

# JWL

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Happy Holidays!

Thank you, for allowing us to be your finance and tax advisors throughout the year. Your trust in us and all of your referrals are greatly appreciated. We are proud to have been preparing taxes, financial statements and consulting with you, for over 28 years. Your tax return and tax liability can be affected by many variables. Below you will find various strategies to assist you in preparing your 2011 tax return. You may contact us anytime to answer questions or clarify any of the enclosed information. Our office will be open through the holidays and we look forward to hearing from you.

The Congress and the President are all looking to make some changes before the year ends. We need to release our tax tip letter to you now, although there may be some changes made by year end. Some anticipated changes are:

1. An extension of the unemployment benefits;
2. A continuation of the 2% decrease in social security taxes paid by the employees; and,
3. A surtax on income greater than \$1M, which is not likely to pass.

**Tax Bracket changes over the last 25 years selected years:**

For your information, the top bracket in 1944 and 1945 was 94%. From 1954-1963, the top rate was 70%. From 1982-1986 the top rate was 50%. Between the tax reform act of 1986 and now 2011, the rates are as follows:

| Years       | 11%  | 15% | 28% | 35%   | 38.5% | None  |
|-------------|------|-----|-----|-------|-------|-------|
| 1987        | 11%  | 15% | 28% | 35%   | 38.5% | None  |
| 2000        | None | 15% | 28% | 31.0% | 36.0% | 39.6% |
| 2002        | 10%  | 15% | 27% | 30.0% | 35.0% | 38.6% |
| 2003-2012   | 10%  | 15% | 25% | 28.0% | 33.0% | 35.0% |
| 2013-beyond | None | 15% | 28% | 31.0% | 36.0% | 39.6% |

**Deductions:**

| <u>STANDARD</u>       | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2000</u> | <u>1990</u> |
|-----------------------|-------------|-------------|-------------|-------------|-------------|
| Single                | \$5,950     | 5,800       | 5,700       | 4,750       | 3,250       |
| Married               | 11,900      | 11,600      | 11,400      | 7,350       | 5,450       |
| Head of Household     | 8,700       | 8,500       | 8,350       | 6,450       | 4,750       |
| Married File Separate | 5,950       | 5,800       | 5,700       | 3,675       | 2,750       |

**The Quick Ten: Please attach (enclose) the following if applicable**

- 1) **Form(s)** - W2
- 2) **Form(s)** - 1099 & 1098 - Self-Employed; Dividends; Interest & Mortgage Interest. Debt forgiveness may be a taxable event. Please make sure you provide us with all of the details.
- 3) **Stock Trades:** The brokerage statements for the active trader for December 2010 through January 2012. For sales on accounts that were purchased outside the window above, we will need the purchase date and price. Stock trades default to first in first out unless you specifically designate the stocks. You may want to include your broker's name and telephone number for better clarification if needed.
- 4) **Interest Income:** For seller-financed mortgages, please supply the name, address, and Social Security number.
- 5) **Estimated Tax Payments** (Please include):  

| <u>Date</u> | <u>To Whom Paid</u> | <u>Tax Year</u> | <u>Amount</u> |
|-------------|---------------------|-----------------|---------------|
|             |                     |                 |               |

 Please remember that state tax payments remitted in 2011 are federally tax-deductible in 2011.
- 6) **Retirement Contributions:** SEP's/IRA's/ROTH IRA's/401K's/403b's/etc. We would like to assist you and your broker (if applicable) in calculating the above contributions for you. In certain instances, your contributions may be limited. Please call for clarification.
- 7) **Dependents:** Name; Date of Birth; Social Security Number; and months lived with you during 2011.

- 8) **Childcare Credit:** We are required to report the Name; Address; and I.D. number of the provider, as well as the amount paid.
- 9) **Principle Residence:** In addition to the mortgage interest received by the lender, please supply the closing statements of the purchase, sale and refinancing statement if these transactions occurred during 2011.
- 10) **Flow-Throughs:** K-1's from corporations, partnerships, trusts and LLC's.

### Year End Tax Planning for Individuals:

**You can charge deductible expenses on your credit card.** For example, charge medical bills and charitable donations on your credit card before 12/31/11. Although paid in 2012, they are deductible for tax year 2011.

