# STANISLAWSKI & COMPANY, INC.

*A Certified Public Accounting and Business Consulting Firm*

November ~ December 2011

**RE: 2011 Year End Tax Planning**

Dear Friends of Stanislawski & Company, Inc.:

We would like to remind you that the 2011 year end is quickly approaching. Year-end tax planning is especially challenging this year because of uncertainty over whether Congress will enact sweeping tax reform that could have a major impact in 2012 and beyond. And even if there's no major tax legislation in the immediate future, Congress next year still will have to grapple with a host of thorny issues, such as whether to once again “patch” the alternative minimum tax (e.g., to avoid a drastic drop in post-2011 exemption amounts), and what to do about the post-2012 expiration of the Bush-era income tax cuts (including the current tax rate schedules, and low tax rates for long-term capital gains and qualified dividends), and the expiration of favorable estate and gift rules for estates of decedents dying, gifts made, or generation-skipping transfers made after December 31, 2012.

Regardless of what Congress does late this year or early the next, 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 unless they are extended by Congress. These include, for individuals: the above-the-line deduction for qualified higher education expenses; and tax-free distributions by those age 70 ½ or older from IRAs for charitable purposes. For businesses, there are tax breaks and tax credits that are available through the end of this year but won't be around next year unless Congress acts.

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. 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.

### Year-End Tax Planning Moves for Individuals

- 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.
- 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.
- Realize losses on stock while substantially preserving your investment position. There are several ways this can be done. For example, you can sell the original holding, then buy back the same securities at least 31 days later. It may be advisable for us to meet to discuss year-end trades you should consider making.
- 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 invested in beaten-down stocks (or mutual funds) into a Roth IRA if eligible to do so. Keep in mind, however, that such a conversion will increase your AGI for 2011.
- 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.
- 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 tax deduction of those taxes into 2011 if doing so won't create an alternative minimum tax (AMT) problem.

- Consider using a credit card to prepay expenses that can generate deductions for this year.
- You may be able to save taxes this year and next by applying a bunching strategy to "miscellaneous" itemized deductions, medical expenses and other itemized deductions. Examples include extending your subscriptions to professional journals, paying union or professional dues and estate tax attorney fees, enrolling in (and paying tuition for) job-related courses, etc.
- Make energy saving improvements to your personal residence, such as putting in extra insulation or installing energy saving windows, and energy efficient heaters or air conditioners. You may qualify for a tax credit if the assets are installed in your home before 2012.
- Unless Congress extends it, the up-to-$4,000 above-the-line deduction for qualified higher education expenses will not be available after 2011.
- Take required minimum distributions (RMDs) from your IRA or 401(k) plan (or other employer-sponsored retirement 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 ½ 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.
- 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.

**Year-End Tax-Planning Moves for Business Owners**

- 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. The generous dollar ceilings that apply this year mean that many small and medium sized businesses that make timely purchases will be able to currently deduct most if not all their outlays for machinery and equipment. What's more, the expensing deduction is not prorated for the time that the asset is in service during the year. This opens up significant year-end planning opportunities. Remember also that these deductions have limitations (you need to show net income in order to take these deductions).
- Businesses also should consider making expenditures that qualify for 100% bonus first-year depreciation if bought and placed in service this year. This 100% first-year write off generally won't be available next year unless Congress acts to extend it. Thus, 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. Remember also that these deductions have limitations (you need to show net income in order to take these deductions).
- If you are self-employed and haven't done so yet, set up a self-employed retirement plan. All new pension plans (except for an IRA or SEP-IRA) must be formalized and signed before December 31, 2011!
- If you own an interest in a partnership, limited liability company 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.

Thank you so much for another year of working together. Please remember business is great at Stanislawski & Company and we are looking for more. Your referrals are greatly appreciated.

Best Regards,

Charles G. Stanislawski, M.B.T., C.P.A.