

End of Year Tax Planning 2011

Oh how we yearn for the good old days. Life seemed so much simpler back then. I'm not talking about life in general; I'm talking about year-end tax planning (after all, this is a tax newsletter). Not too long ago, we generally knew the tax rules well in advance. If a major tax bill was passed, major provisions were discussed for months. Implementation dates were often months after enactment. There were few last minute surprises.

Today, if we are lucky, tax legislation is enacted weeks before their effective date. But, in many cases, the changes are retroactive to an earlier date. This makes tax planning much more complicated. Below is a summary of what is in place as of today, along with some of our year-end planning recommendations. If new legislation is enacted, we will get the information out to you as soon as possible.

General Planning

Year-end income tax planning generally involves projecting current and next year's income, and then evaluating ways to reduce, or at least defer income taxes. This includes strategies such as delaying income recognition, accelerating tax deductions, finding ways to convert income into more favorable forms of income (i.e., capital gains instead of ordinary income), or qualifying for various special deductions and credits. For individuals, the alternative minimum tax must be considered in your planning. Current planning should also take into account a number of changing provisions, the most pertinent items are outlined in this newsletter.

Depreciation Strategies

If you are contemplating a large acquisition of fixed assets, you should be considering the changing rules with respect to the immediate expensing provision of Section 179. For 2011, the Section 179 expensing limit on new and used property remains at \$500,000, but is reduced down to \$139,000 in 2012. The threshold for reducing the deduction also remains at \$2,000,000 of additions, and will be reduced to \$560,000 in 2012.



Jim Komos, Partner

Business Tax Provisions Expiring 12/31/11

As of this writing the following are due to expire:

- The research and development and the work opportunity credits
- The enhanced charitable deductions for contributions of food, books, and computer technology
- The special S corporation built-in gains tax suspension period
- The 15-year recovery period for leasehold improvements, restaurant property, and retail improvements
- The 100 percent bonus depreciation deduction will be scaled back to 50 percent in 2012
- The Section 179 deduction limit will fall from \$500,000 this year to an inflation-adjusted \$139,000 in 2012

Depreciation Strategies *continued*

For 2011, “qualified real property” is still eligible for Section 179 expensing up to \$250,000. This provision expires at the end of 2011 with zero expensing eligible for 2012. Qualified real property for this provision includes:

- Qualified Leasehold Improvement Property
- Qualified Restaurant Property
- Qualified Retail Improvement Property

The bonus depreciation provisions of Section 168(k) continue to provide an alternative to Section 179, as there are no limits or thresholds for bonus depreciation. The bonus depreciation is now 100 percent of the cost basis for new property acquired after September 8, 2010 and before January 1, 2012. This can be a significant opportunity to save tax dollars on capital investments made in 2011, because in 2012, the bonus depreciation rate drops back down to 50 percent and goes to zero for 2013.

Both the additional bonus depreciation and the Section 179 expensing for qualified real property can make a cost segregation study more attractive for 2011. A cost segregation study is an engineering-based analysis of the property that is done in order to write off the property as fast as possible.

Qualified Retirement Plans

Does your company have a retirement plan? Are you maximizing your contributions to that plan? A qualified retirement plan can be an excellent way to reduce your business taxes and help you save for retirement. Our retirement planning team can help you assess your current plan as well as many other options and find the right fit for you that meets your goals.

Energy-Efficient Property

Going green has a tax benefit. There is a provision in the tax code that allows for an additional deduction for constructing energy-efficient buildings. Section 179D provides a \$1.80 per square foot deduction for the owner for the installation of energy-efficient property in commercial buildings. In the case of a public building, the deduction is allocated to the primary person responsible for the design of the property. This deduction expires December 31, 2013.

IRS Allows Tax Break for Bonuses

Under Revenue Ruling 2011-29, an accrual-basis employer that has accrued a bonus pool for a group of employees can deduct that bonus even if the allocation has not been determined by year-end. The bonus pool must be a fixed amount in order to be deductible.

S Corporation Built-in Gain Period

The American Recovery and Reinvestment Act shortened the length an S Corporation must hold appreciated assets owned at the time of conversion from a C Corporation from ten years to seven years in 2010. That period is reduced to five years beginning in 2011 by the Small Business Jobs Act. The period is currently scheduled to return to ten years in 2012.