**Prepay state estimated taxes on or before December 31, 2011 year-end.** This is your state est. tax payment due 01/15/12 for 2011.

**Prepay your January mortgage payment in December 2011.** The interest is deductible when paid. If you choose to prepay the January mortgage payment, please keep a copy of the check as it should have been received by the mortgage company in 2011, otherwise send the payment return receipt requested on or before December 31, 2011.

**Keep boats and vacation homes in your personal name.** Out of pocket costs incurred at the time of business entertainment is deductible.

**Sell stock losses before year-end.** This will benefit you in two ways. It will offset capital gains and you can take an additional loss of \$3,000 on your 2011 tax return. Please avoid the (Wash-Sale Rule). If you sold a stock at a loss and bought it back within 31 days, the loss is disallowed. Please do not overlook Capital Gains from mutual funds when calculating your gains for the year.

**Please review your 1099's issued by investment firms.** If you have stock losses in prior years and you are not sure of the carry forward amount, please call the office.

### **Non-Cash and Cash contributions:**

**Non-Cash Contributions** before year-end consists of personal items wherein you can deduct the fair market value of the items donated and appreciated long-term stock instead of cash. When donating appreciated securities, you get to deduct the full fair market value of the shares and you will not owe capital gains tax on the build up in value since you bought it. Non-cash charitable contributions are generally deductible up to 35% of the cost of the donated property. This is referred to as the thrift value method. The internal revenue service has added the term "good used condition" for items donated. Please be prepared to prove the items meet the conditions test or exception.

Please enclose your log of items with the fair market values for non-cash donations when you send in your information. When deducting cash or appreciated securities with a value of greater than \$250, you will need to get an acknowledgement from the charity. If you donate a vehicle and the charity or agent sells it, the value of the donation for tax purposes is limited to the sales proceeds. Charities must report to you and the Internal Revenue Service the amount of sales proceeds. To maximize your deduction, contribute your car to an organization that intends to use it in its charitable activities.

**Exhaust flexible spending accounts (FSAs):** If you have a medical or dependent-care FSA at work, spend all of your contributions to it by year-end. **You can no longer use your FSAs for purchasing over-the-counter medications.** However, if you obtain a prescription from your doctor for the over-the-counter medications you can then use your FSA account. You may be able to use expenses up through March 15, 2012 to absorb your 2011 balance. Check with your employer in that it is at their discretion. Otherwise, if not spent by December 31, 2011, the remaining funds are forfeited.

**Health Savings Accounts (HSAs):** For those who are covered by a high deductible health plan: \$1,200 single persons and \$2,400 for families, you and/or your employer, on your behalf, can make tax-deductible contributions to an HSA. Funds accrue tax deferred. Withdrawals for medical expenses not covered by insurance are tax-free. After age 65, funds can be withdrawn and used for non-medical purposes, subject to income tax. The maximum funding to the accounts for 2011 is \$3,050 for single persons and \$6,150 for families. These limits are projected to increase to \$3,100 for single persons and \$6,250 for families for 2012. People who are least 55 years old can contribute an extra \$1,000. **As with the FSA, you can no longer use your HSAs for purchasing over-the-counter medications.** However, if you obtain a prescription from your doctor for the over-the-counter medications you can then use your HSA account.

**Adoptions:** To encourage individuals to adopt, the tax law provides a personal tax credit. The amount of the credit is 100% of "qualifying expenses" up to \$13,600 in 2011, but this tax credit will expire in on January 1, 2012 so claim all that you can this year while there is still time.

**The Kiddie:** There are no tax or filing requirements for children, who are less than 18 years of age, when their income is less than or equal to \$900. The most effective way to control income for the child is to place a certificate of deposit in the child's name and using the child's social security number. There is a lower rate for income between \$900 and \$1,900; thereafter, the rate charged for the dependent child will be at the "allocable parental tax" rate.

**The 529 plans,** which are the education funds for your dependents, are deductible on the state return capped at \$2,000 per child. This is a government-monitored program that I have not been a fan of in the past nor am I currently a fan of this investment tool because use of the funds available for investment are generally highly restrictive.

