Year-end Tax Planning Letter

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To Our Clients and Friends:

As we approach year-end, it's again time to focus on last-minute moves you can make to save taxes—both on your 2012 return and in future years. To get you started, we've included a few money-saving ideas here that you may want to put in action before the end of the year. Contact us if you have questions about which ideas may be appropriate for you or if you want to discuss other tax-saving strategies.

› If you have appreciated stock (or mutual fund shares) that you've held more than a year and you plan to make significant charitable contributions before year-end, keep your cash and donate the stock instead. You'll avoid paying tax on the appreciation, but will still be able to deduct the donated property's full value. However, if the stock is now worth less than when you acquired it, sell the stock, take the loss, and then give the cash to charity. If you give the stock to the charity, your charitable deduction will equal the stock's current depressed value, and no capital loss will be available.

› For 2012, that standard deduction is $11,900 for married joint filers; $5,950 for single and married filing separate filers; and $8,700 for heads of households. These amounts will likely be about the same for 2013. If your total itemized deductions each year are normally close to these amounts, you may be able to leverage the benefit of your deductions by bunching deductions in every other year. This allows you to time your itemized deductions so that they are high in one year and low in the next. For instance, you might consider moving charitable donations you normally would make in early 2013 to the end of 2012. If you're temporarily short on cash, charge the contribution to a credit card—it is deductible in the year charged, not when payment is made on the card. You can also accelerate payments of your real estate taxes or state income taxes otherwise due in early 2013. But, watch out for the Alternative Minimum Tax (AMT), as these taxes are not deductible for AMT purposes.

› For 2012, the tax rate on long-term capital gains is 0% to the extent they fall within the 10% or 15% regular income tax rate brackets. This will be the case to the extent your taxable income (including long-term capital gains) does not exceed $70,700 if you're married and file jointly ($35,350 if you're single). While your income may be too high to benefit from the 0% rate, you may have adult children, grandchildren, or other loved ones who can. If so, consider giving them some appreciated stock that you've held for more than a year, which they can then sell and pay 0% tax on the resulting long-term gains. (Watch out though, if you give securities to someone who is under age 24, the Kiddie Tax rules could cause the gains to be taxed at the parent's higher rates.)

› If you own your own business and have plans to buy a business computer, software, office furniture, equipment, or other tangible business property, you might consider doing so before year-end to take advantage of the temporarily increased Section 179 deduction and the temporary 50% bonus depreciation. For 2012, the maximum Section 179 deduction is $139,000 (assuming eligible property purchases for the year don't exceed $560,000). This means a business can often claim first-year write-offs for the entire cost of new and used equipment and software additions. In addition to the bumped-up Section 179 deduction, you can also claim first-year bonus depreciation equal to 50% of the cost (reduced by the Section 179 deduction claimed) of most new (not used) equipment and software placed in service during 2012. Unless Congress takes further action, the Section 179 deduction will drop to about $25,000 in 2013 and the 50% first-year bonus depreciation break will expire at year-end.

› If it looks like you are going to owe income taxes for 2012, consider bumping up the Federal income taxes withheld from your paychecks now through the end of the year. When you file your return, you will still have to pay any taxes due less the amount paid in. However, penalties will be minimized, if not eliminated.

› And finally, watch out for the AMT in all of your planning because what may be a great move for regular tax purposes may create or increase an AMT problem.

Again, these are just a few suggestions to get you thinking. Please call us if you would like to know more about them or want to discuss other ideas.

Stay in touch