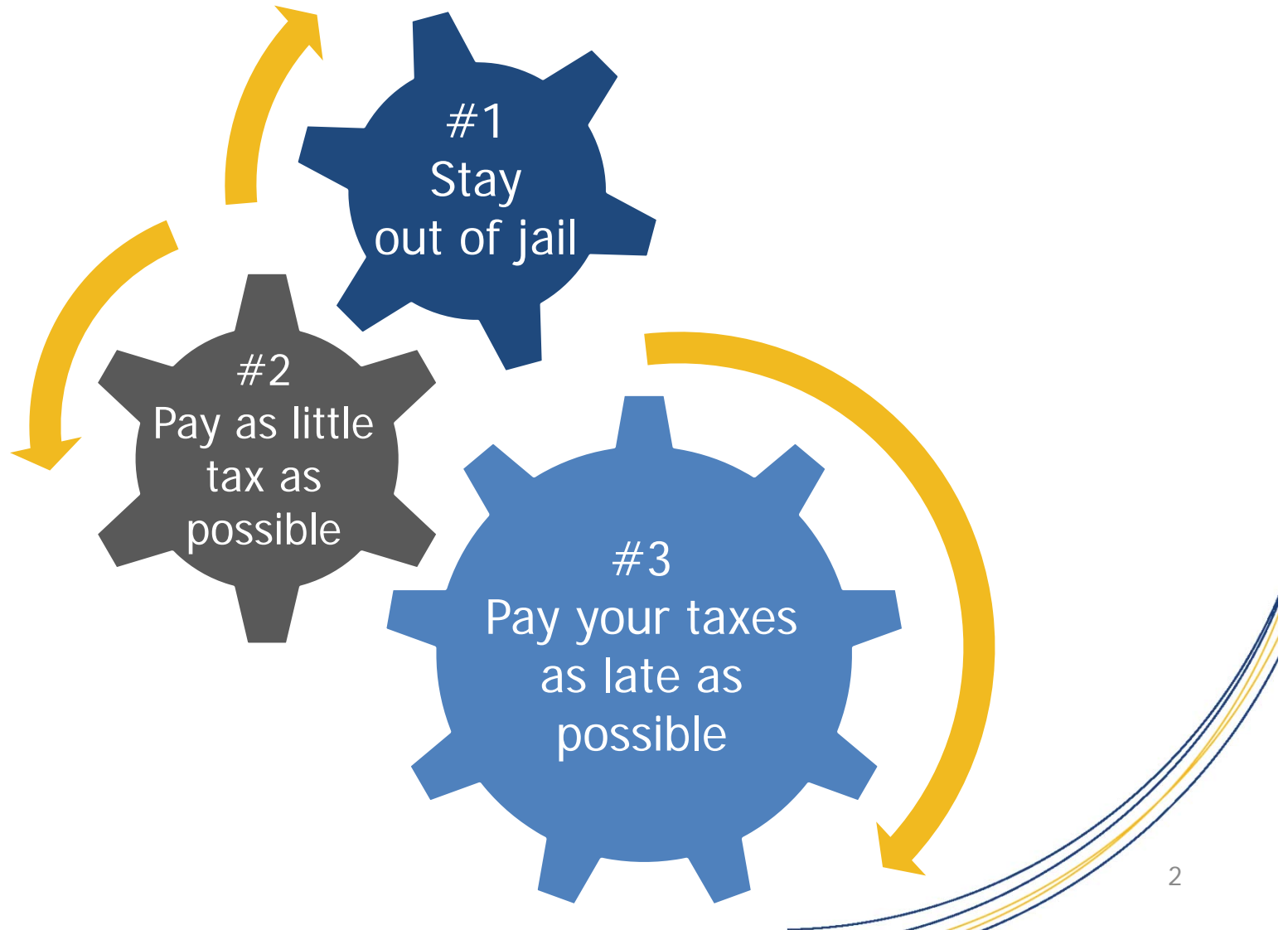




Year-End 2011 Tax Planning

November 10, 2011

Three Rules of Tax Planning



Traditional Tax Planning

Defer income

Accelerate deductions

New Tax Planning

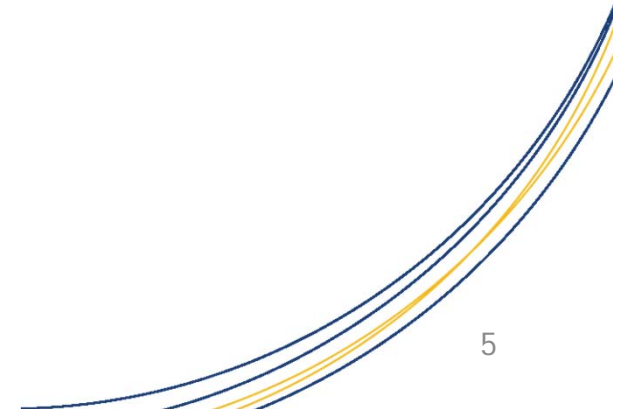
Worries about future tax rate increases

Accelerate income?