**Seniors**, between 62.5 and 65, who are collecting Social Security benefits and continuing to work can earn up to \$14,160 and \$14,640 in 2011 and 2012 respectfully, without any loss of benefit. For individuals continuing to work and having reached full retirement age, there is not an earned income limit.

As **reverse-equity mortgages** gained in popularity in recent years, please be advised that the interest charges incurred may not be tax-deductible. They become deductible when paid. This assisted in the collapse of the real estate market.

An annual **Social Security benefit statement** is available to you. You should be receiving this information annually. You can get this information by calling 800-772-1213 or visiting their web site at [www.ssa.gov](http://www.ssa.gov). It is called a Personal Earning Statement.

### **Selected Tax Law Changes for 2011:**

2011 will be the last year to claim a laundry list of tax breaks:

#### **Energy-Saving Home Improvement Tax Credit:**

Improvements must be made to your principal residence only and placed in service by the end on 2011. The tax credit is available for 10% of the cost, up to \$500 total for all home improvements.

#### **Higher Education Expenses:**

The \$4,000 deduction will be gone after this year, so you might want to consider prepaying eligible expenses for 2012 if you have not reached the \$4,000 cap. The \$4,000 deduction is available for taxpayers with adjusted gross incomes of \$65,000 for singles and \$130,000 for married filing jointly. The deduction decreased to \$2,000 for singles with an adjusted gross income of \$80,000 and \$160,000 for married filing jointly.

#### **Adoption Credit:**

The credit for up to \$13,360 of adoption qualified expenses will be gone after 2011.

#### **Sales Tax:**

You will no longer be able to decide between claiming sales tax or income tax deduction when itemizing after 2011 because the sales tax option is going away. So if you are thinking about buying a big ticket item then you might want to push it up into 2011.

#### **Mortgage Insurance Premiums:**

You will no longer be able to deduct your mortgage insurance after 2011.

#### **Teacher's Classroom Materials:**

For Teachers K-12 you will no longer be able to take the \$250 deduction for the classroom supplies that you purchase after 2011.

The AMT exemption amount is increased to \$48,450 (\$74,450 if married filing jointly or a qualifying widow(er); \$37,225 if married filing separately).

#### **State of Georgia – Tax Planning:**

There are credits available in the state, which consist of the Disabled Person Home or Retrofit Credit, Georgia National Guard/Air National Guard Credit, Qualified Caregiving Expense Credit, Driver Education Credits, Rural Physicians Credit and Disaster Assistance Credit, Child and Dependent Care expense credits, conservation credit for qualified donations of real property. Please call our office or include the expended amounts with your information.

As an individual you can donate up to \$2,500 to the Georgia GOAL Scholarship Program. The donation is deductible and is a dollar for dollar tax credit for the State of Georgia. Other States also have similar programs.

#### **How to Avoid High Property Taxes:**

Since the property values have fallen significantly in Georgia you may want to consider filing a property tax return in 2012 to lower your property taxes. You will need to get a reasonable estimate of your property's value for the property tax return, and here are a few steps to do that.

**Collect Sales Data:** Look up online a list of actual sales in your neighborhood. This is an indicator of your property's value. Two great websites for this is [www.zillow.com](http://www.zillow.com) and [www.truila.com](http://www.truila.com).

**Compare the Sold Homes to Yours:** The most important data to compare between your property and the property that has been sold are location, age, square footage, and bed and bath count. Try to determine the condition of the property as well.

**Visit the Homes:** Visit the property that has been sold and take pictures of it to compare with your property. If you can talk with the listing or selling agent, ask them about the condition of the interior.

**Estimate Your Property's Value:** Armed with the information that you have gathered you should be able to come up with a ballpark estimate of your property's January 1, 2012 value. Make sure your estimate is justifiable and reasonable because this is important when filing your property tax return.

**Submit Your Property Tax Return:** We can help you with this! Prepare and submit your estimate of your home value and a one page comparison of the sales in your neighborhood and state why you believe your property value has dropped. Mail this off by certified mail to your tax commissioner and make sure to get a return receipt and keep a copy of your postage receipt. You can do this anytime between January 1 and April 1, 2012, but, the sooner the better.

