2011- 2012

YEAR-END YEAR-ROUND

TAX PLANNING

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2011/2012

YEAR-END/YEAR-ROUND

Tax PLANNING GUIDE

The lower your tax bill, the more money you'll have for other things. So the time you take reviewing your tax picture and identifying ways to trim your taxes will be time well spent. This *2011/2012 Year-End/Year-Round Tax Planning Guide* is designed to help you in your tax-saving efforts.

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As you read through the guide, you'll find helpful explanations of the current federal tax rules, tax tables, and a worksheet you can use to make a preliminary estimate of your 2011 taxable income. Perhaps most important, the guide also offers dozens of tips for lowering your personal and business taxes.

We encourage you not to wait to do your tax planning. To be effective, most strategies discussed in the guide have to be implemented before the end of the year.

Because the federal tax law is complicated, however, you'll want to secure professional tax advice before acting on any of the ideas presented in the guide. The suggestions are general in nature and may or may not be right for your particular situation.

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YOUR 2011 TAX SITUATION

The last thing most taxpayers want to discover at tax-filing time is that they still owe the IRS a large sum of money. A tax projection can show you where you stand with your income taxes — and highlight areas where you might be able to reduce your tax exposure with some planning.

Review This Year's Transactions

As a preliminary planning step, take a few minutes to review your 2011 financial transactions — both completed and anticipated — for new items that could affect your income taxes. Examples include:

- Selling investments held outside tax-deferred accounts
- Selling real estate
- Converting to a Roth IRA (or a designated Roth account inside an employer's plan)
- Taking a distribution from an employer's retirement plan (or a traditional IRA) and not rolling it over
- Starting or selling a business
- Exercising stock options
- Receiving a large sales commission or bonus
- Buying a home

See If Tax Payments Are on Track

The IRS can assess penalties if you don't pay enough income taxes during the year through payroll withholding and/or quarterly installments of estimated tax. As part of your planning, you'll want to see if your tax payments are on track. In general, you should aim to pay at least (1) 90% of your projected 2011 tax or (2) 100% of your 2010 tax. However, the required percentage of your 2010 tax is 110% instead of 100% if your 2010 adjusted gross income (AGI) is more than $150,000 ($75,000 if you are a married taxpayer filing separately).

What should you do if you need to play catch up for 2011? As an employee, your best option may be to have your employer withhold more tax from your pay for the rest of the year. The IRS generally assumes that withholding tax is paid in equal amounts on each quarterly deadline, even if more is withheld during the last quarter of the year. If you aren't employed, you can pay more in estimated taxes — but you might still owe a penalty unless you can show that your estimated payments for each period were sufficient using the "annualized income" method.

2011 INCOME-TAX RATES

	Taxable Income Brackets			
Rate	**Single**	**Head of household**	**Married filing jointly (and surviving spouses)**	**Married filing separately**
10%	$0 - 8,500	$0 - 12,150	$0 - 17,000	$0 - 8,500
15%	$8,501 - 34,500	$12,151 - 46,250	$17,001 - 69,000	$8,501 - 34,500
25%	$34,501 - 83,600	$46,251 - 119,400	$69,001 - 139,350	$34,501 - 69,675
28%	$83,601 - 174,400	$119,401 - 193,350	$139,351 - 212,300	$69,676 - 106,150
33%	$174,401 - 379,150	$193,351 - 379,150	$212,301 - 379,150	$106,151 - 189,575
35%	Over $379,150	Over $379,150	Over $379,150	Over $189,575

TAXABLE INCOME WORKSHEET

	2010	2011
Wages, salaries, tips, etc.	$	$
Interest and dividends		
Business income (loss)		
Farm income (loss)		
Capital gain (loss)		
Rents, royalties, partnerships, S corporations, trusts, etc.		
Unemployment compensation		
Alimony received		
Taxable Social Security benefits		
Taxable distributions from IRAs, pensions, and annuities		
Taxable refunds of state and local income taxes		
Other income		
Total estimated income	**$**	**$**
Minus adjustments (above-the-line deductions)*		
Alimony paid	$	$
Traditional IRA contributions		
Student loan interest		
Tuition for higher education		
Educator expenses		
Health savings account contributions		
Self-employment tax deduction		
Self-employed health insurance premiums		
Self-employed SEP, SIMPLE, and qualified retirement plan contributions		
Early withdrawal (savings) penalties		
Total adjustments	**$**	**$**
Adjusted gross income (AGI)	**$**	**$**
Minus exemptions ($3,700 per person for 2011)	$	$
Minus standard deduction or itemized deductions	$	$
Itemized deductions* include:		
Medical expenses	$	$
Prepaid taxes	$	$
Interest	$	$
Charitable donations	$	$
Taxable income	**$**	**$**

** This list is not all-inclusive, and various requirements and limitations apply.*

STEPS TO LOWER YOUR TAXES

After you've assessed your tax situation, you'll be ready to start reviewing specific planning steps. Here are some for consideration.

