

YEAR-END TAX SAVING SPECIAL

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INDIVIDUAL INCOME TAX BENEFITS EXPIRING IN 2011-2012

This is a short list of individual income tax benefits that are scheduled to expire December 31, 2011. **These are subject to change**, depending on budget decisions Congress may make before the end of the year.

- Personal tax credits applied against income tax no longer apply.
- Higher alternative minimum tax exemptions revert back to extraordinarily-low thresholds.
- \$250 school teacher expense deduction ends.
- \$500 home energy efficiency credit expires.
- Mortgage insurance premium deduction expires.
- State and local sales tax deductions expire.
- Tuition and related fees deduction end.
- IRA to charity tax-free transfers stop.
- 2% Social Security tax reduction ends.



These benefits will expire at the end of 2012:

- Marriage penalty equalization ends.
- Dividends taxed at capital gains rates removed, taxed at regular rates now.
- Capital gains low tax rates expire.
- Removal of itemized deduction phase out for higher income Americans.
- Removal of personal exemption phase out for higher income Americans.
- Child care deduction limit of \$3,000 reverts to \$2,400.
- Child credit reduces from \$1,000 per child to \$500 per child.
- Low 10% tax bracket for low income Americans is eliminated.
- Lower income tax rates and smaller brackets expires.
- Refundable adoption credit and reduced deduction.

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- American Opportunity college education credit expires.
- Major reduction in earned income credits and refunds.
- Income tax exemption for debt forgiven on home foreclosures and repossessions.
- Deduction for student loan interest ends.
- Education IRA limit drops from \$2,000 to \$500.



PLAN FOR ALTERNATIVE MINIMUM TAX

If you expect to be subject to the alternative minimum tax (AMT), you may want to accelerate income and delay deductions. Items that may affect the AMT include the deductions for state property taxes and state income taxes, miscellaneous itemized deductions, and personal exemptions. Please call us for more information.

MAXIMIZE RETIREMENT PLAN CONTRIBUTIONS.

If you are an employee, contribute the maximum amount to your employer's retirement plan.

If you own an incorporated or unincorporated business, consider setting up a retirement plan if you don't already have one.

TAX SAVINGS STRATEGIES

There are a number of steps you might take by year-end to cut your 2011 tax bill, such as accelerating or deferring income, deferring deductions, and capital gain planning.

You can find many of these tax tips on our web site. Go to www.fradincpa.com/checklist, to find "Tax Savings Strategies: A Helpful Checklist" which provides an excellent overview. Other links listed here provide more in-depth guides to specific subjects, plus tax calculators to help you estimate the effect of some strategies.

These are just a few of the steps you might take. **Please contact us** for help in implementing these or other year-end planning strategies that might be suitable to your particular situation.



DEFER INCOME OR ACCELERATE DEDUCTIONS

You may be able to **defer income** into next year to lower this year's taxes if:

- You are planning on selling an investment on which you have a gain.
- You are due a bonus at year-end (unless the bonus is contractually due in 2011).
- You are planning to exercise a company stock option.
- You are self employed, and can afford to delay sending invoices to clients until the end of December.

You may be able to **accelerate deductions** into this year by:

- Paying your 4th quarter state estimated tax installment in December.
- Paying your entire property tax bill, including installments due in 2012, by year-end.

If you are employed or self-employed with no retirement plan, contribute the maximum amount of \$5,000 to a traditional IRA (\$6,000 if you are 50 or over).

- Bunching "threshold" expenses, such as medical expenses and miscellaneous itemized deductions. (Threshold expenses are deductible only to the extent they exceed a certain percentage of adjusted gross income.)

Tip: Expenses paid by credit cards are generally considered paid in the year of the charge regardless of when you pay on the card. This does not apply to store revolving credit cards.

USE YEAR-END GIVING TO REDUCE ESTATE TAX

Make lifetime gifts to family members to reduce your assets subject to future estate tax. Gifts to any donee are exempt from gift tax up to \$13,000 a year per donee. Husband-wife joint gifts to any third person are exempt from gift tax up to \$26,000 (\$13,000 each).

You must make your gifts, and the checks must be cashed, by December 31.

HEALTH SAVINGS ACCOUNTS.

Consider setting up a health savings account (HSA). Contributions are deductible, while investment earnings are tax-deferred until withdrawn, and amounts you withdraw are tax-free when used to



MAKE CHARITABLE CONTRIBUTIONS

You can donate property as well as money to a charity. A deduction is usually available for the fair market value of the property. However, for certain property, the deduction is limited to your cost basis. While you can also donate your services to charity, you may not deduct the value of these services. You may also be able to deduct charity-related travel expenses and some out-of-pocket expenses.

Note: A written record of charitable contribution is required. The record may be in the form of a bank record (such as a cancelled check) or a written communication from the charity showing the date and amount of the contribution.



INVESTMENT GAINS AND LOSSES

Minimize taxes on investments by judicious matching of gains and losses. Where appropriate, try to avoid short-term gains, which are usually taxed at a much higher tax rate (up to 35%) than long-term gains (15%).

Tip: If you have a large capital gain this year, consider selling an investment on which you have an accumulated loss. Capital losses are deductible up to the amount of your capital gains plus \$3,000.

Tip: If you have losses, you might consider selling securities at a gain and then immediately repurchasing them, since the 30-day rule does not apply to gains. That way, your gain will be tax-free, your original investment is restored and you have a higher cost basis for your new investment (i.e., any future gain will be lower).

Note: The maximum long term capital gains tax rate is currently

pay medical bills. To be eligible, you must have a high-deductible health plan (HDHP), and only such insurance, subject to numerous exceptions, and must not be enrolled in Medicare.

15%. This is set to rise to 20% in 2011. This potential change in rate in something to think about in your long term investment planning. Rhode Island taxes long-term capital gains at ordinary rates starting in 2010.



This publication is not intended to be financial or tax advice, but is intended only to inform the reader of recent developments. If you require financial or tax advice on a particular matter, please contact us directly at (401) 738-2900, or [email info@fradincpa.com](mailto:info@fradincpa.com)

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Fradin & Company, Ltd.
1000 Greenwich Ave
Warwick, RI 02886
401.738.2900
www.fradincpa.com
info@fradincpa.com

2011 TAX ORGANIZERS

We will be mailing the Tax Organizers for 2011 taxes early in January. The Organizer will be the condensed form we normally send. For most clients, the organizer will be an email attachment of the short form.

If you do not have email, we will send you the short form by mail.

If you wish to receive the full organizer instead of the short form, please call us before the end of the year so that we can prepare your organizer.