### Deductions and credits often overlooked:

- **Sales tax deduction.** State tax deduction is the higher of state income tax or state sales tax paid. Please don't forget any tax paid on major purchases inclusive of motorized vehicles.
- **Job search expenses:** Includes costs of resume preparation, outplacement agencies and travel to job interviews.
- **Medical insurance.** Self-employed taxpayers can finally deduct 100% of medical insurance premiums.
- **Treatment** for alcoholism, smoking and drug abuse.
- **Investment advisors fees.**
- **Interest** on margin accounts with a brokerage firm. In May of 2003, most stock dividends (called "qualified dividends"), were changed from being taxed as ordinary income to the capital gains rate of 15%, if you're in the 15% or lower tax bracket, your tax hit is softened to only 5%. This was great for most investors; however, if you have margin interest expense, it is only deductible up to interest income and certain dividend levels. **Tactic:** To get a deduction for the excess interest expense now, rather than carrying it forward, you can elect to treat an amount of tax favored capital gains and dividends as income taxed at ordinary rates, then deduct the excess investment interest against it.
- **Safe deposit box fees,** if the box is used to hold savings bonds, stock certificates or other investments.
- **Labor union dues.**
- **Subscriptions to trade publications** related to your job.
- **Penalties on early withdrawal** of certificate of deposits.
- Your state's **personal property taxes** on cars and boats.
- **Medical and Moving mileage** has been increased for 2011 and is deductible at **19 cents** per mile.
- **Student Loan interest.**
- **College tuition tax credits.**
- If you acquired a plug-in **electric vehicle**, you may qualify for a credit of \$2,500-7,500. See your electric vehicle dealer for more information. The credit varies based on the make and model of the vehicle and are phased out after certain quantities have been sold. Check with your dealer or visit [www.fueleconomy.gov](http://www.fueleconomy.gov).
- Non-reimbursed employee business expenses.

### Estate Tax Planning:

In 2011, the estate tax exclusion is set at \$5 million and any amount over the \$5 million exclusion will be taxed at a 35% tax rate. In 2012, the projected exclusion is \$5.12 million and the tax rate is expected to stay the same at 35%.

### YEAR END TAX PLANNING FOR BUSINESSES:

- If you **pay an individual** for services rendered, this is inclusive of household workers, make sure you either prepare a 1099 for non-employee compensation or a W-2 for an employee's wages. As of 2011, businesses must report payments to their vendors if in the course of your trade or business on a 1099. If you own a rental property this requirement also applies to you. We are available to assist in this process.
- Set up a **retirement plan** before year-end. We should have already discussed this option. Please call me if you think we need to chat further.
- Retirement accounts, defined benefit plans, etc. can now be **vested** over a 7-year period as opposed to the previous 6-year limit.
- For **cash basis taxpayers**, pay all outstanding bills before December 31, 2011 year-end.
- **Write off obsolete inventory as of year end** so your business can take a write down this year.
- For **accrual basis taxpayers**, write off non-collectible account receivables.
- **Change your tax status from a C-Corporation** to an **S-Corporation**, or vice-versa. We should have already discussed this option. You have 75 days from year-end to make this change to be effective in the coming tax year.
- Employers can **reimburse employee business expenses** before year-end when the employer has an "accountable plan". This can reduce salaries and create savings on payroll taxes, while also reducing the employee's taxable income.
- **S-Corporation** owners who need additional capital (loans) should borrow the funds individually and then lend them directly to the corporation. Since most small companies' debt requires a personal guarantee, this process will add to the basis of the company for wherein certain losses can be recognized.
- **New per diem rates.** The US General Services Administration has announced per diem travel rates for the continental US effective October 1, 2010 – September 30, 2011. The standard rates through September 30, 2011 (\$108 for hotel and \$52 for meals and incidental expenses per day) have changed this year with an effective date of October 1, 2011 (\$111 for hotel and \$52 for meals and incidental expenses per day); also, there are about 400 locations with new higher per diem rates. To view the new per diem rates, go to [www.gsa.gov](http://www.gsa.gov) and click on "per diem rates" under "Most Requested links".
- The IRS does not require receipts for cash expenses of less than \$75 if you record them in your business diary at the time they were incurred.
- **Deposits in bank for cash basis taxpayers** are taxable when deposited and recorded in your checkbook.