Defer deductions?



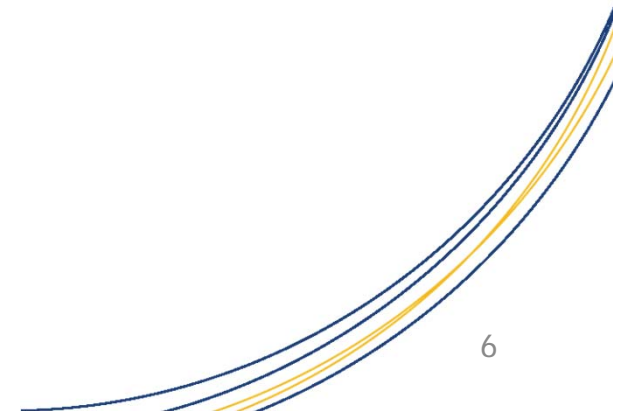
Current Tax Proposals



Upward Pressure on Taxes

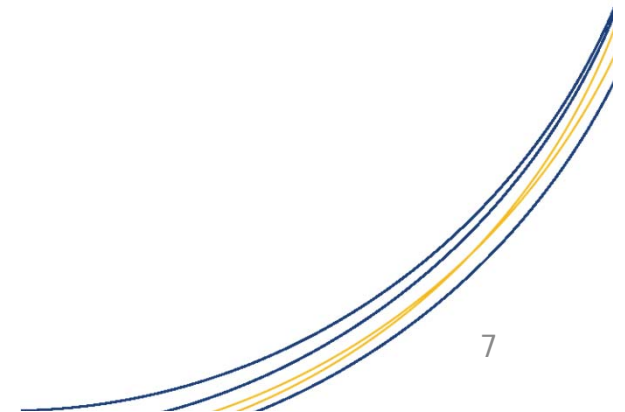


- The known
 - 2013: Scheduled expiration of Bush tax cuts and effective date of Medicare tax
 - Maximum ordinary rate goes from 35% to 39.6%
 - LTCG goes from 15% to 20%
 - New Medicare tax – 0.9% of wages
 - New Medicare tax – 3.8% of investment income (for AGI >\$250,000)



Upward Pressure on Taxes *(cont.)*

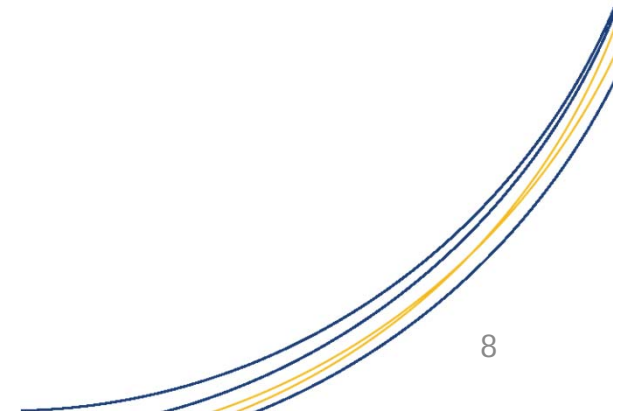
- Obama administration's proposals target those earning over \$250,000 and those earning over \$1,000,000
- Recommendations of Super Committee?





