

SOLUTIONS

November ♦ 2011



Professionally Speaking

Congratulations to senior manager **Charles H. Nusbaum, CPA, CFE** on earning the professional designation of Certified Fraud Examiner (CFE), which denotes proven expertise in fraud prevention, detection and deterrence. CFEs are trained to identify the warning signs and red flags that indicate evidence of fraud and fraud risk.

Please join us in welcoming our new manager, **Brian DiMattesa, CPA**. Brian is a highly experienced tax, accounting and auditing supervisor, business advisor, and consultant who excels in helping management teams develop efficient operational processes to maximize their bottom line.

We are also delighted to welcome new staff accountants **Giuseppe Buccì, Timothy Catinella, Brian Mintz, LiLi Oldham, and Daniel Roomberg**.

Manager **Fran Sperling Feldbaum, CPA**, and Intuit Certified QuickBooks ProAdvisors **Linda Nitterauer, CPA**, and **Madeline Weinrebe, CPA** recently partnered with the Nonprofit Center at LaSalle University to present "Putting the Quick in QuickBooks®." Please call to schedule this informative program at your organization.

We recently hosted the American Society of Women Accountants (ASWA) and Stephen Turner of Paychex, who spoke about payroll in the accounting world, as well as the timely issue of PA Act 32.

Presented by

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Dear Clients and Friends

Year End Tax Planning for Individuals and Businesses

As year-end approaches, we offer these valuable tax planning techniques to help you reduce your current year tax and take full advantage of certain tax deductions. With so much uncertainty over whether Congress will enact sweeping tax reform, now is a good time to act on a number of available provisions.

For Individuals

- ◆ **Did you reserve too little** in your employer's health Flexible Spending Account (FSA) this year? If so, increase the amount you set aside for next year, and remember that tax-free reimbursements for over-the-counter drugs such as aspirin and antacids are no longer available.
- ◆ **If you will become eligible** to make Health Savings Account (HSA) contributions in December of this year, you can make a full year's worth of deductible HSA contributions for 2011.
- ◆ **Ask us how you can realize losses** on stock while substantially preserving your investment position. As there are several ways to accomplish this, you may wish to meet with us to discuss year-end trades that might be advantageous to you.

- ◆ **Lowering your 2011 tax bill** by postponing income until 2012 (for example, by deferring a bonus) and accelerating deductions into 2011 may enable you to claim larger deductions, credits, and other tax breaks for 2011 that are phased out over varying levels of adjusted gross income (AGI), such as child tax credits, higher education tax credits, the above-the-line deduction for higher education expenses, and deductions for student loan interest. Postponing income also benefits taxpayers who expect to be in a lower tax bracket in 2012 due to changed financial circumstances. Be aware that some taxpayers may benefit by accelerating income into 2011: for example, in cases where an individual's marginal tax rate is much lower this year than it will be next year. We can help you determine the best strategy for your situation.

- ◆ **Consider using a credit card** to prepay expenses that can generate deductions for this year.

- ◆ **If you will owe state and local income taxes** when you file your 2011 tax return next, you may wish to have your employer increase your state and local tax withholding, or make

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St. Clair CPA Solutions and the Montgomery County Chamber of Commerce (MCCC) invite you to join us for Business & Breakfast: Learn How to Use QuickBooks® to Manage Your Business and Maximize Your Bottom Line

Thursday, November 17, 2011 ♦ 7:30-8:00 am; Continental Breakfast and Registration ♦ 8:00-10:00 am; Program
St. Clair CPA Solutions Conference/Training Room, Ground Floor, 101 West Elm St., Conshohocken, PA 19428

MCCC members: \$25/pp; non-members: \$35/pp

Presented by Intuit Certified QuickBooks ProAdvisors® Madeline G. Weinrebe, CPA and Linda A. Nitterauer, CPA
Learn:

- ◆ In-depth analysis of reporting functions
- ◆ Ways to increase productivity and reduce keying time
- ◆ Ways to reduce the risk of fraud
- ◆ Tools to implement internal controls and ensure accuracy
- ◆ Systems to maintain accounting books
- ◆ How to minimize accounting bills

Bring your own QuickBooks questions! Seating is limited. Please visit www.montgomerycountychamber.org for information and online registration.

Year End Tax Planning for Individuals and Businesses, continued

estimated state and local tax payments before year-end so you can deduct those tax payments for 2011. Check with us to make sure that this strategy will not create an alternative minimum tax (AMT) problem.