Capture Low Rates on Investment Gains

The tax rates on net long-term capital gains are still significantly lower than the rates that apply to short-term capital gains, interest, wages, and other ordinary income (shown on page 2). A capital gain will be considered long term if you hold your investment *more than one year* before you sell it. The table below shows the long-term capital gains rates for different types of investments.

LONG-TERM CAPITAL GAINS RATES	2011
Most investments (if ordinary tax rate is above 15%)	**15%**
Most investments (if ordinary tax rate is 10% or 15%)	**0%**
Collectibles	**28%**
Real estate (amount up to prior allowable depreciation; rest of gain is taxed the same as gain on most investments)	**25%**

Although taxes shouldn't be the only factor you consider when you are timing investment transactions, waiting until you've met the long-term holding period before you sell an appreciated investment can save you taxes.

Use Capital Losses Effectively

No one likes to lose money on an investment. But there is a silver lining: Capital losses are generally deductible in full against capital gains and up to $3,000 annually ($1,500 if married filing separately) of your ordinary income. You may carry forward any excess capital losses you aren't able to deduct under these rules for use in later tax years, subject to the same limitations.

The IRS has "wash-sale" rules in place to prevent taxpayers from selling securities to secure a tax loss and quickly purchasing substantially identical securities. If you sell securities at a loss and buy substantially identical securities within 30 days *before or after* the sale, you won't be able to deduct your loss. Instead, it will be added to the cost basis of the replacement securities.

As you plan, size up your capital gain/loss situation. Do you have any taxable capital gains on 2011 investment sales? What about 2011 capital losses and capital loss carryforwards from prior years? Coordinate this planning with the alternative minimum tax discussion on page 7. Knowing where you stand from a tax viewpoint will be helpful when you are considering potential investment transactions before year-end.

Lock In a Low Rate on Dividends

Like long-term capital gains, qualifying dividends are generally taxed at a maximum rate of 15% in 2011 and 2012 — or 0% for dividends otherwise taxable in the lowest two ordinary tax brackets. Most dividend income received from domestic corporations and qualified foreign corporations can qualify, as long as you hold the underlying stock for a minimum period: generally at least 61 days during the 121-day period beginning 60 days before the stock's "ex-dividend" date (the date on which the stock begins trading without rights to the most recently declared dividend). The holding period is longer for certain preferred stock dividends. Before you sell dividend-paying stocks, check to see if you've held the stock long enough to lock in a favorable tax rate on your dividend income.

Watch Income Timing

Part of your tax planning may center on income timing decisions. For example, you may have an opportunity to delay receiving certain income — such as a late-year commission, bonus, or taxable distribution from a retirement account — until early next year. That way, you'd defer the related income taxes. Income deferral can have other tax benefits, as well. For example, deferral can help preserve certain tax breaks that are reduced or eliminated at higher income levels or prevent you from being pushed into a higher tax bracket this year. Of course, non-tax considerations also will be important in any decisions you make regarding income deferral.

Accelerating income into the current tax year can be a smart tax strategy if you expect to be in a higher tax bracket the following year. Under current law, individual income-tax rates are not scheduled to increase until after 2012. However, if you expect a spike in income or a loss of significant deductions next year, your tax bracket might be higher in 2012 than in 2011.

Time Deductible Expenses

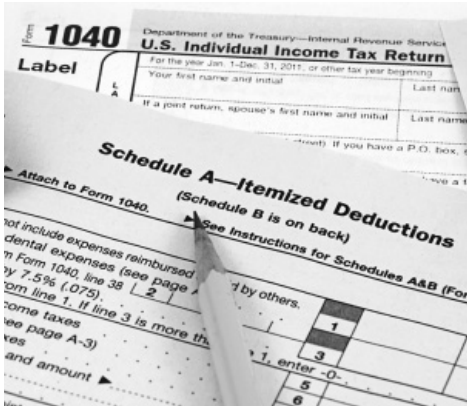
Timing also can be important on the expense side of your tax picture. If you itemize your deductions, you may be able to increase your deductions and cut this year's tax bill by paying certain deductible expenses early, such as state and local taxes. However, exercise caution if the alternative minimum tax (AMT) could be an issue for you. State and local taxes, as well as certain other itemized deductions, are not allowed in computing the AMT. Learn more about the AMT on page 7.

Action Tips

Protect Gains

- If you've already realized taxable capital gains this year, consider taking losses on underperforming investments to offset your gains. But be sure to weigh all relevant factors before you make investment decisions.
- Are you reluctant to part with a "losing" stock because you believe it still has potential? You could sell your shares to secure the tax loss and wait at least 31 days to replace them. Or buy more shares of the same stock and wait at least 31 days to sell your original shares at a loss. Alternatively, you can add or buy another stock or mutual fund that will perform similarly to the stock sold at a loss. Either way, you'll avoid the wash-sale rules and preserve the tax benefit of the loss.
- You won't qualify for the 0% tax rate on long-term capital gains if your regular tax bracket is 25% or higher. But maybe your child (who is no longer subject to the "kiddie tax") or another family member you want to help *can* qualify. In that case, instead of a cash gift, consider a gift of appreciated securities held more than one year. When the securities are sold in 2011 (or 2012), you'll both sidestep tax on the capital gain. Gifts of up to $13,000 (per recipient) are not subject to gift tax in 2011.

