

Dear Client:

TAX PLANNING

The year's end is approaching, so now is the best time to schedule in some year-end tax planning. This year, tax planning is especially challenging because of uncertainty over whether Congress will enact sweeping tax reform that could have a major impact in 2012 and beyond. Regardless of what is done, there are solid tax savings to be realized by taking advantage of tax breaks that are on the books for 2011 but may be gone next year.

We have compiled a checklist of actions based on current tax rules that may help you save tax dollars if you act before year-end. Not all actions will apply in your particular situation, but you will likely benefit from many of them. We can narrow down the specific actions that you can take once we meet with you to tailor a particular plan. Please take a moment to visit our website – wadecpa.com – under the link 'Newsletter' for some standard information that you should consider regarding this year's tax situation. In the meantime, please review the following list and contact us at your earliest convenience so that we can advise you on which tax-saving moves to make:

INDIVIDUALS

- **Postpone Income and Accelerate Deductions** - Postpone income until 2012 and accelerate deductions into 2011 to lower your 2011 tax bill. This strategy may enable you to claim larger deductions, credits, and other tax breaks for 2011 that are phased out over varying levels of adjusted gross income (AGI). These include child tax credits, higher education tax credits, the above-the-line deduction for higher-education expenses, and deductions for student loan interest. Postponing income also is desirable for those taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances.
 - **Salary Bonus** - It may be advantageous to try to arrange with your employer to defer a bonus that may be coming your way until 2012.
 - **Withholding** - If you expect to owe state and local income taxes when you file your return next year, consider asking your employer to increase withholding of state and local taxes (or pay estimated tax payments of state and local taxes) before year-end to pull the deduction of those taxes into 2011.
 - **Expenses** - Consider using a credit card to prepay expenses that can generate deductions for this year.
 - **Major Purchases** - Accelerate big ticket purchases into 2011 in order to assure a deduction for sales taxes on the purchases.
 - **Residential Energy Improvements** - If you are a homeowner, make energy saving improvements to the residence, such as putting in extra insulation or installing energy saving windows, or an energy efficient heater or air conditioner. You may qualify for a tax credit if the assets are installed in your home before 2012. (Maximum credit is \$1,500, including prior year claims.)
- **Employer's Health Flexible Spending Account (FSA)** - Increase the amount you set aside for next year in your employer's health flexible spending account (FSA) if you set aside too little for this year. Don't forget that you can no longer set aside amounts to get tax-free reimbursements for over-the-counter drugs, such as aspirin and antacids.
- **Health Savings Account (HSA)** - If you become eligible to make health savings account (HSA) contributions in December of this year, you can make a full year's worth of deductible HSA contributions for 2011.

