To qualify for these breaks, the stock must be issued by a regular C corporation with total gross assets of \$50 million or less, and a number of other technical requirements must be met. Our office can fill you in on the details.
- 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 to the charity from the IRA trustee. Such a transfer, if made before year-end, can satisfy your required minimum distribution requirements and will not be included in income on your tax return. Limitations apply so call us.

- 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 70-1/2 in 2011, you can delay the first required distribution until April 1, 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.
- Make gifts sheltered by the annual gift tax exclusion before the end of the year and thereby save on future 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. The kiddie tax applies to children under 19 and full-time students between ages 19-23.

This is just a sampling of some of the changes and tax planning opportunities available. Please contact us to discuss your individual tax planning needs, and go to www.bollenback.com for more information.

IRS CIRCULAR 230 DISCLOSURE:

Any tax advice included in this written or electronic communication (and any attachments) was not intended or written to be used, and it cannot be used by the taxpayer, for the purpose of avoiding any penalties that may be imposed on the taxpayer by any governmental taxing authority or agency.

Sincerely,

Bollenback & Forret, PA, CPAs