Medical expenses and miscellaneous expenses deserve special mention because they are subject to deduction "floors." Your itemized deduction for expenses in each category is limited to the amount that exceeds a percentage of your AGI. The floor is 7.5% of AGI for medical expenses. For example, if you have $25,000 of eligible medical expenses and AGI of $100,000, your deduction is $17,500 — $25,000 total medical expenses minus $7,500 (7.5% of your AGI). The floor is somewhat lower — 2% of AGI — for miscellaneous expenses, including unreimbursed employee business expenses, various investment-related expenses, and certain other items. To the extent possible, try to group your expenses in the year they'll provide a tax benefit.



Certain expenses are deductible "above-the-line" as adjustments to income. Above-the-line deductions are valuable because they reduce your AGI *and* help you preserve tax breaks you might otherwise lose because your AGI is too high. The worksheet on page 3 lists various above-the-line deductions that are available in 2011.

Contribute to Retirement Accounts

Making pretax salary deferrals to a workplace retirement plan — 401(k), 403(b), 457(b), or SIMPLE — will trim your taxable income. If you participate in a plan, consider increasing your contributions before year-end. The table below shows the deferral limits for 2011. Note that your plan may allow you to make additional catch-up contributions once you've reached age 50 and maximized your regular salary deferrals. Your regular and catch-up contributions, as well as plan investment earnings, will be tax deferred until you begin receiving funds from the plan.

Contributing to a traditional individual retirement account (IRA) may be another good way to reduce your taxable income. Your IRA contributions (up to the tax law limit) will be fully tax deductible if you (and your spouse) are not eligible to participate in an employer-sponsored plan. With plan participation, there are income restrictions on IRA deductions. To contribute to a traditional IRA, you must be under age 70½ at the end of the tax year and you (or your spouse) must earn compensation.

Action Tips

Keep Retirement Savings Tax Deferred

- If you are retiring or leaving your employer for another job and expect to receive a retirement plan distribution, rolling it over to an individual retirement account (IRA) or your new employer's plan can avoid current taxes on the distribution.
- A direct rollover (trustee-to-trustee transfer) of your eligible distribution will avoid mandatory 20% federal income-tax withholding on the distribution.

Accelerate Deductible Expenses

- If your total out-of-pocket medical expenses this year to date come close to or already surpass 7.5% of your AGI, scheduling and paying for physical, dental, or eye exams before year-end may provide you with a tax deduction.
- Similarly, paying professional dues, subscriptions to professional journals, and investment management fees could help you surpass the 2%-of-AGI floor on the miscellaneous itemized deduction.
- Making donations to qualified charitable organizations can reduce your tax bill. Use your credit card if you wish, or mail your check as late as December 31.

Consider a Roth Account

Roth accounts also provide long-term tax advantages. You may have access to one through your employer's 401(k), 403(b), or 457(b) retirement savings plan. Or, depending on your income, you may be able to contribute to a Roth IRA.

Roth contributions are made after tax, so there's no immediate tax benefit from contributing. However, any investment earnings in a Roth account accumulate tax deferred and won't be taxed on withdrawal after you've met a five-year holding period and reached age 59½ (or in certain other limited circumstances).

If you have a traditional IRA and are interested in a Roth IRA because of its potential to provide you with income-tax free retirement income, you might consider converting all or part of your account. You also may convert

HOW MUCH CAN YOU CONTRIBUTE FOR 2011?

To boost your retirement savings, contribute as much as possible each year. The maximum amounts are shown below. Note, however, that employer plans might not permit participants who have reached age 50 to contribute the higher amounts indicated. And additional contribution limitations could apply.

Type of Plan	Under Age 50	Age 50 or Older
Traditional/Roth IRA	$5,000	$6,000
401(k), 403(b), 457(b), SEP*	$16,500	$22,000
SIMPLE IRA	$11,500	$14,000

** Only SEP plans established before 1997 may allow employees to make pretax contributions.*

a SIMPLE IRA (after two years of participation) or a SEP IRA to a Roth IRA. There are no longer any income or filing status restrictions on Roth IRA conversions. Under a recent tax law change, 401(k) and other retirement savings plans that have a Roth contribution feature also may permit participants to convert eligible distributions to a Roth account within the plan. Check with your plan administrator if you're interested.

A word of caution: A Roth conversion will trigger income taxes. Deductible IRA contributions or pretax plan contributions, along with any accumulated earnings, become taxable upon conversion. However, even if you're younger than age 59½, you won't have to pay a 10% early withdrawal penalty on the conversion.

Assess AMT Exposure

Depending on your tax situation, you could owe the alternative minimum tax (AMT) for 2011. When it applies, the AMT is a separate tax paid along with your regular

income tax. The AMT rates are 26% and 28%.

