

Year-End Tax Strategies

December 2011

Dear Friends of Our Firm,

Undoubtedly, you are interested in shifting income and expenses at year-end when it's appropriate. Here are 10 ways to accomplish this.

#1 If this makes economic sense and you have capital losses this year or a capital loss carry forward, consider selling off securities that will net a gain to offset these losses. Or if you have capital gains this year, sell off some securities that will net a capital loss. The capital gain tax rate is 0% if you're in the 10 or 15% tax bracket.

#2 If you install energy-saving improvements before year end, you can claim a credit up to 10% of some qualified expenses and 100% of others, up to a maximum of \$500. This is reduced by credits that you have taken in the past. Some of the improvements include insulation, outside doors and windows, A/C units and furnaces. No more than \$200 can be taken as a credit for windows. The equipment must be installed by year-end. Congress may extend these credits to next year.

#3 Clean out your garage or closets and donate your clothes and household items to charitable organizations by year-end. You can deduct the fair market value of items you have held for over 1 year. The property must be in good condition. Or charge by credit card a donation by year-end even if you don't pay it till next year. Keep good records and receipts. Also, volunteer during the holiday season and take a write-off for your out of pocket expenses. You can also deduct 14cents a mile. Keep your receipts. Your time isn't tax deductible.

#4 If you are paying AMT tax and are in a higher ordinary tax bracket than 28%, consider accelerating taxable income into this year. You will be taxed at the top rate of 28%. Or if practical, postpone tax preference items into 2012. A few tax preference items are certain intangible drilling costs, percentage depletion and tax-exempt interest.

#5 Take advantage of local sales tax deduction paid on larger items before year-end. This deduction expires after this year-end. You claim the greater of state income taxes paid or sales tax paid in total for the year (generally an income based sales tax table by state and local taxes by applicable rate + sales tax on large items)

#6 If you have a lot of medical expenses paid already this year, think about paying additional medical expenses by year end. As you recall medical expenses are an itemized deduction to the extent they exceed 7.5% of your adjusted gross income. Medical miles driven are deductible at 19 cents for the first half of the year and 23.5 cents the last half. Long-term care premiums are also deductible depending on your age from \$340 up to \$4,240.

#7 If you're thinking about cleaning out your flexible spending account by year end as you're in a use it or lose it situation, keep in mind that starting this year you can't use flex funds to pay for over the counter medicines. For a list of what is allowed, refer to IRS publication 502. The same rules apply to health savings accounts.

#8 If your IRA investments have tumbled this year, you might consider converting part of your traditional IRA to a Roth IRA. If you're planning on withdrawing this money soon, this strategy wouldn't be advised. You might consider making a larger charitable donation as well to offset the taxable income generated by the conversion.

#9 You might consider providing more than 50% of the support for your college student to claim the child as a dependent. There is no income limit for your child if they are full time students and under the age of 24. You can qualify for all or some of the tuition credit if your income is less than \$90,000 (single) and \$180,000 (joint).

#10 You can prepay the state income taxes due January 15, 2012 to increase your itemized deductions this year. This strategy will not work if you're in the AMT (alternative minimum tax). This can also work if you pay your real estate taxes or a prior year state income tax due by year-end.

Contact us at (303) 447-1626 to ensure that you are meeting all the recordkeeping requirements in these areas.

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