



# Newsletter

## TAX TIPS

### Year-End Tax Planning

*The Reardon Group of Companies:*  
**Weiss + Reardon & Company, P.C.**  
*Accounting, Tax Planning & Preparation*  
**Reardon Consulting, Inc.**  
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#### **To Our Clients and Friends:**

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. Before we get to specific suggestions, here are two important considerations to keep in mind.

First, remember that effective tax planning requires considering both this year and next year—at least. Without a multiyear outlook, you can't be sure maneuvers intended to save taxes on your 2011 return won't backfire and cost additional money in the future. For example, postponing a stock sale gain until next year would reduce your 2011 adjusted gross income (good), but increase the 2012 figure (bad). Higher income next year could make you ineligible for the child tax credit; reduce or eliminate the credits or deduction for college expenses; limit deductible losses from your rental real estate investments; and so on.

Second, be on the alert for the Alternative Minimum Tax (AMT) this year. It's an add-on tax over and above your "regular" tax. Although you may have never owed AMT in the past, your odds of being hit are higher now. Why? Because the tax brackets, standard deduction, and personal exemption allowances used in calculating your regular tax liability are all indexed annually for inflation. Most AMT parameters are not. The odds of owing the tax go up every year due to this factor alone. The risk goes up another notch or two if you deduct a significant amount of state and local taxes or miscellaneous itemized deductions (like unreimbursed employee business expenses) or claim multiple dependents. These deductions are not allowed against the AMT. Finally, if you exercised incentive stock options or recognized a large capital gain this year, consider yourself a likely AMT victim.

Here are a few tax-saving ideas to get you started. As always, you can call on us to help you sort through the options and implement strategies that make sense for you.

- For 2011, the standard deduction is \$11,600 for married taxpayers filing joint returns and \$5,800 for single taxpayers. These amounts will likely be about the same for 2012. If your total itemized deductions are normally close to these amounts, you may be able to leverage the benefit of your deductions by bunching deductions in every other year. This allows you to time your itemized deductions so that they are high in one year and low in the next. For instance, you might consider moving charitable donations you normally would make in early 2012 to the end of 2011. If you're temporarily short on cash, charge the contribution to a credit card—it is deductible in the year charged, not when payment is made on the card. You can also accelerate payments of your real estate taxes or state income taxes otherwise due in early 2012. But, watch out for the Alternative Minimum Tax (AMT), as these taxes are not deductible for AMT purposes.
- If you have appreciated stock that you've held more than a year and you plan to make significant charitable contributions before year-end, keep your cash and donate the stock (or mutual fund shares) instead. You'll avoid paying tax on the appreciation, but will still be able to deduct the donated property's full value. However, if the stock is now worth less than when you acquired it, sell the stock, take the loss, and then give the cash to the charity. If you give the stock to the charity, your charitable deduction will equal the stock's current depressed value and no capital loss will be available.

- If you're age 70½, or older, you can arrange to transfer up to \$100,000 of otherwise taxable IRA money to a charity. Such a transfer is federal-income-tax-free to you, but you don't get to claim a charitable deduction on your Form 1040. However, the tax-free treatment equates to a 100% write-off, and you don't have to itemize your deductions to get it. Be careful—to qualify for this special tax break, the funds must be *transferred directly* from your IRA to the charity. Also, this favorable provision will expire at the end of this year unless Congress extends it. So, this could be your last chance.
- If you have a 401(k) plan at work, it's just about time to tell your company how much you want to set aside on a tax-free basis for next year. Contribute as much as you can stand, especially if your employer makes matching contributions. You give up "free money" when you fail to participate to the max for the match.
- Because of the roller-coaster stock market this year, you may have investments that are worth less than what you paid for them. If so, you may want to cut some of your losses before year-end to gain a tax benefit. Losses are normally deductible to the extent of any capital gains that you've realized this year, plus an additional \$3,000 (or \$1,500 for married individuals filing a separate return).
- If it looks like you are going to owe income taxes for 2011, consider bumping up the Federal income taxes withheld from your paychecks now through the end of the year. When you file your return, you will still have to pay any taxes due less the amount paid in. However, penalties will be minimized, if not eliminated.

### Ideas for Your Business

**Take Advantage of Tax Breaks for Purchasing Equipment, Software, and Certain Real Property.** If you have plans to buy a business computer, office furniture, equipment, vehicle, or other tangible business property or to make certain improvements to real property, you might consider doing so before year-end to capitalize on the following generous, but temporary tax breaks:

- *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. (However, limits apply to the amount that can be deducted for most vehicles.) For tax years beginning in 2011, the maximum Section 179 deduction is \$500,000. For tax years beginning in 2012, however, the maximum deduction is scheduled to drop back to \$125,000.
- *Section 179 Deduction for Real Estate.* Real property costs are generally ineligible for the Section 179 deduction privilege. However, an exception applies to tax years beginning in 2011. Under the exception, your business can immediately deduct up to \$250,000 of qualified costs for restaurant buildings and improvements to interiors of retail and leased nonresidential buildings. The \$250,000 Section 179 allowance for these real estate expenditures 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.

**Note:** Watch out if your business is already expected to have a tax loss for the year (or be 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.

- **Claim the Health Insurance Tax Credit for Small Employers.** Qualifying small employers can claim a tax credit that can potentially cover up to 35% of the cost of providing health insurance coverage to employees. A qualifying small employer is one that: (1) has no more than 25 Full-time Equivalent (FTE) workers, (2) pays an average FTE wage of less than \$50,000 and (3) has a qualifying healthcare arrangement in place. The allowable credit is quickly reduced under a complicated phase-out rule when the employer has more than 10 FTE employees or an average FTE wage in excess of \$25,000. Please contact us if you have questions about this break.

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### 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

Through careful planning, it's possible your 2011 tax liability can still be significantly reduced, but don't delay. The longer you wait, the less likely it is that you'll be able to achieve a meaningful reduction. The ideas discussed in this letter are a good way to get you started with year-end planning, but they're no substitute for personalized professional assistance.

Again, these are just a few suggestions to get you thinking. Please call us if you'd like to know more about them or want to discuss other ideas.

Very truly yours,

**Weiss + Reardon & Company, P.C.**



**Shawn J. Dorsett**  
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