- **For equipment placed in service** in 2011, if your capital acquisitions are less than \$2,000,000 you can expense up to \$500,000. Assets that will be acquired in early 2012 can be acquired and placed in service in 2011 to utilize the additional deduction.
- The **default** method for depreciation in 2011 is the 50% accelerated write-off method.
- **For business travel**, meals and entertainment expenses, please document **who, what, where, and when**.
- **Employers, who provide health insurance benefits to their employees and have ten or fewer employees**, may be eligible for a credit of up to 35% of eligible premiums.
- **If you hired unemployed veterans after November 22nd**, you can claim a payroll tax exemption.
- **Auto mileage** for business use of a car and truck expenses in 2011 is deductible at 51 cents per mile for the first half of the year and 55.5 cents per mile for the second half. The business portion of parking fees and tolls may be deducted in addition to the standard mileage rate. For 2012, the rate will stay the same at 55.5 cents per mile.
  - **Generally**, if you drive 20,000 business miles, the standard mileage deduction may be greater than actual expenses incurred. In 2011, the standard mileage deduction would be \$5,100 for the first half of the year (10,000 miles) and \$5,550 for the second half of the year (10,000 miles) for a total of \$10,650 versus actual expenses of maybe \$8,270. If you drive 10,000 business miles, the standard deduction would be \$2,550 till July 1st (5,000 miles) and \$2,775 from July 1st on (5,000 miles) for a total of \$5,325 versus actual expenses of \$8,270. These are averages, and different vehicles would generate different deduction amounts.

**Social Security Taxable Cap and Rates:** For 2011 the cap was \$106,800, but in 2012 the cap will be increased to \$110,100. The contribution rates for 2011 were 4.2% for employees, 6.2% for employers, and 10.2% for the self employed; these rates will revert back to the normal 6.2% for employees and employers and 12.2% for the self employed in 2012 if legislation is not passed.

#### **Retirement Planning:**

| <u>Year</u> | <u>401K Deferral Cap:</u> | <u>Simple IRA's (for Businesses)</u> | <u>IRA's (Indiv.)</u> |
|-------------|---------------------------|--------------------------------------|-----------------------|
|             | <u>Amount</u>             | <u>Amount</u>                        | <u>Amount</u>         |
| 2011        | 16,500                    | 11,500                               | 5,000                 |
| 2012        | 17,000                    | 11,500                               | 5,000                 |

For those taxpayers who are 50 years of age or older at December 31, 2011, a “**catch-up**” contribution is available for tax year 2011. For 401K plans, this contribution is \$5,500 in 2011; For Simple IRA's, this would be \$2,500 for 2011; and finally, for traditional IRA's the catch-up contribution for 2011 is \$1,000.

The maximum contribution for a SEP plan in 2011 is \$49,000. The maximum 401k contribution in 2011 is \$49,000 inclusive of the \$16,500 elective contribution.

For other closely held companies, generally the one owner/one employee company, the **412i** plan will be able to fund a retirement plan for up to the actuarial limits per annum. The contribution can be as much as \$300k-\$400k per year. This retirement option is made up of annuities and life insurance.

Some taxpayers may want to consider converting to a Roth IRA from a traditional IRA if your retirement account is still down from 2009 and 2010. You can convert your traditional IRA to a Roth IRA in 2011 without any penalties, no AGI limits. You have to pay ordinary income tax on the original contributions and any gains up to that point, but any contributions made after the conversion can be withdrawn tax free after five years and the earnings accumulate tax free. In 2011, any tax liability due from the conversion will be averaged over 2012 and 2013. If you convert to a Roth after 2011, you will not be able to split the tax liability due into two years. There may be tax-legislation changes in the upcoming years that could affect the value of the Roth IRA. Please consult with us before making this conversion.

