

## End of Year Tax Planning Strategies

The past few years have certainly been interesting; the economic downturn has undoubtedly been challenging for everyone. In 2011, there were a few tax changes, a number of programs got extended, which has set up 2012 to be quite the tax driven election year. Despite concerns over our national budget and the loss of our AAA rating, the credit markets seem to be opening up and deals seem to be flowing in some key industries. We are poised for larger development projects in Northeast Ohio than we've seen in nearly ten years. The casino, Medical Mart, and large infrastructure projects are providing many companies and employees with some much needed opportunity close to home.

As we all get busier, it is important to remember the lessons we've learned the hard way. We've included a number of opportunities and updates that will help you navigate this next year. Some of it may be a review while some may provide some exciting new opportunities for you.

### 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 \$125,000 in 2012. The threshold for reducing the deduction also remains at \$2,000,000 of addition, and will be reduced to \$200,000 in 2012. Note that for this program no extension has been granted, but that is subject to change.

For 2011, "qualified real property" is still eligible for Section 179 expensing up to \$250,000. 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.

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.

### Energy-Efficient Property

Going green has a tax benefit. 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.

### **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. Now is a good time to get in touch with your advisor to assess your current plan as well as the many other options and find the right fit for you that meets your goals. If you don't have an advisor or would like another opinion, contact our Retirement Planning Team to assist you.

### **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.

### **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. Act now to take advantage of this opportunity to transfer wealth to the next generation.

As you can see, there are a number of opportunities that could make a difference for you and your business in the coming year. Contact Tony Constantine or Jim Komos at Ciuni & Panichi at 216.831.7171 to schedule a time to review your options.