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CPS in the News

Events this month

CPS First Thursdays:

Adult Education for the
Non-Degree College Student

CPS Investment Advisors

1509 S Florida Ave

Lakeland, FL 33803

Date: 01/05/2012

11:30 am—Lunch
Provided

Contact us for more information

YEAR-END TAX UPDATE

As we head into the final month of the year, it's time to start thinking about your 2011 tax situation BEFORE December 31, 2011. Good tax planning does not involve going to your CPA's office in March and handing him your 'box' and telling him to sharpen the pencil and find every deduction or credit possible. At that point, it's probably too late to be able to capture any possible savings that might be had through proper year-end planning. Below are some things to consider before the end of the year that could potentially save you on your tax bill come April 15th, 2012.

Are You Receiving Required Minimum Distributions (RMD) this year?

This year may well be the last chance for taxpayers age 70 1/2 or older to take advantage of an up-to-\$100,000 annual exclusion from gross income for otherwise taxable individual retirement account (IRA) distributions that are qualified charitable distributions. These distributions aren't subject to the charitable contribution percentage limits and aren't includible in gross income. This provision is set to expire December 31, 2011.

To constitute as a qualified charitable distribution, the distribution must be made directly by the IRA trustee to a charitable organization. This is a particularly attractive option for those retirees that might not otherwise be able to itemize their deductions and thus might lose out on the charitable donations they gave during the year.

Year-end Tax Planning Moves for Individuals and Businesses

- 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 in December of this year, you can make a full year's worth of deductible HSA contributions for 2011

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- Realize losses on stock while substantially preserving your investment position. There are several ways this can be done. For example, you can sell the original holding, then buy back the same securities at least 31 days later. It may be advisable to meet with a financial advisor from our office to discuss year-end trades you should consider making.

- If you believe a Roth IRA is better than a traditional IRA, and want to remain in the market for the long term, consider converting traditional-IRA money invested in beaten-down stocks (or mutual funds) into a Roth IRA if eligible to do so. Keep in mind, however, that such a conversion will increase your adjusted gross income for 2011.

- If you converted assets in a traditional IRA to a Roth IRA earlier in the year, the assets in the Roth IRA account may have declined in value, and if you leave things as-is, you will wind up paying a higher tax than is necessary. You can back out of the transaction by recharacterizing the rollover or conversion, that is, by transferring the converted amount (plus earnings, or minus losses) from the Roth IRA back to a traditional IRA via a trustee-to-trustee transfer. You can later reconvert to a Roth IRA.

- It may be advantageous to try to arrange with your employer to defer a bonus that may be coming your way until 2012.

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

- Accelerate big ticket purchases into 2011 in order to assure a deduction for sales taxes on the purchases if you will elect to claim a state and local general sales tax deduction instead of a state and local income tax deduction. Unless Congress acts, this election won't be available after 2011.

- Make gifts sheltered by the annual gift tax exclusion before the end of the year and thereby save gift and estate taxes. You can give \$13,000 in 2011 to each of an unlimited number of individuals but you can't carry over unused exclusions from one year to the next. The transfers also may save family income taxes where income-earning property is given to family members in lower income tax brackets who are not subject to the kiddie tax.

- If you are self-employed and haven't done so yet, set up a self-employed retirement plan.

Don't forget to save for retirement!

As we approach the end of the year, now is a great time to make sure you are on track to maximize your 401(k) deferral or IRA contributions for 2011. The contribution rates for 2011 are the same as they were for 2010. For 401(k) deferrals, the limit is \$16,500 (plus an additional \$5,500 if you're 50 and over) and for traditional IRA contributions the limit remains at \$5,000 (plus an additional \$1,000 if you're 50 and over). A year-end bonus is the perfect opportunity to increase your contribution amount without decreasing your take-home cash flow.

Obtain Professional Advice

A CPA tax professional understands the business of taxes and finances and can provide trusted advice and services during the tax season and throughout the calendar year. Should you have any questions or need further clarification on any of the new changes, please contact a member of the CPS Group CPA's team to help you.

Sources: RIA—Checkpoint; *Journal of Accountancy*