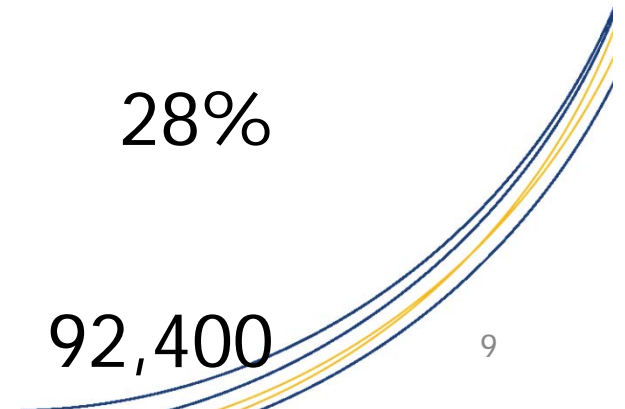
Tax Planning for Individuals

Overview of Regular and AMT system

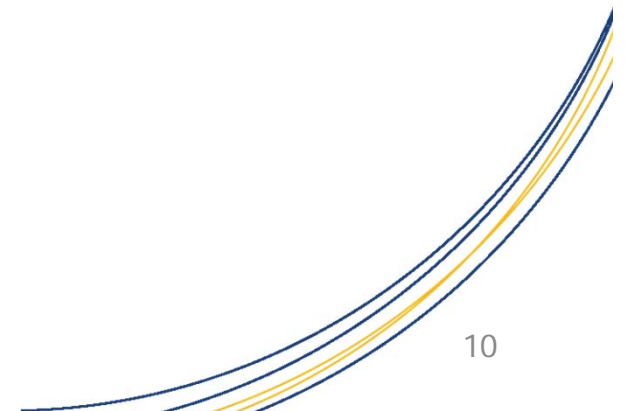


Regular Tax vs. AMT: Basic Concepts

	Regular Tax	Alt. Min.Tax
Income	300,000	350,000
minus		
Deductions	50,000	20,000
equals		
Taxable Income	250,000	330,000
multiplied by		
Tax Rate	19%	28%
equals		
Tax Owed	47,500	92,400



- Income subject to AMT, not subject to regular tax
 - Incentive Stock Options
 - Certain tax exempt interest (private activity bonds)
- Deductions not allowed for AMT, but allowed for regular tax
 - State taxes
 - Home equity interest (if not used for residence)
 - Certain business depreciation



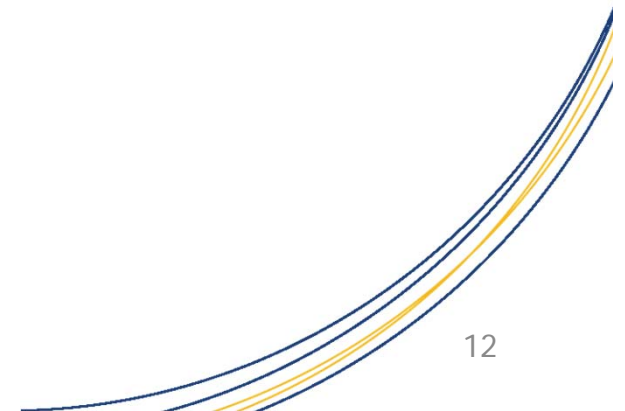
Capital Gains and Losses

- Net realized capital gain?
- Unrealized losses?
- Consider selling losers to offset gain
- Wash sale rules require 31-day waiting period before buying back
- NJ benefit as well – no loss carryforwards



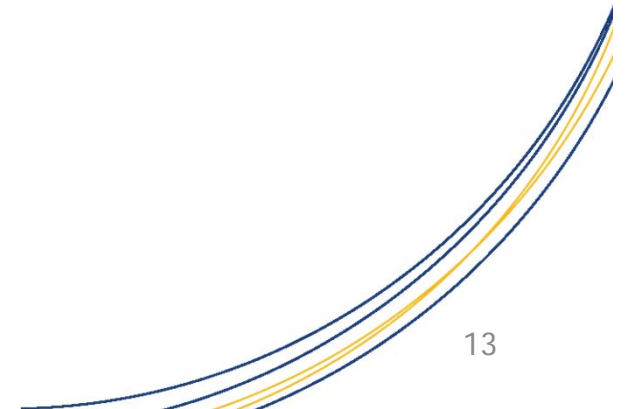
Capital Gains and Losses – Alternative View

- Take advantage of current LTCG rate of 15%
- Realize gains now
- Save losses for later when LTCG rate is higher



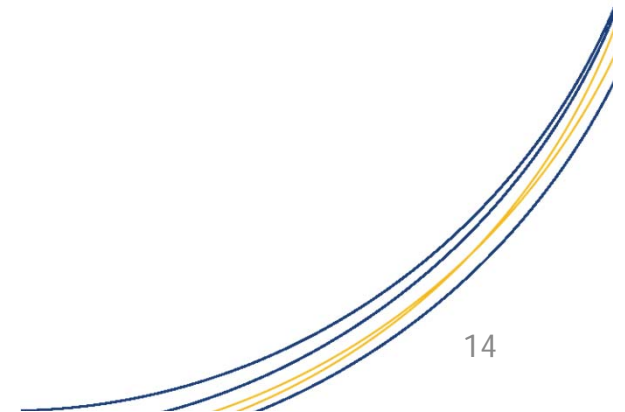
IRAs

- 2011 contribution limits are \$5,000 per person; \$6,000 if over 50 years old
- Must be made by April 15, 2012