Basically, the AMT system is designed to ensure that taxpayers pay a minimum amount of tax when they use certain tax breaks to reduce their regular tax liability. The AMT calculation is complex. For planning purposes, it may be helpful to identify some of the items that can trigger AMT:

- A higher-than-average number of dependency exemptions
- A large deduction for state income taxes
- The exercise of incentive stock options
- Interest from certain "private activity" municipal bonds
- A large capital gain

The AMT exemption amounts for 2011 are $48,450 for unmarried filers, $74,450 for married couples filing jointly, and $37,225 for a married person filing separately. These exemptions are phased out for higher income taxpayers.

Sidestep Taxes on Social Security

Retired taxpayers are sometimes caught off guard when they learn their Social Security benefits are not necessarily tax free. When "provisional income" — modified AGI (including tax-exempt municipal bond interest) plus half of the Social Security benefits — exceeds certain levels, a portion of the benefits must be included in income for tax purposes. Carefully planning taxable distributions from your IRA or retirement plan may help you limit taxes on your Social Security. (But be sure to satisfy the tax law's required minimum distribution rules if you're over age 70½.)

WILL YOUR SOCIAL SECURITY BENEFITS BE TAXABLE?

On a Joint Return*	
If your provisional income is:	**Up to this percentage of your benefits will be taxed:**
Less than $32,000	0%
Between $32,000 and $44,000	50%
Over $44,000	85%
On a Single or Head-of-Household Return	
If your provisional income is:	**Up to this percentage of your benefits will be taxed:**
Less than $25,000	0%
Between $25,000 and $34,000	50%
Over $34,000	85%

** The provisional income threshold is zero for married persons filing separately who do not live apart from their spouse for the entire year.*

UNCOVERING DEDUCTIONS AND CREDITS

Every tax deduction or credit you can claim will help minimize your tax burden. To estimate the tax benefit of a deduction, multiply the amount of the deductible expense by your marginal tax rate (the rate that applies to your last dollar of taxable income). Unlike a deduction, a tax credit offsets your tax liability dollar for dollar. The deductions and credits discussed in this section are sometimes overlooked.

Volunteer Expenses

You may deduct various out-of-pocket expenses incurred in connection with any volunteer work you do for a qualified charity. For example, if you drive while performing volunteer services, you may deduct 14 cents per mile, plus tolls and parking (or your actual unreimbursed auto expenses, such as gas and oil). Other potential deductions: travel, lodging, meals, and transportation costs; expenses associated with entertaining on behalf of a charity; and the cost of uniforms, provided they have no general use.

Job Search Expenses

You generally may deduct the cost of résumés, job counseling, travel for interviews, and other job search expenses even if you are not offered or do not accept a new job, provided your job search relates to a position in your present trade or business. These expenses are claimed as a miscellaneous itemized deduction, subject to the 2%-of-AGI floor.

Mortgage Points

Points (prepaid interest) paid on a mortgage taken to buy or build your main home are generally deductible in full in the year paid, or you have the option of spreading out your deduction over the

life of the loan (typically a good choice if you don't have enough other expenses to make itemizing worthwhile in the year of purchase). The deduction for points paid on a mortgage refinancing is generally taken over the loan term. However, if you sell your home before you've deducted the whole amount, you may deduct whatever amount remains in the year of sale.

State and Local Sales Taxes

Instead of deducting state and local income taxes, you may choose to deduct state and local sales taxes. The IRS provides optional sales tax tables for different states, so you don't have to keep all your receipts to figure the deduction.

The sales tax deduction is generally most beneficial for residents of states that don't impose an income tax. But it also could be a tax saver if you pay sales tax on a motor vehicle, boat, airplane, home, or major home renovation. Save receipts for these items, since you generally may add the actual sales tax paid on your purchases to the IRS table amount. (With receipts, you also have the option of deducting actual sales tax paid on all your purchases instead of using the table amount.) Unless it is extended, the election to deduct sales taxes won't be available after 2011.

Casualty Losses

You may qualify for a casualty loss deduction if your property was totally or partially destroyed as the result of a sudden,

unexpected, or unusual event, such as a fire, storm, or car crash. You must reduce the amount of the loss you claim on your tax return to the extent insurance covers the damage, and certain other deduction limitations apply.

Medical Expenses

Subject to the 7.5%-of-AGI floor discussed on page 5, you may deduct a variety of out-of-pocket medical expenses. The list of medical expenses that can qualify for the deduction is quite long. Doctors' bills, tooth repairs, eyeglasses and contact lenses, hearing aids, laboratory fees, oxygen, psychiatric care, stop-smoking programs, breastfeeding supplies, surgery, and x-ray costs, for example, can all qualify. In addition to your and your spouse's medical expenses, qualifying expenses paid for dependent family members can qualify for deduction.

Energy Credits

Installing certain energy-efficient improvements in your principal residence may allow you to qualify for a credit against your income-tax liability. Assuming they meet specified energy standards, a wide variety of items are credit-eligible, including:

- Insulation materials or systems
- Exterior doors, windows, skylights, and metal roofs
- Advanced main air circulating fans
- Furnaces, hot water boilers, and water heaters (natural gas, oil, or propane)
- Electric heat pump water heaters
- Electric heat pumps
- Biomass stoves

This credit is limited to $500 (no more than $200 for exterior windows and skylights) and must be reduced by amounts you previously claimed in tax years ending after 2005. Certain other percentage and dollar limits apply.