**For your year-end board meeting**, which may be in Hawaii, please discuss and reference in your memorandum the following items:

- Charitable Contributions;
- Year-end bonuses and or profit sharing arrangements;
- Reasons why earnings are being retained; and,
- Any changes to the business organizational structure.

#### **The Biggest Loopholes of All – Now:**

- When you are involved in a personal injury lawsuit, make sure any settlement agreement made compensates you for physical injuries, not emotional injuries. Physical injuries are not taxable.
- Maximize your companies' deduction for bad debt by writing off old accounts receivables.
- **Donate excess inventory or depreciable business** property to charity. Companies that do this can deduct the cost plus 50% of the unrealized appreciation in the goods or equipment. (Sorry Gang, only C-Corporations)

## EDITORIALS FROM YOUR CPA:

When I first started writing this tip letter, this and a quarter would buy you a cup of coffee. Now, it will only get you a gumball. Welcome to 2012 and enjoy the gumball!!

Owner occupiers of new **commercial real estate** are winning big. The banking system currently owns another 2 year supply of commercial real estate. At the current rate of selling, these market values will be depressed for another 2 years. Investors are acquiring properties at deep discounts from their original cost, but in most instances, the ability to lease the property is limited.

As for **residential real estate**, we have an abundant supply in Georgia. We have this over stock because the zoning boards approved the construction of more houses than we had people. Then, with the real estate bubble bursting and the loss of jobs, people have been leaving Georgia. The "new normal" for your primary residence is averaging \$109k. There is some good news. The national average is \$148k. With the low housing prices and the abundant supply, larger companies will again be relocating to Georgia. First time homebuyers are in the driver's seat again this year.

**Review your 2011 Real Property Tax Bill.** You have appeal rights as to the arbitrary value assessed by your county. This is a first quarter of 2012 project. Property values are decreasing. It is a relatively painless process. Let us know if we can assist you. The how-to appeal and document your appeal is discussed above.

**Interest rates** are still at historic lows. I am concerned that interest rates will increase. But in order for the economy to revitalize, interest rates should remain low. However, the conservative approach is to consolidate your debt at as low a rate as possible. In this consolidation, you should include consumer debt from credit cards, automobiles, etc. and roll this into a deductible mortgage. Who ever is in an Adjustable Rate Mortgage, should lock in a rate. Lines of credit interest rates should remain constant through the election.

**Continue to fund** your retirement accounts. If your employer has a match, meeting the match is just math. It is part of your compensation. The individual retirement account allows \$5,000 per year, plus those over 50 are allowed to contribute an additional \$1,000. This is the very basic next level of deferred compensation. Please make sure you are deferring at this IRA allowed amount.

**During these troubling** economic times, review your life insurance and disability plans. Some of you may have not reviewed these plans in some time.

**Let's all be smart** with our portfolios. Cash is an investment vehicle in that it is not negative. Put automatic sales orders in your stock portfolios if the market value of a stock or a mutual fund goes below XX%. The older you are, the more conservative you should be.

**The best person** to pick a stock is you, the consumer. You know what you buy. Interest rates are low, yet there is substantial risk in equity markets. I would not suggest placing any funds into the stock market that you will need to access within the next ten years. For any funds not needed within that time frame, I would suggest investing the same dollar amount in consistent intervals (weekly, monthly, quarterly) in order to "dollar-cost average" your investments.

The dollar had some gains versus the Euro recently. This is good news for importers bad news for exporters. More trouble with the trade imbalance on the way.

**For 2011, my stock picks** averaged a 5.1% return. This was above the Dow which had an overall 1 year gain of 4.3%. Generally, between my gut instincts and discussions with my broker, I have been able to have a fairly decent return. Brokers do monitor these markets everyday. I do have an automatic selling feature with my stocks and mutual funds. As the market has increased in 2011, I have raised the bar for the automatic sale. I shoulda, coulda and woulda done something different in the past, but here you go for 2012.

Technology: Intl. Bus. Machines (IBM); Google (GOOG)


Energy: Marathon Oil (MRO); British Petroleum (BP)

Consumer Goods: Atria (MO)

Financial: American Express (AXP)

Transportation: Delta Airlines (DAL); Southwest Airlines (LUV)

Seasons Greetings! See y'all soon.



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