



phone 360.671.7891 333 Calluna Court, Suite 205  
toll free 888.671.7891 Bellingham WA 98226  
fax 360.671.4963 www.multop.com

## YEAR-END TAX UPDATE

Most tax laws in effect in 2010 have been extended through 2012. It would be safe to say this should give the taxpayers' some reprieve from any major changes to the tax code and an opportunity to do some short-term tax planning. There could be some minor changes before year-end, but it's more likely that we will see some major changes in 2013. Here are some quick spot-light ideas for the upcoming tax season which may help improve your taxable situation for 2011.

For more information on any of these particular strategies please call us and we will be happy to discuss them in more detail.

### Tax Planning for Individuals and Families

- 1. Eliminate/Reduce Capital Gains Taxes:** Capital gain income can only be offset by capital loss income. Therefore, if you suspect you may have a large amount of capital gains, either from the sale of rental or investment property, private business, or from highly appreciated stock; you may want to consider selling assets that would allow you to take a loss before December 31, 2011. This will help reduce your overall tax liability.
- 2. Itemized Deductions:** There may be some strategies you can employ if your itemized deductions are close to your standard deduction this year. It might make sense to pay certain expenses this year in order to raise your itemized deductions above your standard deduction, or conversely delay some payments into 2012 so that they increase your itemized deductions for the next tax year. If you defer payments into 2012 so that you may itemize in 2012, you still get to take the standard deduction for your 2011 tax return.

For example, charitable contributions and property taxes could be paid in December 2011 to increase your 2011 itemized deduction, or paid in January 2012 to increase your 2012 itemized deduction.

If your medical expenses are close to the 7.5% AGI limit you may want to schedule end-of-year appointments, buy new prescription glasses and contact lenses or medicines you'll need soon to increase your 2011 itemized deductions.

- 3. Contribute to Charities:** With the holidays coming up it's a perfect time to help out in the community by making your tax-deductible contributions to your favorite charity. Even if you don't have the money you can always take physical items like clothing, furniture, or even automobiles and donate them to local

charities such as Goodwill or your local church. Remember, the IRS requires that you have documentation to support your 2011 charitable contributions. Charity work expenses are tax deductible including mileage. Note: in order to deduct charitable contributions you must be itemizing your deductions.

4. **Retirement contributions:** If you have not yet contributed the maximum amount to your 401(k) or 403(b) (\$16,500 + \$5,500 catch-up contribution for those 50 years and older), look at changing your contribution amounts from your paychecks to contribute more to your 401K or 403b by year end. Note: You can contribute to your Traditional or Roth IRA's up until the tax filing deadline of April 17<sup>th</sup>, 2012.
5. **Energy Tax Credit:** The generous tax credit for residential energy efficient home improvements expired in 2010. For 2011, the credit is 10% of qualified improvements (including installation), up to \$500. This credit is a lifetime limit, so if you already maxed out your credit in 2010 you won't be eligible. Consider installing efficient property in your home such as insulation, doors and windows, or replace your old furnace.
6. **Roth Conversion:** You may still have time to decide if a full or partial Roth conversion makes sense for this year, but you better hurry. Note: the conversion amount is typically taxable in the year you convert. Deadline is December 31, 2011.
7. **Dependent Deductions:** Look at support provided for relatives. Remember to take into account the financial support you provide to qualifying relatives. Potential tax breaks include dependency exemptions and possibly head-of household filing status. Generally, you'll need to provide over half of your qualifying relatives living expenses, but if you are providing housing, it can add up quicker than you may think.
8. **Other Changes for 2011:**
  - The Kiddie Tax Exemption is \$1,900 for 2011.
  - The Gift Tax Exclusion remains at \$13,000/year for 2011 & 2012
  - The Standard Deduction will be increased for 2011.
    - \$11,600 for Married Filing Jointly & Qualified Widower
    - \$5,800 for Singles
    - \$8,500 for Head of Households
  - The Personal Exemption amount will also be increased to \$3,700 for 2011.
  - Long Term Capital Gains rates remain at 0 – 15% for 2011 & 2012. 28% for collectibles.

9. **Documentation Requirements:** We know there are a lot of documents you would like to get rid of, but there are some that you need to keep for a certain number of years. In addition we remind you to keep proper mileage logs for medical or charity work to substantiate your deduction.

-It's best to keep the following for at least:

-Personal tax returns (indefinitely)

-Supporting documentation for the tax returns (4 years)

-Documents pertaining to a purchase or improvement to your home, including motor home, boats and RV's if they qualify as a 2<sup>nd</sup> home (4 years after you sell the home).

### **Tax Planning for Business Owners**

1. **Purchase Equipment:** For business owners this year may be a last opportunity for an enhanced deduction. 100% bonus depreciation is scheduled to expire December 31, 2011. The IRC Section 179 for 2011 allows a deduction of up to \$500,000 for qualified equipment purchases. That means many small and medium sized business that make purchases by year end might be able to deduct most, if not all of their outlays for machinery and equipment. This limitation is scheduled to drop to \$125,000, indexed to inflation starting in 2012, if congress takes no action.
2. **Purchase Property:** For a limited time only, Section 179 expensing is available for qualified real property. Historically only tangible personal property qualified for this expensing method. For 2010 & 2011, up to \$250,000 of qualified real property can be treated as Section 179 property.
3. **Hiring Credit:** The hiring credit is still in effect for 2011. Take advantage of expiring credits worth up to 40% of the first \$6,000 in wages or \$2,400 if you hire qualifying workers by the end of 2011.
4. **Research & Development Credit:** Certain credits for research and product development will not be available for post-2011 expenditures unless Congress extends the credit.
5. **S-Corporation & Partnership Losses:** If you own an interest in an S-Corporation or Partnership, you can typically only deduct losses up to the value of what you've put into the entity. Consider providing cash by loaning to the entity in order to deduct maximum losses in 2011.

6. **Retirement Plan:** Now is a great time to contact our office and setup a retirement plan for your business. We offer 401(k)'s, Simple IRA's and everything in between for both small and large businesses. Taking action now may allow you to start taking full advantage of these financial benefits in 2012.

7. **Documentation Requirements:** In addition to a business mileage log, we want to remind you to keep proper documentation for meals & entertainment, charities, and other ordinary and necessary business expenses.

-It's best to keep the following for at least:

-Business tax returns (indefinitely)

-Supporting documentation for the tax returns (4 years)

-Revenue documents i.e. cash receipts, invoices, etc. (7 years)

-Expense records (4 years)

-Documents related to Capital purchases and improvements (4 years after you sell the asset).

**There is no substitution for personalized tax planning, therefore don't hesitate to contact us if you have any unique circumstances you would like to discuss. (360) 671-7891**