- **Stock Investments** - Realize losses on stock while substantially preserving your investment position. For example, you can sell the original holding, then buy back the same securities at least 31 days later.
- **Traditional IRA** - If you believe a Roth IRA is better than a traditional IRA, and want to remain in the market for the long term, consider converting traditional-IRA money into a Roth IRA if eligible to do so. Keep in mind, however, that such a conversion will increase your adjusted gross income for 2011.
- **Roth IRA** - If you converted assets in a traditional IRA to a Roth IRA earlier in the year, the assets in the Roth IRA account may have declined in value, and if you leave things as-is, you will wind up paying a higher tax than is necessary. You can back out of the transaction by recharacterizing the rollover or conversion, that is, by transferring the converted amount (plus earnings, or minus losses) from the Roth IRA back to a traditional IRA via a trustee-to-trustee transfer. You can later reconvert to a Roth IRA.
- **Rollover Distribution** - Take an eligible rollover distribution from a qualified retirement plan before the end of 2011 if you are facing a penalty for underpayment of estimated tax and the increased withholding option is unavailable or won't sufficiently address the problem. Income tax will be withheld from the distribution and will be applied toward the taxes owed for 2011. You can then timely roll over the gross amount of the distribution, as increased by the amount of withheld tax, to a traditional IRA. No part of the distribution will be includible in income for 2011, but the withheld tax will be applied pro rata over the full 2011 tax year to reduce previous underpayments of estimated tax.
- **Required Minimum Distributions (RMDs)** - Take required minimum distributions (RMDs) from your IRA or 401(k) plan (or other employer-sponsored retired plan) if you have reached age 70-½. Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn. If you turned age 70-1/2 in 2011, you can delay the first required distribution to 2012, but if you do, you will have to take a double distribution in 2012—the amount required for 2011 plus the amount required for 2012. Think twice before delaying 2011 distributions to 2012—bunching income into 2012 might push you into a higher tax bracket or have a detrimental impact on various income tax deductions that are reduced at higher income levels. However, it could be beneficial to take both distributions in 2012 if you will be in a substantially lower bracket that year, for example, because you plan to retire late this year.
- **Charitable IRA Gifts** - If you are age 70-1/2 or older, own IRAs and are thinking of making a charitable gift, consider arranging for the gift to be made directly by the IRA trustee. Such a transfer, if made before year-end, can achieve important tax savings.
- **Gifts** - Make gifts sheltered by the annual gift tax exclusion before the end of the year and thereby save gift and estate taxes. You can give \$13,000 in 2011 to each of an unlimited number of individuals but you can't carry over unused exclusions from one year to the next. The transfers also may save family income taxes where income-earning property is given to family members in lower income tax brackets who are not subject to the kiddie tax.
- **Qualified Higher Education Expenses** – The up-to-\$4,000 above-the-line deduction for qualified higher education expenses will not be available after 2011, unless extended. Thus, consider prepaying eligible expenses if doing so will increase your deduction for qualified higher education expenses.
- **Qualified Small Business Stock (QSBS)** - **Purchase qualified small business stock (QSBS)** before the end of this year. There is no tax on gain from the sale of such stock if it is (1) purchased after September 27, 2010 and before January 1, 2012, and (2) held for more than five years. To qualify for these breaks, the stock must be issued by a regular (C) corporation with total gross assets of \$50 million or less, and a number of other technical requirements must be met. Our office can fill you in on the details.
- **Contested Taxes** - You may want to pay contested taxes to be able to deduct them this year while continuing to contest them next year.

- **Insurance/Damage Claim** - You may want to settle an insurance or damage claim in order to maximize your casualty loss deduction this year.

BUSINESSES

- **Business Property Expensing** - Businesses should consider making expenditures that qualify for the business property expensing option. For tax years beginning in 2011, the expensing limit is \$500,000 and the investment ceiling limit is \$2,000,000. And a limited amount of expensing may be claimed for qualified real property. However, unless Congress changes the rules, for tax years beginning in 2012, the dollar limit will drop to \$139,000, the beginning-of-phaseout amount will drop to \$560,000, and expensing won't be available for qualified real property.
- **Bonus Depreciation** - Businesses also should consider making expenditures that qualify for 100% bonus first year depreciation if bought and placed in service this year. Enterprises planning to purchase new depreciable property this year or the next should try to accelerate their buying plans, if doing so makes sound business sense.
- **Work Opportunity Tax Credit (WOTC)** - Nail down a work opportunity tax credit (WOTC) by hiring qualifying workers (such as certain veterans) before the end of 2011.
- **Research Expense** - Make qualified research expenses before the end of 2011 to claim a research credit.
- **Self-Employed Retirement Plan** - If you are self-employed and haven't done so yet, set up a self-employed retirement plan.
- **Debt-Cancellation Deferral** - Depending on your particular situation, you may also want to consider deferring a debt-cancellation event until 2012.
- **Disposition of Passive Activity** - dispose of a passive activity to allow you to deduct suspended losses.
- **Basis Increase in Owned Entities** - If you own an interest in a partnership or S corporation you may need to increase your basis in the entity so you can deduct a loss from it for this year.

These are just some of the year-end steps that can be taken to save taxes. Again, by contacting us, we can tailor a particular plan that will work best for you. At the time of meeting, please furnish us with any material changes from your 2010 tax return; we can then assume all other 2010 amounts are materially the same in 2011. We will also need the amount of tax withheld and estimated tax payments actually paid for both state and federal.

To schedule your appointment, please call us at 843.681.9446, fax at 843.681.4978, or email tina@wadecpa.com. If you are confident that tax planning is not necessary for 2011, then we look forward to hearing from you next year, and enjoy the holiday season!

Very truly yours,

Wade & Associates, LLC