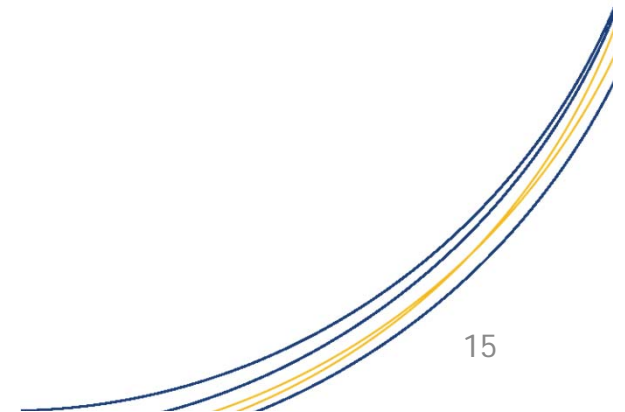
Types of IRA

- Traditional – Deductible
- Traditional – Non-deductible
- Roth



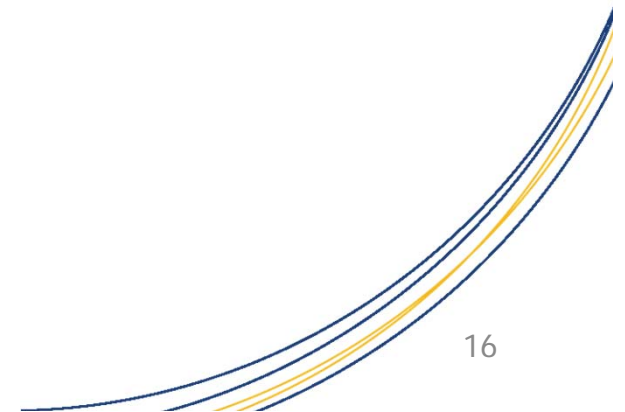
Traditional Deductible IRA

- Get deduction now, pay tax when distributed
- If covered by employer retirement plan, not available for MFJ taxpayers with AGI of over \$110,000
- If not covered by employer retirement plan, deduction is allowed



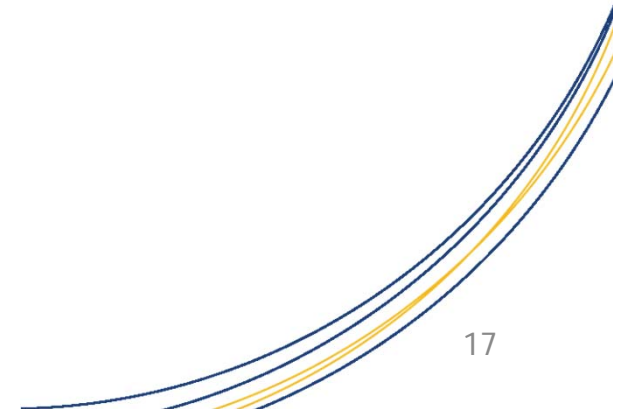
Traditional Non-Deductible IRA

- No deduction now, pay tax on increase in value when distributed
- Must keep track of contributions (basis) to prevent double taxation when withdrawals are made
- Important to file Form 8606 with your tax return to reflect this amount



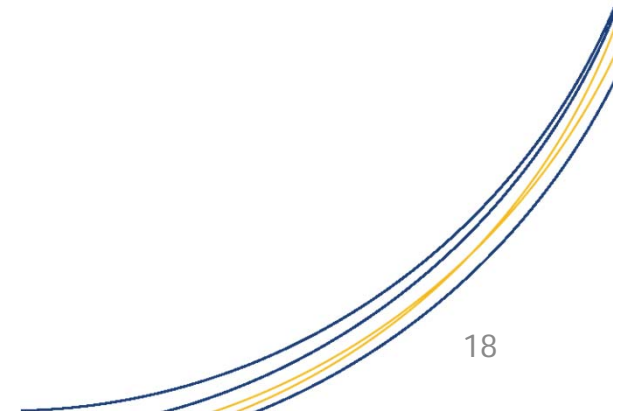
Roth IRA

- No deduction now, pay no tax on distribution in the future
- Whether Roth is best is based on personal circumstances
- MFJ taxpayers – AGI phase out between \$169,000 and \$179,000 for Roth
- Earnings are tax free



Conversion to Roth IRA

- Conversion of a Traditional IRA (deductible or non-deductible) to a Roth is considered taxable distribution from Traditional IRA
- Whether to convert or not is complex analysis
- Consider: current low market valuations and / or low income year

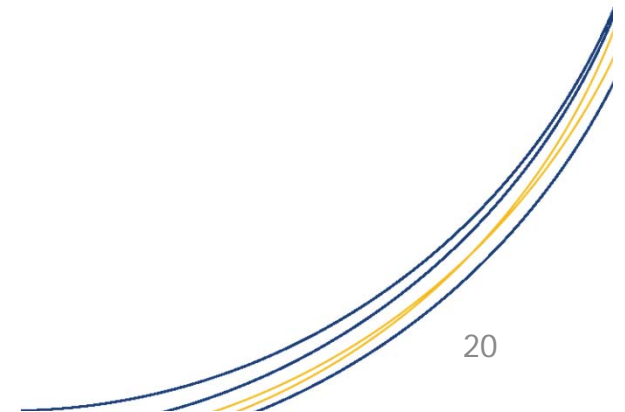


Estimated Tax Payments – Avoiding a Tax Penalty for 2011

- IRS wants us to pay taxes when we earn \$, not wait until April 15th
- Taxes paid either by:
 - Withholding
 - Estimated tax payments
- Exceptions:
 - Paying estimated tax based on prior year tax liability
 - Annualization method
 - Treatment of amounts paid through withholding (wages and retirement rollovers)