Another 30% energy credit is available for installing residential solar electric or hot water systems, geothermal heat pumps, small wind turbines, and fuel cell systems. All but the fuel cell system may be installed in either your primary or second residence, although the equipment may not be used to heat a swimming pool or hot tub.

Child and Dependent Care Credit

Look into claiming this credit if you pay child-care expenses so that you (and your spouse) can work. Up to $3,000 of expenses ($6,000 for two or more dependents) can qualify, and the minimum credit rate is 20%. Your child must be under age 13. This credit is also allowed for household and other expenses of caring for a disabled spouse or other adult dependent while you work.

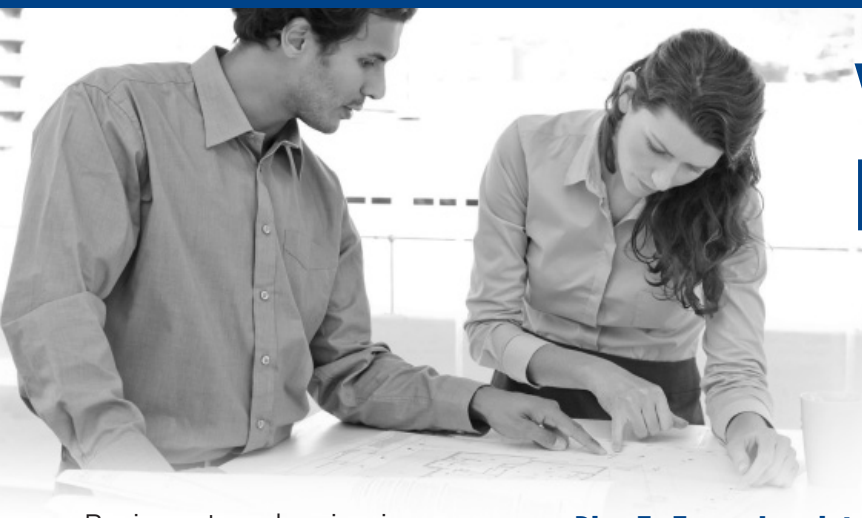
Student Loan Interest

This deduction — for up to $2,500 of interest paid on qualified education loans — is available to non-itemizers as well as to taxpayers who itemize their deductions. In 2011, the deduction phases out for joint filers with modified AGI between $120,000 and $150,000 and for single taxpayers with AGI between $60,000 and $75,000. You won't be able to deduct any interest you might pay on your child's student loans, since only the person legally obligated to make the payments may claim the deduction. But your child could claim a deduction for interest you pay on his or her loans (treated as a gift) in any year he or she isn't your dependent.

TUITION TAX BREAKS FOR 2011

	American Opportunity Credit	Lifetime Learning Credit	Tuition & Fees Deduction
Maximum amount	$2,500 per student	$2,000 per tax return	$4,000 or $2,000 (depends on income)
Qualifying education	First four years of undergraduate	Undergraduate, graduate, job training courses	Undergraduate, graduate, job training courses
Income limits	No credit if modified AGI exceeds $90,000 (unmarried) or $180,000 (married joint) Phaseout applies	No credit if modified AGI exceeds $61,000 (unmarried) or $122,000 (married joint) Phaseout applies	No deduction if modified AGI exceeds $80,000 (unmarried) or $160,000 (married joint)

Note: You may not claim the higher education expense deduction and an American Opportunity or Lifetime Learning Credit in the same year for the same student. Similarly, you may not claim both credits for the same student's expenses. Other restrictions apply.



YEAR-END STRATEGIES FOR BUSINESSES

Business tax planning is a year-round activity. But the last several months of the year may present specific opportunities to minimize taxes on your business income.

Review Corporate Earnings

A C corporation's earnings are potentially subject to two layers of income tax — once at the corporate level and again if distributed to shareholders as dividends. If your closely held C corporation expects to have a profitable year, consider whether it makes business (as well as tax) sense to pay bonuses or make a tax-deductible profit sharing contribution this year to minimize corporate taxable income.

Your corporation can retain undistributed earnings for later use. However, the IRS can assess an accumulated earnings tax penalty if a company accumulates excessive amounts of retained earnings to avoid paying taxable dividends to shareholders. Generally, a corporation can accumulate up to $250,000 of earnings ($150,000 in the case of certain service corporations) without penalty — more if the money is retained for the reasonable needs of the business.

Plan To Turn a Loss into a Tax Gain

No business owner welcomes a net operating loss (NOL). However, if you expect your company to show a loss this year, plan to use it to your best tax advantage. An NOL generally may be carried back two years. By carrying back

CORPORATE TAX RATES

If your company is a C corporation other than a personal service corporation,* you can estimate your corporation's regular 2011 federal income taxes using this table.

