

2011 YEAR-END TAX PLANNING

KEVIN CRUM, CPA
CRUM, BUCHANAN &
ASSOCIATES

3250 W. Market Street
Suite 209

Akron, Ohio 44333

Phone: (330) 867-1222

Fax: (330) 835-9605

E-Mail:

kevin@crumbuchanan.com

We're on the Web!

Visit us at:

www.crumbuchanan.com

and

[facebook.com](https://www.facebook.com/crum.buchanan.associates)

Dear Clients & Friends,

Year-end tax planning always presents its own unique challenges even with no new legislation scheduled in the immediate future. Next year Congress will have to deal with the expiring Bush-era income tax cuts (including the current rate schedules and low tax rates for long-term capital gains and qualified dividends), and the expiration of favorable estate and gift rules for estates of decedents dying, gifts made, or generation-skipping transfers made after December 31, 2012.

Regardless of what Congress does for 2012 and beyond, there are some strategies and expiring benefits that you must take advantage by the end of 2011 (unless they are at some point extended by Congress). There is also the annual advice on shifting income & deductions between years, a strategy that may or may not make sense for you, depending on what you expect 2012 to hold.

Year-End Tax Planning Moves for Individuals

Deductions & credits set to expire at the end of 2011:

- The option to deduct state and local sales and use taxes instead of state and local taxes.
- Tax free IRA distributions directly to charities by those 70-1/2 or older.
- Non-business & residential energy tax credits for extra insulation, qualifying windows, doors, heaters & air conditioners installed before 2012. *There are lifetime limits of \$500 on these credits.*
- The American Opportunity tax credit for higher education expenses which allows up to \$4,000 above the line deduction or up to \$2,500 credit per student for qualified expenses. Consider prepaying expenses for the spring 2012 semester if you haven't already reached this.

Strategies to Save Taxes in 2011

ABOUT OUR ORGANIZATION...

Crum, Buchanan & Associates is a full-service Certified Public Accounting Firm. The firm provides a full-range of services including tax planning, estate planning, financial planning and education planning. We bring value to you across a broad range of areas.

Gift Tax Exclusion:

You can give \$13,000 annually to anyone (\$26,000 for a couple). It often makes sense to gift investments that you expect to appreciate in the future.

The Medicare Surtax:

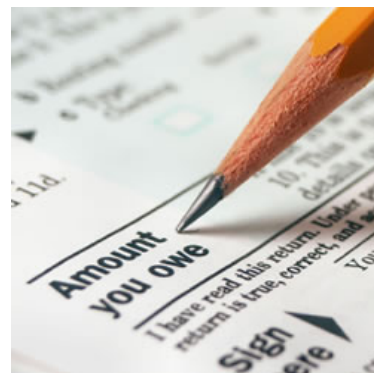
If you expect your income to be over \$200,000 single or over \$250,000 married filing joint and you have investment income, you need to be very aware of the 3.8% Medicare surtax that, under current law, will kick in after December 31, 2012. Investment income includes interest, dividends, royalties, rents, gains from dispositions of property and income from passive activities (limited partnerships, rental property income, etc).

Other:

- Postpone income until 2012 and accelerate deductions into 2011 to lower your 2011 tax bill. This strategy 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).
- Increase the amount you set aside for next year in your employer's health flexible spending account (FSA) if you set aside too little for this year. Don't forget that you can no

longer set aside amounts to get tax-free reimbursements for over-the-counter drugs, such as aspirin and antacids.

- If you become eligible to make health savings account (HSA) contributions by the end of December, you can make a full year's worth of deductible HSA contributions for 2011.
- Consider making charitable deductions by credit card in December. These are deductible when charged but are not immediate out of pocket cash.
- If possible, consider paying your real estate taxes due in January 2012 to use the deduction this year.
- If you pay estimated taxes, consider paying in December your fourth quarter, state or local estimates that are due in January.



Tax Audits

IRS statistics on audits report that the overall audit rate of all taxpayers rose to 1.11%, the highest figure since 1997. If your income was \$1 million or more your audit rate was 8.36% which equates to 1 in 12 of these returns being audited. Filers with incomes over \$200,000 also experienced more than twice the average audit rate, as did business returns, such as Schedule C filers with gross income over \$250,000, and filers claiming the earned income credit (EIC). As usual, keep great records. Note that part of Obama's proposed tax plan includes the hiring of more IRS agents. The IRS claims it brings in \$6 for every dollar spent on tax enforcement.

These are just some of the year-end steps that can be taken to save taxes. Please contact us with any questions or for year-end tax planning that applies specifically to your individual tax needs.

Very truly yours,

Crum, Buchanan & Associates

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