

Late-Year Tax Planning Opportunities Still Exist

by Joseph Tighe, CPA, and Ira Herman, CPA

When the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 ("the Act") was signed by President Obama in December 2010, it not only included extensions through 2012 to many expired provisions and created clarity regarding 2011 tax rates and rules, but also prompted tax planning opportunities regarding deductions, deferred income, and enhanced estate planning, among other benefits.

Among the opportunities individual taxpayers may still be in a position to take advantage of:

Leverage Standard Deduction by "Bunching" Deductible Expenditures

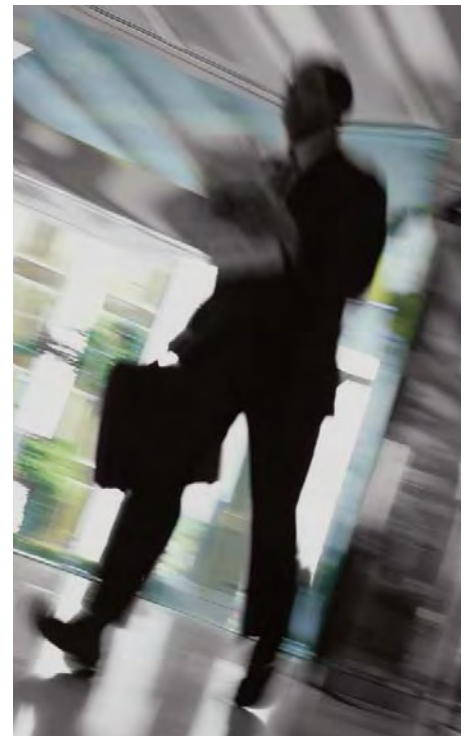
Are your 2011 itemized deductions likely to wind up being just under, or just over, the standard deduction amount? If so, consider "bunching" expenditures for itemized deduction items every other year, while claiming the standard deduction in the intervening years where possible. The 2011 standard deduction for married joint filers is \$11,600, \$5,800 for single filers, and \$8,500 for heads of households. Examples of deductible items that can be bunched every other year to lower your Federal income taxes include charitable contributions, state income taxes, and certain property tax payments.

Consider Deferring Income

Some taxpayers may benefit from postponing a portion of income until the following tax year, thus pushing them into a lower tax bracket. For example, a cash method taxpayer could defer some 2011 income to 2012 by delaying billing for certain types of 2011 income until late in the year as cash collected in 2012 will be taxed in 2012, and not in 2011. You can also postpone taxable income by accelerating some deductible business expenditures into this year. This may be particularly helpful if you are impacted by unfavorable phase-out rules that reduce or eliminate various tax breaks, such as the child tax credit and education tax credit.

Time Investment Gains and Losses

Consider the tax impact of selling appreciated securities; the maximum Federal income tax on long-term capital gains realized from 2011 securities sales held for over one year is 15 percent so it may make sense to hold appreciated securities for at least one year and one day before selling. Securities presently worth less than what you paid should be considered for sale before year-end; the resulting capital losses should offset capital gains from other sales this year, including short-term gains from securities owned for one year or less, which would otherwise be taxed at higher ordinary income tax rates. Should losses exceed gains, a net capital loss for 2011 will



result; this may be used to shelter up to a certain portion of ordinary income from salaries, bonuses, and certain after-income sources. Excessive net capital losses may be carried forward. It is advisable that you speak with your J.H. Cohn adviser prior to making such sales as certain limits do apply and you may benefit from carrying forward certain losses.

Take Advantage of Generous—But Temporary—Business Tax Breaks Under Section 179

Several favorable business tax provisions have a limited shelf life that may dictate taking action between now and year-end. To begin, several temporarily increased Section 179 deductions, under which an eligible business can often claim first-year depreciation write-offs for the entire cost of new and used equipment and software additions, are currently available.

For tax years beginning in 2011, the maximum Section 179 deduction is \$500,000 (same as for tax years beginning in 2010). For tax years beginning in 2012, however, the maximum deduction is scheduled to revert to \$125,000.

Further, though real property improvement costs are generally ineligible for the Section 179 deduction privilege, an exception applies to tax years beginning in both 2011 and 2010. Under the exception, businesses may immediately deduct up to \$250,000 of qualified improvement costs for the following types of real property:

- Interiors of leased nonresidential buildings;
- Restaurant buildings; and
- Interiors of retail buildings.

The \$250,000 Section 179 allowance for real estate improvements is part of the overall \$500,000 allowance. This temporary real estate break will not be available for tax years beginning after 2011 unless Congress extends it.

It is important to note that if you expect your business to experience a loss, a Section 179 deduction that would create or increase an overall business tax loss may not be claimed. Please contact your J.H. Cohn adviser for further information.

100 Percent First-Year Bonus Depreciation Opportunities Exist

In addition to Section 179 deductions, your business may also claim first-year bonus depreciation equal to 100 percent of the cost of most new (not used) equipment and software placed in service by December 31 of this year. Unlike the Section 179 deduction, bonus depreciation is not subject to a maximum allowance or limited by the income of the business. For a new passenger auto or light truck that's used for business and is subject to the luxury auto depreciation limitations, the 100 percent bonus depreciation break increases the maximum first-year depreciation deduction by \$8,000 for vehicles placed in service this year. The 100 percent bonus depreciation break will expire at year-end unless Congress extends it. (See Chart 1 below.)

Don't Overlook Estate Planning!

For 2011 and 2012, the unified Federal gift and estate tax exemption is a relatively generous \$5 million. This exemption, however, will drop back to \$1 million in 2013 unless Congress moves to further extend it. In addition, the maximum Federal estate tax rate for 2011 and 2012 is 35 percent; for 2013 and beyond, it is scheduled to rise to 55 percent, thereby increasing the importance of advance planning to avoid or minimize the Federal estate tax. Even if you already have a good plan, it may need updating to reflect the current \$5 million exemption. Contact your J.H. Cohn adviser for more information on the best ways to minimize estate taxes for someone in your situation. (See Chart 2 below.) ■



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Chart 1

Summary of First-Year Depreciation Incentives		
Calendar Year	Section 179 Limit	Bonus Depreciation
2011	\$500,000	100%
2012	\$125,000	50%
2013 (estimated)	\$125,000	0%

Chart 2

Exemptions and Rates		
Year	Estate Tax Exemption	Top Estate Tax Rate
2010	\$5,000,000 or \$0	35% or 0%
2011	\$5,000,000	35%
2012	\$5,000,000	35%
2013	\$1,000,000	55%

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