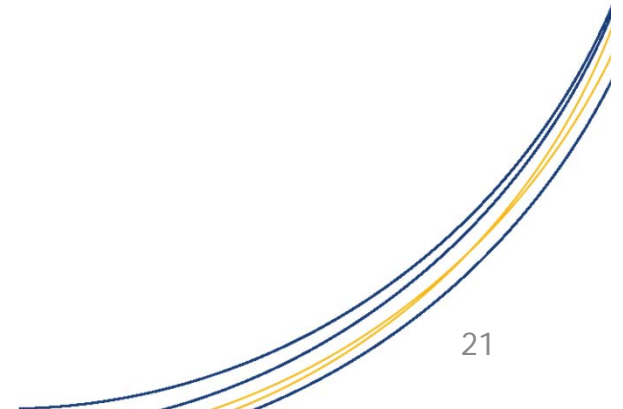
Year-End 2011 Tax Calculation

- Calculate your projected 2011 tax liability
- Calculate your expected 2011 tax withholdings
- Is withholding $> 90\%$ of expected 2011 tax?
- Is withholding $> 100\%$ (in some cases 110%) of 2010 tax liability?



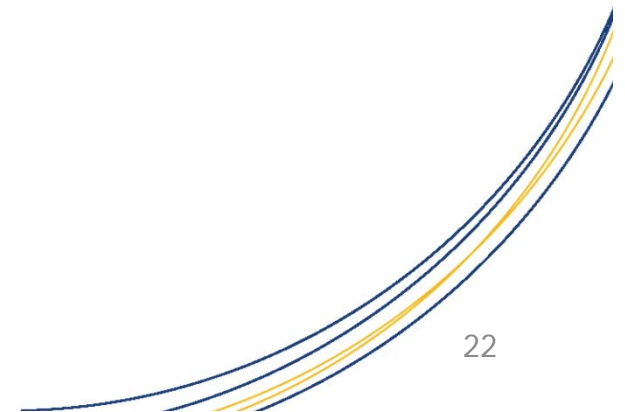
Casualty Losses for Individuals

- Amount of loss
 - Lesser of: (1) cost or (2) decrease in FMV (usually measured by repair costs)
 - Limitation: (1) reduce by \$100; and (2) only portion in excess of 10% of AGI qualifies



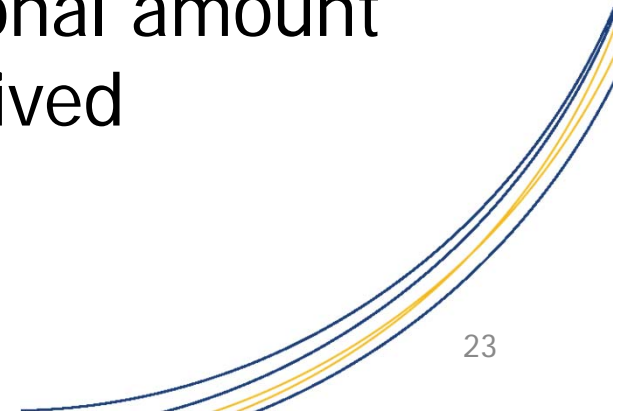
Casualty Losses for Individuals *(cont.)*

- Example: \$10,000 hurricane damage in 2011; AGI = \$80,000
- Deductible loss: \$1,900
 $(\$10,000 - \$100) - (10\% \times \$80,000)$



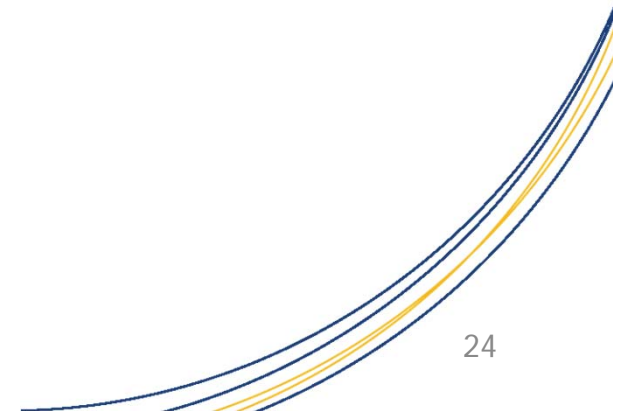
Casualty Losses for Individuals *(cont.)*

- Loss must be reduced by amount of insurance reimbursement
- If not received at time return filed, expected reimbursement must be used
 - If less than expected – additional loss can be claimed in subsequent year
 - If more than expected – additional amount included in income in year received



