



Year End Tax Planning For Individuals

As we approach year-end, it's again time to focus on last-minute moves you can make to save taxes, both on your 2011 return and in future years. Here are a few tax-saving ideas to get you started. Before we get to specific suggestions, however, remember that effective tax planning requires considering both this year and next year, at least. Without a multiyear outlook, you can't be sure moves intended to save taxes on your 2011 return won't cost additional money in the future. As always, we would be happy to discuss these ideas and others with you.

Deferring Income Until 2012

If you expect your AGI to be higher in 2011 than in 2012, or if you anticipate being in the same or a higher tax bracket in 2011, you may benefit by deferring income into 2012. Deferring income will be advantageous so long as the deferral does not bump your income to the next bracket. Deferring income could be disadvantageous, however, if your deferred income is subject to Section 409A, thus making the income includible in gross income and subject to additional tax. Some ways to defer income include:

- **Delay Billing:** If you are self-employed and on the cash-basis, delay year-end billing to clients so that payments will not be received until 2012.
- **Timing of Sales:** You may want to time the sale of assets so as to have offsetting capital losses and gains. Capital losses may be fully deducted against capital gains and also may offset up to \$3,000 of ordinary income. When and whether to recognize such losses should be analyzed in light of the possible future changes in the capital gains rates applicable to your specific investments.

Accelerating Income Into 2011

In limited circumstances, you may benefit by accelerating income into 2011. For example, you may anticipate being in a higher tax bracket in 2012, or perhaps you will need additional income in order to take advantage of an offsetting deduction or credit that will not be available to you in future tax years. Note, however, that accelerating income into 2011 will be disadvantageous if you expect to be in the same or lower tax bracket for 2012. If accelerating income will be beneficial, there are various ways to accomplish this and we would be more than happy to discuss those methods with you.

Deduction Planning

Deduction timing is also an important element of year-end tax planning. Deduction planning is complex, however, due to factors such as AGI levels and filing status. If you are a cash-method taxpayer, remember to keep the following in mind:

- **Deduction in Year Paid:** An expense is only deductible in the year in which it is actually paid. Under this rule, if your tax rate is going to increase in 2012, it is a smart strategy to postpone deductions until 2012.
- **State Taxes:** If you anticipate a state income tax liability for 2011 and plan to make an estimated payment, consider making the payment before the end of 2011 (if you pay alternative minimum



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tax, however, this strategy may not be beneficial). Note that in 2011, taxpayers may elect to deduct as an itemized deduction state and local sales taxes instead of state and local income taxes. This benefits taxpayers that reside in states without an income tax.

This provision expires at the end of 2011, so you would want to take advantage of it now by making large purchases in 2011 rather than waiting until 2012.

- **Charitable Contributions:** Consider making your charitable contributions at the end of the year. This will give you use of the money during the year and simultaneously permit you to claim a deduction for that year. You can use a credit card to charge donations in 2011 even though you will not pay the bill until 2012. A mere pledge to make a donation is not deductible, however, unless it is paid by the end of the year. To avoid capital gains, you may want to consider giving appreciated property to charity.

A special provision gives taxpayers the ability to distribute tax-free to charity up to \$100,000 from a traditional or Roth IRA maintained for an individual whose has reached age 70 1/2. This provision expires at the end of 2011, so you would want to take advantage of it now.

Charitable contributions of money, regardless of the amount, will be denied a deduction, unless the donor maintains a cancelled check, bank record, or receipt from the donee organization showing the name of the donee organization, and the date and amount of the contribution.

Energy Incentives

- **Residential Energy Efficient Property Credit:** Until 2016, a tax credit is available to taxpayers who install certain energy efficient property, such as photovoltaic panels, solar water heating property, fuel cell property, small wind energy property and geothermal heat pumps.
- **Nonbusiness Energy Property Credit:** For 2011, property qualifying for the nonbusiness energy property credit includes windows, skylights, exterior doors, insulation, metal roofs, advanced main air circulating fans, natural gas, propane, or oil furnace or hot water boilers, and other energy efficient building property that meets certain energy standards. For 2011, the credit is 10% of the cost of the improvement(s) up to a maximum credit of \$500. The property must be installed by the end of 2011 to qualify. This credit expires at the end of 2011.