If taxable income is over	But not over	Your tax is	Of the amount over
$0	$50,000	15%	$0
$50,000	$75,000	$7,500 + 25%	$50,000
$75,000	$100,000	$13,750 + 34%	$75,000
$100,000	$335,000	$22,250 + 39%	$100,000
$335,000	$10,000,000	$113,900 + 34%	$335,000
$10,000,000	$15,000,000	$3,400,000 + 35%	$10,000,000
$15,000,000	$18,333,333	$5,150,000 + 38%	$15,000,000
$18,333,333		a flat 35%	

** Personal service corporations pay a flat 35% tax.*

an NOL, you may secure a refund of income taxes paid. Unused NOLs may be carried forward to offset future taxable income for as long as 20 years. A special election to forgo the carryback period is also available.

Identify Deductible Bad Debts

Even in the best of times, getting paid for products or services your company has provided can sometimes be an issue. Difficult economic conditions only make the situation worse. If your company uses the accrual method of accounting, you generally may deduct business bad debts when they become totally or partially worthless. You'll need documentation to support the deduction, so be sure to keep good records of your failed collection attempts.

Gauge AMT Exposure

Just as it can for individuals, the AMT can be an issue for larger corporations. When it applies, the corporate AMT rate is 20%, and the exemption amount is $40,000 (subject to an income-based phaseout with alternative minimum taxable income between $150,000 and $310,000).

Your corporation will be *exempt* from the AMT if it satisfies a gross receipts test. The exemption generally applies where a corporation's average annual gross receipts for all three-tax-year periods beginning after 1993 and ending before the current tax year are $7.5 million or less. (There's a lower $5 million threshold for the first three-tax-year period taken into account in the test.)

Action Tips

Implement Timing Strategies

- If you anticipate generating a 2011 net operating loss that can be carried back, consider accelerating certain deductible expenses into 2011 to increase the loss — and the amount of your refund for taxes paid in the carryback year.
- To defer taxable income to next year, business taxpayers that use the cash method of accounting can delay billing notices so that payment won't be received until early next year.
- Businesses using the accrual method of accounting can defer taxable income by delaying shipping products or providing services until the beginning of the 2012 tax year.
- Making year-end shipments FOB destination, rather than FOB shipping point, can delay the transfer of title until next year. Income won't be realized for tax purposes until title passes.
- Certain advance payments received for the sale of goods or services may be deferred by an accrual-method business if requirements are met.
- Look into whether you can claim a 2011 deduction for employee bonuses you won't pay until early next year — within the first 2½ months of 2012 — if your business uses the accrual method. But take care if a condition of receiving a bonus is that the recipient still be employed on the bonus payment date. In that case, you won't be able to claim the deduction until 2012. Also, you generally can't use this strategy for employees who own a greater-than-50% interest in the business.
- You also may be able to deduct vacation pay that is vested at year-end and will be paid within 2½ months after year-end.
- If you expect your C corporation to be in a higher tax bracket in 2012, accelerating corporate income into 2011 when your tax rate is lower could be beneficial. But you'll want to consider the effect on your cash flow and the opportunity cost associated with paying taxes sooner.

TAX BENEFITS FOR FIXED ASSET PURCHASES

Special tax provisions designed to stimulate economic growth make this an opportune time for businesses to acquire equipment and other fixed assets.

Write Off 100% of Cost

Businesses have several tax incentives to invest in machinery, equipment, and other fixed assets in 2011. The first: a "bonus" first-year deduction for 100% of the cost of qualified property acquired and placed in service after September 8, 2010, and before January 1, 2012 (January 1, 2013, for certain longer-lived and transportation property).

There is no dollar limit on the 100% write-off, and most new (rather than used) assets can qualify:

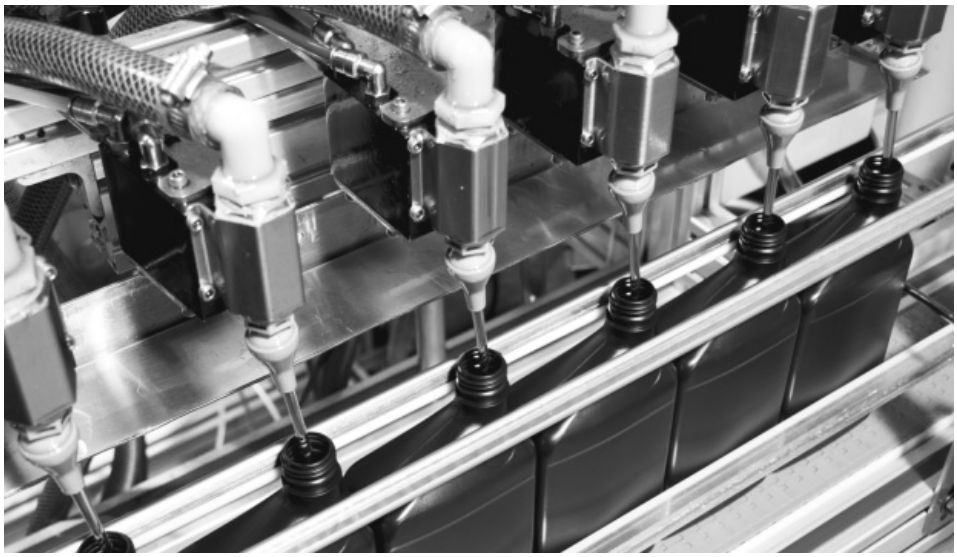
- Property with a recovery period of 20 years or less, such as machinery, equipment, computers, and land improvements
- Off-the-shelf computer software
- Water utility property
- Qualified leasehold improvement property (generally, interior improvements made to a building more than three years after the building was initially placed in service — other rules and exceptions apply)

