



Newsletter

TAX TIPS

Mid-Year Tax Planning

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To Our Clients and Friends:

Thanks to the extension of the so-called Bush tax cuts through 2012, the current federal income tax environment remains favorable. Now is the time to take advantage because we don't know what tax rates will be in 2013 and beyond. While 2013 may seem a long way out, it will be here before you know it. This letter presents some tax planning ideas to consider this summer while you have time to think. Some of the ideas may apply to you, some to family members, and others to your business. Here goes.

Leverage Standard Deduction by Bunching Deductible Expenditures

Are your 2011 itemized deductions likely to windup being just under, or just over, the standard deduction amount? If so, consider the strategy of bunching together expenditures for itemized deduction items every other year, while claiming the standard deduction in the intervening years. The 2011 standard deduction for married joint filers is \$11,600; the magic number for single filers is \$5,800; it's \$8,500 for heads of households. Examples of deductible items that can be bunched together every other year to lower your federal income taxes include charitable contributions and state income and property tax payments.

Consider Deferring Income

It may also pay to defer some taxable income from this year into next year, especially if you expect to be in a lower tax bracket in 2012. For example, if you're in business for yourself and a cash-method taxpayer, you can postpone taxable income by waiting until late in the year to send out some client invoices. That way, you won't receive payment for them until early 2012. You can also postpone taxable income by accelerating some deductible business expenditures into this year. Both moves will defer taxable income from this year until next year. Deferring income may also be helpful if you're affected by unfavorable phase-out rules that reduce or eliminate various tax breaks (child tax credit, education tax credits, and so forth). By deferring income every other year, you may be able to take more advantage of these breaks every other year.

Note: For higher-income taxpayers, it may not be advisable to repeat the income deferral drill in 2012 because pushing income from 2012 into 2013 could expose them to higher marginal tax rates in 2013. For 2013, the top two federal income tax rates will increase to 36% and 39.6% (up from the current 33% and 35%) unless Congress takes action.

Time Investment Gains and Losses and Consider Being Bold about It

As you evaluate investments held in your taxable brokerage firm accounts, consider the impact of selling appreciated securities this year. The maximum federal income tax rate on long-term capital gains realized from 2011 sales of securities held for over a year is only 15%. Therefore, it often makes sense to hold appreciated securities for at least a year and a day before selling.

Biting the bullet and selling some loser securities (currently worth less than you paid for them) before year-end can also be a good idea. The resulting capital losses will offset capital gains from other sales this year, including short-term gains from securities owned for one year or less, which would otherwise

be taxed at higher ordinary income tax rates. You may have significant short-term gains if you bought into the stock market before this year's uptick. The bottom line is that you don't have to worry about paying a higher tax rate on short-term gains if you have enough capital losses to shelter those short-term gains.

If capital losses for this year exceed capital gains, you will have a net capital loss for 2011. You can use that net capital loss to shelter up to \$3,000 of this year's high-taxed ordinary income from salaries, bonuses, self-employment, and so forth (\$1,500 if you're married and file separately). Any excess net capital loss is carried forward to next year.

Important Point: Selling enough loser securities to create a bigger net capital loss that exceeds what you can use this year might make sense. You can carry forward the excess net capital loss to 2012 and beyond and use it to shelter both short-term gains and long-term gains recognized in those years. That will give you extra investing flexibility in 2012 and beyond because you won't have to hold appreciated securities for over a year to get better tax results. Remember: the maximum federal income tax rate on long-term capital gains is scheduled to increase to 20% for 2013 and beyond (up from the current 15%). Also, the top two federal rates on ordinary income (including net short-term capital gains) are scheduled to increase for 2013 and beyond to 36% and 39.6% (up from the current 33% and 35%).

Take Advantage of Generous But Temporary Business Tax Breaks

Several favorable business tax provisions have a limited shelf life that may dictate taking action between now and year-end. They include the following:

Bigger Section 179 Deduction. Your business may be able to take advantage of the temporarily increased Section 179 deduction. Under the Section 179 deduction privilege, an eligible business can often claim first-year depreciation write-offs for the entire cost of new and used equipment and software additions. For tax years beginning in 2011, the maximum Section 179 deduction is \$500,000 (same as for tax years beginning in 2010). For tax years beginning in 2012, however, the maximum deduction is scheduled to drop back to \$125,000.

Note: Watch out if your business is already expected to have a tax loss for the year (or close) before considering any Section 179 deduction as you cannot claim a Section 179 write-off that would create or increase an overall business tax loss. Please contact us if you think this might be an issue for your operation.

Section 179 Deduction for Real Estate. Real property improvement costs are generally ineligible for the Section 179 deduction privilege. However an exception applies to tax years beginning in 2011 (and 2010). Under the exception, your business can immediately deduct up to \$250,000 of qualified improvement costs for the following types of real property under the Section 179 deduction privilege:

- Interiors of leased nonresidential buildings.
- Restaurant buildings.
- Interiors of retail buildings.

The \$250,000 Section 179 allowance for real estate improvements is part of the overall \$500,000 allowance. This temporary real estate break will not be available for tax years beginning after 2011 unless Congress extends it.

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Note: Once again, watch out if your business is already expected to have a tax loss for the year (or close) before considering any Section 179 deduction. You can't claim a Section 179 write-off that would create or increase an overall business tax loss.

100% First-year Bonus Depreciation. Above and beyond the bumped-up Section 179 deduction, your business can also claim first-year bonus depreciation equal to 100% of the cost of most new (not used) equipment and software placed in service by December 31 of this year. For a new passenger auto or light truck that's used for business and is subject to the luxury auto depreciation limitations, the 100% bonus depreciation break increases the maximum first-year depreciation deduction by \$8,000 for vehicles placed in service this year. The 100% bonus depreciation break will expire at year-end unless Congress extends it. Contact us if you want more details about this generous, but temporary, break.

Don't Overlook Estate Planning

For 2011 and 2012, the unified federal gift and estate tax exemption is a relatively generous \$5 million. However, the exemption will drop back to only \$1 million in 2013 unless Congress takes action. In addition, the maximum federal estate tax rate for 2011 and 2012 is 35%. For 2013 and beyond, it is scheduled to rise from the current 35% to a painfully high 55%. Therefore, planning to avoid or minimize the federal estate tax should still be part of your overall financial game plan. Even if you already have a good plan, it may need updating to reflect the current \$5 million exemption.

Conclusion

As we said at the beginning, this letter is intended to give you just a few ideas to get you thinking about tax planning moves for the rest of this year. Please don't hesitate to contact us if you want more details or would like to schedule a tax planning strategy session. We are at your service!

Very truly yours,
Weiss + Reardon & Company, P.C.



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If you would prefer to receive future newsletters electronically (or to be removed from our mailing list), send your request via e-mail to rg@thereardongroup.com

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