Casualty Losses for Individuals *(cont.)*

- When to claim
 - On tax return for year of loss (2011)
- Exception
 - Federally declared disaster area (Hurricane Irene) – prior year return can be amended – claimed on 2010 amended tax return



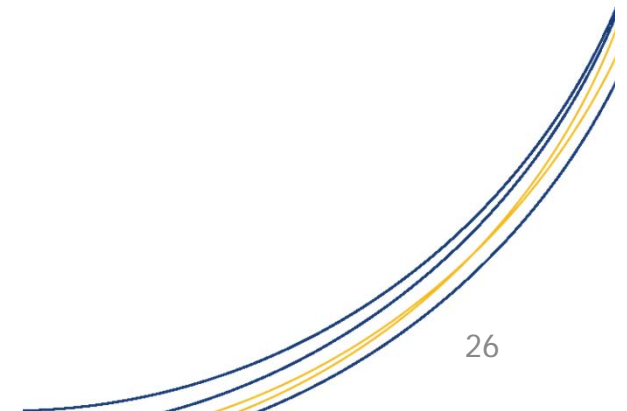
Itemized Deductions

- Medical
- State taxes
- Interest
- Charitable
- Miscellaneous



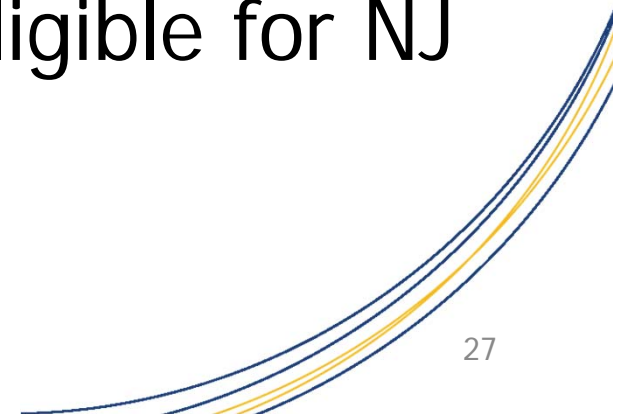
Medical Expenses

- Must exceed 7.5% of AGI to get marginal benefit
- Consider “bunching” deductions in current year or succeeding year to reach threshold
- Self-employed taxpayers get 100% deduction for health insurance premiums



Medical expenses – NJ Treatment

- Income threshold is 2% so common to get NJ medical deduction and no federal deduction
- Frequently, NJ wages on Form W-2 will include value of health insurance (not included for federal wages on Form W-2)
- Value of health insurance is eligible for NJ health insurance deduction



State Taxes

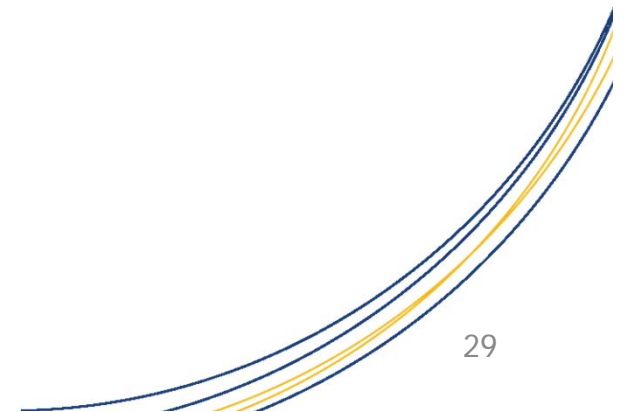


- Real estate and NJ (and other states too) income taxes paid in 2011 are allowed as a deduction for federal purposes
- Year of payment must be 2011
- Does not matter what to what year payment relates
- Example: 2010 NJ tax due paid on April 15, 2011

Should you prepay state taxes?

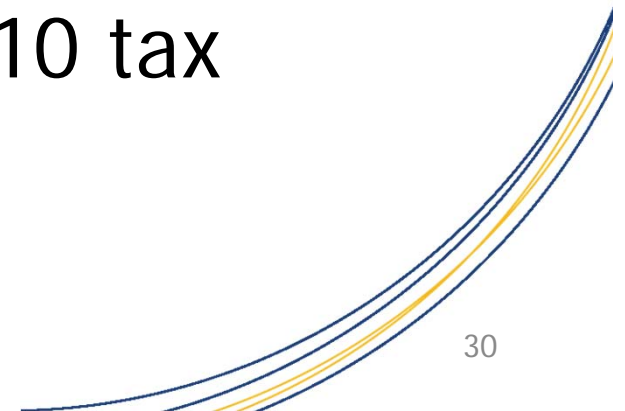


Probably not



State Taxes and AMT

- Under AMT state taxes are not deductible
- Significant state tax payments (common for NJ residents)
- Only way to optimize amount of state taxes to be paid in 2011 is do detailed tax projection
- Usually can be done using 2010 tax software