- ◆ **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, take an eligible rollover distribution from a qualified retirement plan before the end of 2011. Income tax will be withheld from the distribution and will be applied toward the taxes owed for 2011. You can then 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 counted as income for 2011, but the withheld tax will be applied pro rata over the full 2011 tax year to reduce previous underpayments of estimated tax.
- ◆ **If you will elect to claim a state and local general sales tax deduction** instead of a state and local income tax deduction, accelerate big ticket purchases into 2011 in order to assure a deduction for sales taxes on the purchases. Unless Congress acts, this election won't be available after 2011.
- ◆ **Applying a bunching strategy** to "miscellaneous" itemized deductions, medical expenses and other itemized deductions may enable you to save taxes in 2011 and 2012.
- ◆ **Homeowners may qualify for tax credits** by making energy-saving improvements to their homes before 2012. Eligible improvements include installing extra insulation or energy-saving windows, or upgrading to energy-efficient heaters or air conditioners.
- ◆ **In case Congress does not extend** the up-to-\$4,000 above-the-line deduction for qualified higher education expenses beyond 2011, consider prepaying eligible higher education expenses if doing so will increase your deduction for qualified education expenses paid in 2011 (or for an academic period beginning in 2011 or in the first 3 months of 2012).
- ◆ **Maximize your casualty loss deduction** in 2011 by settling an insurance or damage claim.
- ◆ **Purchase qualified small business stock (QSBS)** before the end of this year. There is no tax on gain (and no AMT preference problems) from the sale of such stock if it is purchased after September 27, 2010 and before January 1, 2012 and held for more than five years. Qualified stocks must be issued by a regular (C) corporation with total gross assets of \$50 million or less and must meet other technical requirements. Please confirm eligibility with us prior to purchasing stock.

- ◆ **If you have reached age 70-1/2**, take the required minimum distributions (RMDs) from your IRA or 401(k) plan (or other employer-sponsored retirement plan) to avoid penalties that can equal 50% of the amount of RMD not withdrawn. Individuals who reached 70-1/2 in 2011 can delay the first RMD to 2012, but will then have to take a double distribution in 2012. There are pros and cons to delaying 2011 distributions; please discuss the appropriate strategy for your tax situation with us.
- ◆ **Save gift and estate taxes** by making gifts sheltered by the annual gift tax exclusion before the end of the year. You can give \$13,000 in 2011 to each of an unlimited number of individuals, but unused exclusions may not carryover from one year to the next. Gifts may also preserve family income not subject to the kiddie tax.

For Businesses & Business Owners

- ◆ **Consider making expenditures** that qualify for the business property expensing option, such as machinery, equipment, and even qualified real property (for which a limited amount of expensing may be claimed). For tax years beginning in 2011, the expensing limit is \$500,000 and the investment ceiling limit is \$2,000,000; however, unless Congress changes the rules, for tax years beginning in 2012 the dollar limit will drop to \$139,000, the beginning of phase-out amount will drop to \$560,000, and expensing won't be available for qualified real property. The generous dollar ceilings in 2011 mean many small and medium-sized businesses that make timely purchases will be able to currently deduct most, if not all, of their eligible expense outlays. And because the expensing deduction is not prorated for the time that the asset is in service in 2011, this opens up significant year-end planning opportunities.
- ◆ **Also consider making expenditures that qualify** for 100% bonus first-year depreciation if bought and placed in service this year. Unless Congress extends it, this 100% first-year write-off generally won't be available next year; thus, businesses planning to purchase new depreciable property in 2011 or 2012 may wish to accelerate their buying plans.
- ◆ **Claim a Work Opportunity Tax Credit (WOTC)** by hiring qualifying workers (such as certain veterans) before the end of 2011. Under current law, the WOTC won't be available for workers hired after this year.
- ◆ **Claim a research credit** by making qualified research expenses before the end of 2011. This credit will also expire after 2011 unless Congress acts to extend it.
- ◆ **If you are self-employed** and do not have a self-employed retirement plan, call us to help you set one up.
- ◆ **If you own an interest** in a partnership or S corporation, ask us if you need to increase your basis in the entity so you can deduct a loss from it for 2011.

These are some of the many year-end tax planning strategies that you should consider to minimize your personal and/or business tax liability. We will gladly assist you in customizing an appropriate tax strategy that best meets your needs. Please call us if you have any questions about this information or wish to schedule an appointment to discuss your tax situation.

