2012 YEAR-END TAX TIPS

Use this Checklist and then Call Us

Not all these tips based on current tax rules will apply in your particular situation, but you (or a family member) are likely to benefit from many of them. The sooner you call us and make an appointment, the more time we will have to meet, narrow down the specific actions that will benefit you and your family and get you started on your year-end tax-saving moves.

- ☐ Check your 2012 income tax withholding and estimated tax payments. Tax-saving provisions that expired last year and the AMT can combine to create a terrible surprise when you file your tax return. It would be a shame to pay a penalty for under-withholding.

- ☐ 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.

- ☐ Harvest your losses on stocks 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 that Congress will not allow the 2001 Bush tax cuts to expire for your tax bracket, you should postpone income until 2013 and accelerate deductions into 2012 in order to lower your 2012 tax bill. This strategy may enable you to claim larger deductions, credits, and other tax breaks for 2012 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.

- ☐ Keep in mind that delaying 2012 income into 2013 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 2013 if you will be in a substantially lower bracket that year, for example, because you plan to retire late this year.

- ☐ Postponing income also is desirable for those taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances. Note, however, that in some cases, it may pay to actually accelerate income into 2012. For example, this may be the case where a person's marginal tax rate is much lower this year than it will be next year.

- ☐ If you have higher education expenses, you may want to consider the Scheduled expiration of the American Opportunity Tax Credit after 2012. If possible, pre-paying 2013 educational expenses before the end of the year might make the expenses eligible for the AOTC credit before it disappears.

- ☐ It might be a good idea for you to do a tax workup to learn whether you are one of the nearly 30 million taxpayers who will pay AMT for the first time in 2012.

- ☐ Estimate the effect of any year-end planning moves on the alternative minimum tax (AMT) for 2012, keeping in mind that many tax breaks allowed for purposes of calculating regular taxes are disallowed for AMT purposes. These include the deduction for state property taxes on your residence, state income taxes (or state sales tax if you elect this deduction option), miscellaneous itemized deductions, and personal exemption deductions. Other deductions, such as for medical expenses, are calculated in a more restrictive way for AMT purposes than for regular tax purposes. As a result, in some cases, deductions should not be accelerated.

- ☐ If you are age 70½ 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.

- ☐ 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 2012 providing that doing so won't create an alternative minimum tax (AMT) problem.

- ☐ Take an eligible rollover distribution from a qualified retirement plan before the end of 2012 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 2012.

  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 2012, but the withheld tax will be applied pro rata over the full 2011 tax year to reduce previous underpayments of estimated tax.

- ☐ 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 expect to sell something that will produce a big taxable gain, you might want to get it sold this year. Beginning in 2013, the Health Care Acts impose on taxpayers with modified adjusted gross income in excess of $200,000 ($250,000 for married couples) a 3.8% Medicare surtax on most "unearned" income and a 0.9% Medicare surtax on most earned income.

Unearned income includes most dividend and interest income, most business and farm income on which no self-employment tax is paid, most realized capital gains as well as income from passive activities. It does not include income from social security or pension and retirement account payments.

- ☐ It may be advantageous to try to arrange with your employer to defer a bonus that may be coming your way until 2013.

- ☐ 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.

- ☐ Accelerate big ticket purchases into 2012 in order to assure a deduction for sales taxes on the purchases if you will elect to claim a state and local general sales tax deduction instead of a state and local income tax deduction. Unless Congress acts, this election won't be available after 2012.

- ☐ 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.

- ☐ 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.

- ☐ If you turned age 70½ in 2012, you can delay the first required distribution to 2013, but if you do, you will have to take a double distribution in 2012—the amount required for 2012 plus the amount required for 2013.

- ☐ If you are considering the purchase of eligible business equipment, you might want to do that before the end of the year. This year the maximum asset writeoff (Section 179 depreciation) is a generous $139,000, but it is set to drop to $25,000 in 2013.

- ☐ Above and beyond the Section 179 depreciation, your business can claim first-year bonus depreciation equal to 50% of the cost of most new and used equipment and software placed in service by December 31st. This generous break will expire at the end of 2012 unless Congress extends it.