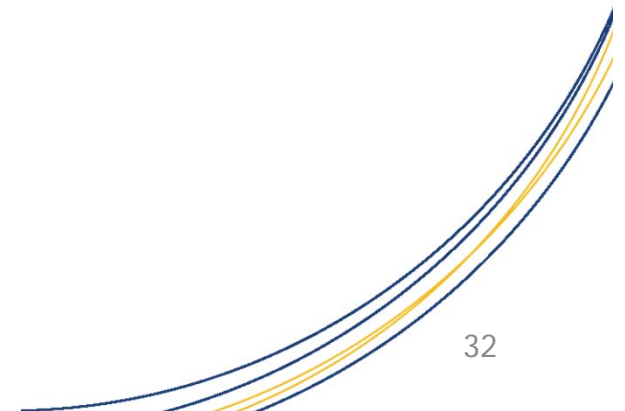
Charitable Contributions

- Make year-end charitable contributions by December 31, 2011
- Credit cards: as long as charge date is by 12/31/2011, contribution counts as 2011 contribution even if credit card bill is paid in 2012
- Make sure substantiation rules are met



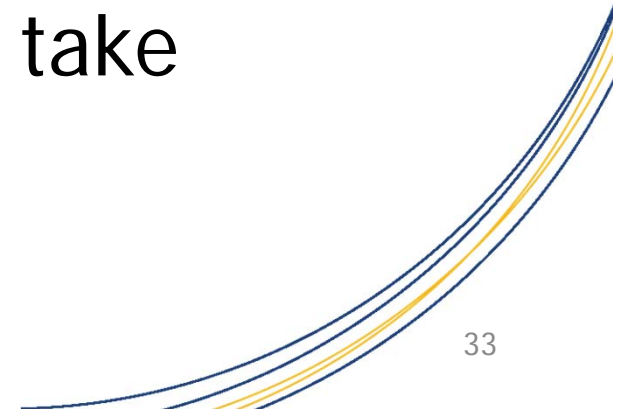
Gifts of Securities

- If appreciated (and held LT): transfer security directly to charity. Avoid gain and get FMV charitable deduction
- If depreciated: sell security and transfer cash. Get benefit of loss and get charitable deduction for contribution



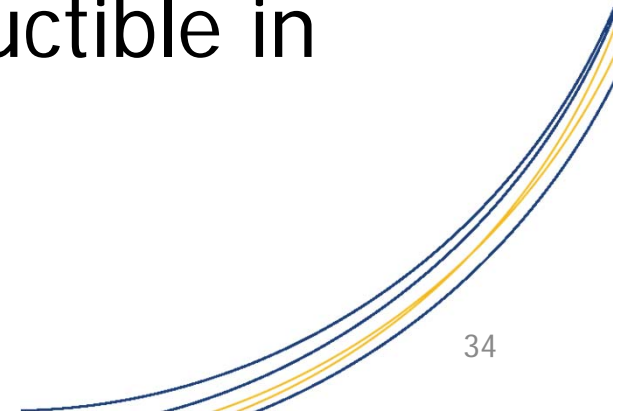
Gifts from IRAs

- Ability to donate up to \$100,000 from IRA directly to charity
- Not included in income
- Avoids possible charitable limitations based on amount of income
- Only available to taxpayers over 70½ years old who are required to take distributions out of IRAs
- Expires December 31, 2011



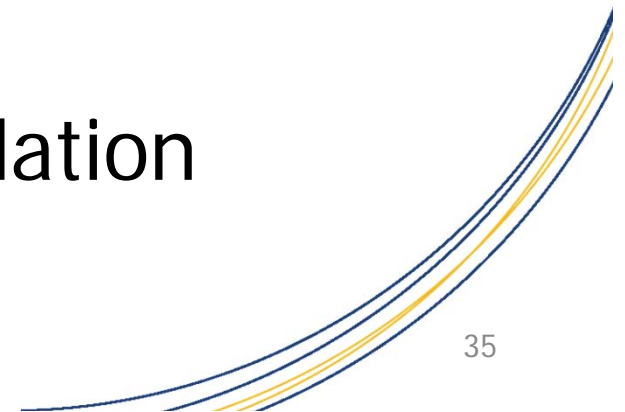
Donor Advised Fund (DAF)

- Vehicle to get tax benefit of charitable deduction today and pay amounts out to charity in future years
- DAF is recognized 501(c)(3) charity with affiliation to investment advisor (Fidelity, Merrill Lynch, etc.)
- Contributions to DAF are deductible in year of donation



Donor Advised Fund (DAF) *(cont.)*

- DAF makes contributions to other 501(c)(3) based on recommendation of donor
- Usually no time limit to make contributions
- Great tool for charitably inclined who have unusually high income year or one-time gain
- Lower fees than private foundation