Heavy sport utility vehicles (SUVs) that have a gross vehicle weight of more than 6,000 pounds are not considered "luxury autos" under the tax law and therefore are not subject to the same luxury auto depreciation dollar caps that apply to most passenger autos. As a result, a full 100% first-year write-off will be available for a heavy SUV purchased new and placed in service after September 8, 2010, and before January 1, 2012, and used entirely for business

Action Tips

Use Tax Incentives Wisely

- Consider purchasing fixed assets (with a loan, if necessary) that you'll need next year if you'll be able to claim 100% bonus depreciation or the Section 179 deduction for those assets in 2011.
- If your company purchases both new and used fixed assets, using a combination of the 100% first-year depreciation bonus (for the new assets) and the Section 179 election (for the used assets) may be beneficial, assuming the assets otherwise qualify.
- Where a company is going to elect Section 179 expensing for only some of its asset acquisitions and depreciate the others, it may make sense to make the Section 179 election for the assets with the longest lives.
- Because bonus depreciation is not limited to taxable income, the deduction can contribute to or create a net operating loss. This might be an advantage for a C corporation that can carry back the loss and secure a tax refund. Similarly, a net operating loss generated by a flow-through entity, such as an S corporation or partnership, can provide a tax benefit to the owners individually.
- Electing out of bonus depreciation or forgoing a Section 179 election could be advantageous in certain situations — for example, if you want to preserve depreciation deductions for future years when you expect your business income to be taxed at a significantly higher rate (but be sure to do a present value analysis).



purposes. (The deduction is prorated where a vehicle is used more than 50% but less than 100% for business.)

The first-year depreciation bonus percentage is 50% for tax years beginning in 2012.

Make Use of Section 179 Election

The election under Section 179 to "expense" (deduct) the cost of qualifying assets in the year they are first placed in service remains available as another alternative to claiming regular depreciation deductions. The Section 179 election is available for up to $500,000 of qualifying asset acquisitions during the 2011 tax year, and this $500,000 limit is reduced dollar for dollar as the cost of all Section 179 property a business places in service during the tax year exceeds $2,000,000. You cannot expense more than the amount of your taxable income from active trades or businesses.

The Section 179 election is available for purchases of both new and used assets. Most tangible personal property qualifies. And, under a special provision available for taxable years beginning in 2011 (and 2010), as much as $250,000 of the $500,000 annual maximum Section 179 election may be for *qualifying real property* — consisting of qualified leasehold improvement, restaurant, or retail improvement property.

Claim Regular Depreciation

Your business may elect out of claiming 100% bonus depreciation for all qualifying assets placed in service during the taxable year or for certain asset classes and instead claim regular depreciation under the Modified Accelerated Cost Recovery System (MACRS). Section 179 expensing is also elective. The table below shows the MACRS asset classes.

DEPRECIATION ASSET CLASSES

Property Class	Assets Included
3-year	Tractor units for over-the-road use
5-year	Automobiles, trucks, computers, copiers and other office machinery
7-year	Office furniture and fixtures, farm machinery and equipment
10-year	Vessels, barges, tugs
15-year	Qualifying leasehold improvements, restaurant buildings and improvements, retail improvements, and certain land improvements
20-year	Farm buildings (other than certain single-purpose structures)
25-year	Water utility property
Residential rental property (27.5-year)	Apartment buildings, single-family rental properties
Nonresidential real property (39-year)	Office buildings, stores, warehouses

These asset classes are used when computing depreciation under the Modified Accelerated Cost Recovery System (MACRS). The lists of property included in each class are not all-inclusive.

MORE IDEAS FOR BUSINESS TAXPAYERS

Many other tax planning opportunities exist for businesses. Some of them are industry specific, while others are more broadly available.

Claim Manufacturing/Production Deduction

Don't overlook the "domestic production activities deduction" if your business is involved in domestic manufacturing, construction, engineering or architectural services related to construction projects, or other eligible production activities. For 2011, the maximum deduction is 9% of the lesser of: (1) qualified production activities income or (2) taxable income before taking the deduction into account. (Sole proprietors use their adjusted gross income, with certain modifications, instead of their taxable income.) However, the deduction may not exceed 50% of W-2 wages allocable to domestic production gross receipts. If your company is eligible, the deduction could reduce your taxes — and increase your after-tax profits — without any additional outlay of cash.

Review R&D Credit

Taxpayers should review their expenses to see if they are eligible for the research and development (R&D) credit (also known as the research and experimentation (R&E) credit).

