TAX TALK
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YEAR-END TAX PLANNING – IS IT THAT TIME ALREADY?

I realize that we have not yet hit Halloween so how can I possibly be writing about year-end tax planning? While it may only be October, in the blink of an eye it will soon be January. In order to properly plan for year-end 2011, it is time to consider some tax planning strategies.

Look at your investment portfolio

It is time to determine if you have any capital gains that you will have to report in 2011. Keep in mind that you are allowed to offset capital gains with capital losses. You have until December 31st to sell any securities that will generate a capital loss. You are entitled to offset all capital gains and are allowed $3,000 of loss against ordinary income. If your capital losses exceed your capital gains by more than $3,000, the excess is carried over to future years. I strongly recommend that you proceed with caution. While you do want to sell securities that will generate a loss, you would not want to sell securities that you feel are good securities that are just temporarily down in value.

Look at your business

If you are either a shareholder of an "S" corporation, partner of a partnership, member of an "LLC" or a sole proprietor, then you must look at your profit or loss to date and try to project results through December 31st. There are many avenues open to possibly lower your income taxes when there is a business involved. As discussed in previous articles, there are large incentives to purchasing equipment before year-end. These incentives include first year expensing under code section 179 of $500,000 and 100% bonus depreciation on eligible property purchased before December 31, 2011.

There may be additional planning for your business such as setting up a pension or profit sharing plan or ways of deferring income until 2012.

Look at you itemized deductions and the AMT

Certain deductions such as medical expenses are subject to a limitation based on your Adjusted Gross Income (AGI). It is therefore sometimes advantageous to try to bunch your expenses. In other words instead of winding up just below the 7.5% threshold in both 2011 and 2012, you may be able to defer some 2011 medical expenses to 2012. There may also be reason to prepay state income taxes for deductibility purposes or postpone those payments until 2012 if you would receive greater benefit in 2012. You may wind up with a greater benefit by deferring state income tax payments, if for example you were subject to the Alternative Minimum Tax (AMT) in 2011, but not in 2012.

Conclusion

This article gives only basic strategies and unless you plan for your particular situation, you may find some unexpected consequences in April such as being subject to the AMT. It is definitely that time of year that you should be contacting your tax professional in order to keep as many options as possible open to you.