2011 Retirement Savings Rules

Tax-saving opportunities continue for retirement planning due to the availability of Roth IRAs, changes that make regular IRAs more attractive, and other retirement savings incentives.

- **401(k) Contribution:** The §401(k) elective deferral limit is \$16,500 for 2011. If your §401(k) plan has been amended to allow for catch-up contributions for 2011 and you will be 50 years old by December 31, 2011, you may contribute an additional \$5,500 to your §401(k) account, for a total maximum contribution of \$22,000.
- **Traditional IRA:** Individuals who are not active participants in an employer pension plan may make deductible contributions to an IRA. The annual deductible contribution limit for an IRA for 2011 is \$5,000. For 2011, a \$1,000 "catch-up" contribution is allowed for taxpayers age 50 or older by the close of the taxable year, making the total limit \$6,000 for these individuals.

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- **Roth IRA:** This type of IRA permits nondeductible contributions of up to \$5,000 a year. Earnings grow tax-free, and distributions are tax-free provided no distributions are made until more than five years after the first contribution and the individual has reached age 59½.
- **Conversion to Roth IRA:** Funds in a traditional IRA, 401(k), 403(b), or 457 plan may be rolled over into a Roth IRA. Such a rollover, however, is treated as a taxable event, and you will pay tax on the amount converted. No penalties will apply if all the requirements for such a transfer are satisfied. For 2011, the \$100,000 income limit on Roth IRA conversions does not apply, and taxpayers will be able to make Roth IRA conversions without regard to their AGI. If you convert to a Roth IRA in 2011, the tax on the converted amount will have to be paid in the year of conversion.

Also, if you already made a conversion earlier this year, you have the option of undoing the conversion. This is a useful strategy if the investments have gone down in value.

Alternative Minimum Tax

For 2011, the alternative minimum tax (AMT) exemption amounts will remain high enough to spare millions of taxpayers from the AMT effect. If, however, you are subject to the AMT, some of the standard year-end planning ideas will not reduce your tax liability because different rules apply. Due to the AMT's complexity, it would be wise for us to analyze your AMT exposure.

Estate and Gift Planning

For 2011 and 2012, the unified federal gift and estate tax exemption is a relatively generous \$5 million. The exemption, however, will drop back to only \$1 million in 2013 unless Congress takes action to extend the current exemption amount. With the annual gift tax exclusion, individuals can give \$13,000 in 2011 to an unlimited number of donees.

Considering the generous \$5 million exemption amount, this is an opportune time to develop a gifting strategy to minimize or potentially eliminate any future estate tax liability. For those that already have a strategy in place, now may be an excellent time to update that plan to reflect the current \$5 million exemption.

Other Items of Interest for Individuals

While not directly impacting year end income tax planning, there are some other items you should be aware of that may impact your 2011 and future tax returns.

- **FATCA Specified Foreign Financial Asset Reporting:** This provision requiring additional reporting about certain foreign financial assets is generally effective for 2011 tax returns; the IRS has issued draft Form 8938 and related instructions. This provision is separate from and often will require more information than the now well-known FBAR reporting, and failure to comply can have consequences beyond just penalties for not complying with the reporting requirement itself. It is not too soon to start looking into this new reporting requirement and gathering information that will be required to comply

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- **1099-B Basis Reporting:** For those with brokerage accounts, you likely have been receiving correspondence during the year regarding the new requirements for brokers to keep track of and report cost basis along with sales proceeds on 1099-B forms starting in 2011. In conjunction with this, you may have been making elections with brokers as to what cost basis defaults they will use on sales in your account (FIFO, specific identification, etc.). Brokers may not have historic cost basis information on assets purchased prior to this year, or transferred into an account from another source. Updating this historic cost basis information in your broker accounts now can ease the burden of gathering this information at tax time, and can give you better potential gain/loss information with which to make investment decisions, as well as help make sure your cost basis default elections are appropriate.
- **Congressional Super Committee:** This committee, formed as part of the budget and deficit reduction squabbles earlier this year, is supposed to issue its recommendations by November 23, and it is anticipated that tax provisions will be a key component of those recommendations.

For more information contact **Joyce Waterbury** at joyce.waterbury@dhgllp.com.

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