Avoid Taxes on Expense Reimbursements

Having a so-called "accountable plan" for reimbursing your employees for their travel and other business-related expenses can save taxes for your business *and* your employees. Very generally, an accountable plan requires employees to submit an adequate accounting of their expenses (some type of log plus receipts or other substantiation) and return any excess reimbursement or allowance within a reasonable period. Assuming all IRS rules are met, the reimbursement amounts do not have to be treated as income. The result: Your employees don't have to pay income or FICA tax on the reimbursements, and your business won't owe payroll taxes on those amounts.

Contribute to a Retirement Plan

As a business owner, you can lower your business taxes — and help accumulate funds for your own retirement — by maximizing contributions to a tax-favored retirement plan. The table on page 15 summarizes the 2011 contribution and deduction limits for several types of retirement plans. Let us know if you need assistance in choosing a suitable plan.

Take Credit for Health Insurance Costs

If your company offers employee health benefits, see if you can qualify for a tax credit for a portion of your cost. The credit is available to small employers with no more than 25 full-time (or full-time equivalent) employees earning, on average, no more than $50,000 annually. You generally must contribute at least 50% of the total premium cost. For 2011, the maximum credit is 35% of an employer's

contribution toward the health coverage. The 35% credit phases out for employers with more than 10 employees and/or average wages of $25,000 or more.

Certain individuals are not treated as employees for credit purposes, including self-employed individuals (including partners and sole proprietors), 2% S corporation shareholders, and 5% owners of the employer. These individuals aren't counted in determining the number of full-time employees or the amount of average annual wages paid. And no tax credit is available for health premiums paid on their behalf.

Deduct Start-up Costs

Are you launching a new business in 2011? You may incur expenses before the business actually begins operating. Examples include the costs of conducting market surveys, traveling to find customers or suppliers, advertising, and training employees. You may elect to deduct up to $5,000 of these expenses in 2011 as long as the business is up and running by year-end. (The $5,000 limit is reduced dollar for dollar once total start-up costs exceed $50,000.) The remainder of your start-up costs would be deductible over a 180-month period.

Deduct Self-employed Health Insurance Costs

If you're self-employed, you may be entitled to deduct 100% of health and dental insurance costs for yourself, your spouse, your dependents, and any qualifying children who haven't attained age 27 as of the end of the tax year. Your deduction can't be more than your earned income from the trade or business for which you established the health coverage. (Other requirements apply.) The deduction is taken as an adjustment to gross income rather than an itemized deduction, so it may help you qualify for other tax benefits that are subject to AGI-based limits.

COMPARING RETIREMENT PLANS

	401(k)	Profit Sharing	Simplified Employee Pension (SEP)	SIMPLE IRA
Employee contributions allowed?	Yes — see page 6 for 2011 deferral limits	No	No (except for certain plans established before 1997)	Yes — see page 6 for 2011 deferral limits
Employer contribution required?	No — however, employer contributions are allowed	Yes — contributions can be discretionary	Yes — discretionary contributions	Yes — must match employee deferrals up to 3% of pay or contribute 2% of pay for all eligible employees
Maximum annual contribution	Smaller of $49,000 or 100% of participant's compensation	Same as 401(k)	Smaller of $49,000 or 25% of participant's compensation	Employee deferral plus required employer contribution
Maximum deduction	25% of all participants' compensation plus employee deferrals	25% of all participants' compensation	Same as profit sharing plan	Same as maximum contribution

Compensation is generally limited to $245,000 in 2011. Calculating the contribution limit for a self-employed individual's profit sharing contribution involves a special computation. SIMPLE IRAs are available only to small employers.

Reduce Self-employment Taxes

Self-employment (SE) taxes are the counterpart of the Social Security and Medicare (FICA) taxes paid by employees and their employers. SE taxes can represent a significant expense for self-employed taxpayers.

Good news: The rate for the Social Security portion of the SE tax is 10.4% (instead of the usual 12.4%) for 2011. The Social Security tax applies to self-employment earnings of up to $106,800. The 2.9% Medicare tax applies to all your self-employment income.

For 2011, you may deduct up to 59.6% of the Social Security tax you pay in computing your AGI (up from 50% in 2010). You also may deduct 50% of your Medicare tax, unchanged from 2010.

Action Tips

Minimize SE Taxes

- Ensuring that trade or business expenses are properly classified as such can help reduce SE taxes. For example, professional fees should be claimed as a business expense to the extent they're business related.
- Instead of classifying the cost of ad space in a program for a charity's fundraising event as a charitable contribution, it may be deductible as business advertising.
- Deduct interest paid on a home equity line of credit as a business expense to the extent you use the borrowed funds for business purposes. Be sure you keep good records.
- Another SE tax-reducing possibility: Hire your school-age child to work for you part-time. Provided the pay rate is reasonable, the amount you pay your child for work actually performed will be deductible as a business expense. The deduction will lower your self-employment income — and your SE taxes.

WE CAN HELP

Starting your tax planning now will give you more time to achieve your tax-saving objectives. As skilled professionals, we have the knowledge and experience to assist you with all your planning needs — both now and in the future. For more information about any of our services, please contact us.

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