Ohio Consumer’s Use Tax Amnesty Program

Ohio has recently launched a new amnesty program for Consumer’s Use Tax liability. The Use Tax has been part of Ohio law since the 1930s and was established to complement the Ohio Sales Tax. Generally, use tax is owed if sales tax has not been paid to Ohio or another state on purchases of tangible personal property or certain services.

Under the Ohio Consumer’s Use Tax Amnesty Program, all use tax liabilities incurred prior to January 1, 2009 along with any related interest and penalties will be forgiven for participants of the amnesty program. Taxpayers will be liable for tax but not interest and penalties after January 1, 2009.

The amnesty program operates from October 1, 2011 through May 1, 2013. Businesses that have not received a Consumer’s Use Tax assessment prior to the bill being passed will be eligible to participate in the program beginning October 1, 2011.



The Advisor

Estate and Gift Tax Opportunities

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 provides some temporary estate tax relief by increasing the gift and estate tax exemptions for 2011 and 2012. The exemption is raised from \$1 million to \$5 million (\$5,120,000 in 2012). Gifts, generation skipping transfers, and estates in excess of \$5 million are taxed at 35 percent and scheduled to increase to 55 percent in 2013. This creates a tremendous opportunity to gift ownership to heirs in 2011 and 2012, not only to capitalize on the benefits above, but valuations of the business may also be lower currently due to the on-going recession. In order to transfer ownership, a business valuation must be prepared by a business valuator. Now is the time to discuss wealth transfer opportunities and techniques with our wealth management team.

As you can see, there are a number of opportunities that could make a difference for you and your business in the coming year.

Please contact Jim Komos
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or your Ciuni & Panichi advisor at
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to schedule a time to review your options.

On the Personal Side

Education Incentives

The American Opportunity Tax Credit applies to all four years of college and includes not only tuition but also all course materials. The income phase-outs remain at \$80,000 to \$90,000 for single filers and \$160,000 to \$180,000 for joint filers. The Lifetime Learning Credit is a \$2,000 credit available to taxpayers for an unlimited number of years and is applicable to post-secondary, graduate, or certain other training to acquire or improve job skills.

The Tuition and Fees Deduction is scheduled to expire December 31, 2011. This is an above-the-line deduction for qualified education expenses. The maximum amount of the deduction is \$4,000 and is phased out at \$65,000 for single filers and \$130,000 for joint filers. It is generally wise to look at all of the education incentives to determine which one fits your circumstances best and yields the highest tax savings. You may also be able to have your child take the American Opportunity or Lifetime Learning Credit if your Adjusted Gross Income (AGI) is too high. You will have to forgo the dependency exemption, but in certain situations it can yield a better result.

Interest Expense on Personal Debt

Personal interest is not deductible; however, to the extent that you can refinance personal debt using a home equity loan, you can convert your personal interest into deductible interest. There are obviously other considerations involved, and we recommend that you consult with a member of our wealth management team before refinancing debt.

Donating Long-term Appreciated Property

If you are miraculously sitting on appreciated property that you've held for a number of years, you may want to consider using it to fund your charitable contributions. Doing so will avoid capital gains on the sale and preserve your cash.

Roth IRA Conversions

Many people took advantage of the Roth IRA conversions in 2010. Taxpayers converting in 2010 had the option of recognizing the conversion income in full in 2010 or deferring it to 2011 and 2012. When thinking about your 2011 planning, keep in mind that if you elected to defer the income on the 2010 conversion then you will need to recognize half of the income in 2011 and half in 2012.

The Advisor

Personal Provisions Expiring this Year

Déjà vu? As of this writing, certain individual extenders are set to expire after 2011, and there is no guarantee that they will be extended by Congress into 2012.

Some of the benefits due to expire (not an exhaustive list):

- Qualified tuition and expenses deduction
- Mortgage insurance premiums paid for qualified mortgage insurance deduction
- Elementary and secondary school teacher expenses
- The state and local sales tax itemized deduction in lieu of the state income tax deduction
- The exclusion from income of distributions of up to \$100,000 from an IRA if made directly to charity
- The nonbusiness energy credit for qualified energy efficient improvements and residential energy property expenditures
- Higher limits for charitable contributions of appreciated property for conservation purposes
- The payroll tax break may be extended, and presumably, another one-year AMT patch will pass



NOTE: This newsletter is issued to provide you with information about minimizing your taxes. Many of the items noted may be subject to phase-out rules at higher income levels. Do not apply this general information to your specific information without additional details. Be aware that tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.