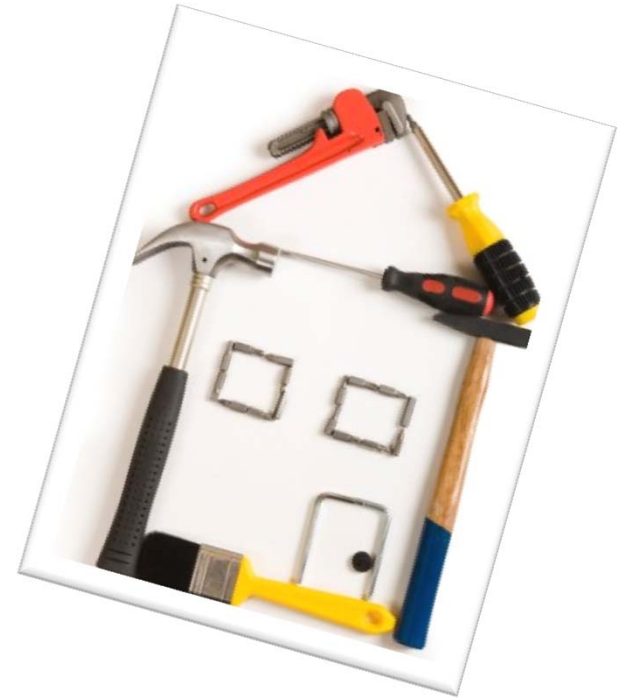


Miscellaneous Itemized Deduction

- Tax preparation fees
- Investment advice
- Unreimbursed employee business expense
- Must exceed 2% of AGI to get marginal benefit
- Consider “bunching” deductions in current year or succeeding year to reach threshold
- Not allowed under AMT system

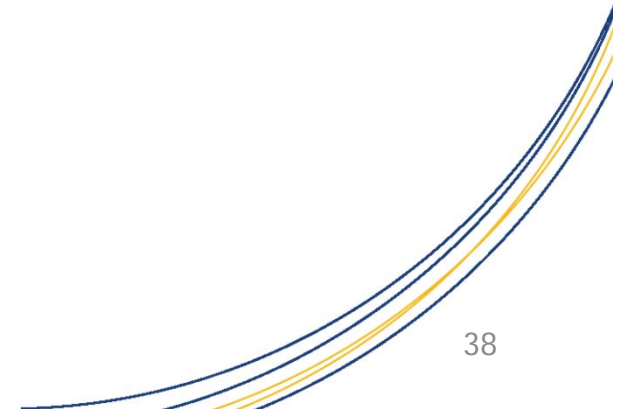
Energy Efficient Investments

- Available credit of 10% of costs of:
 - Insulation
 - Exterior windows (including skylights)
 - Exterior doors



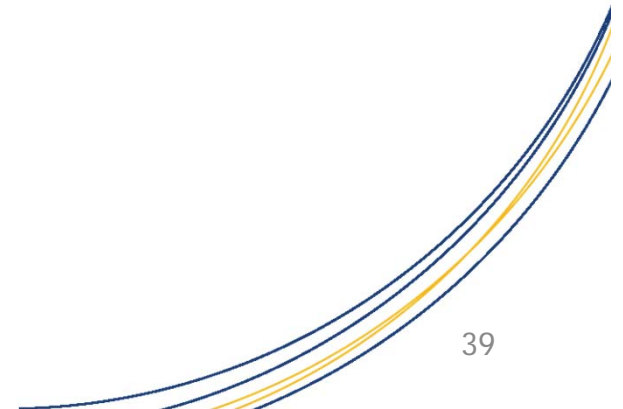
Energy Efficient Investments

- Improvements must meet IRS criteria
- Improvements must be installed by December 31, 2011
- Max credit is \$500 for 2011
- Credit limited if claimed in prior years



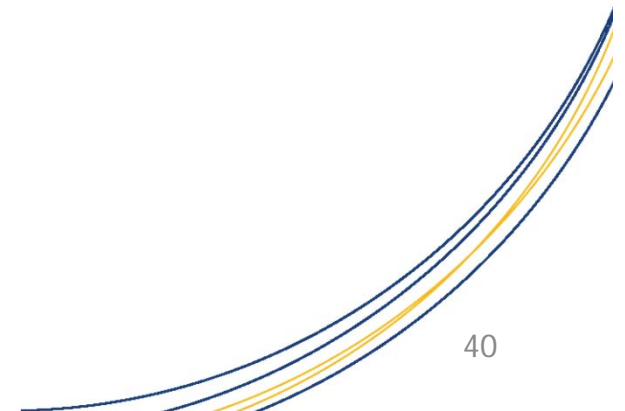


Business Tax Planning



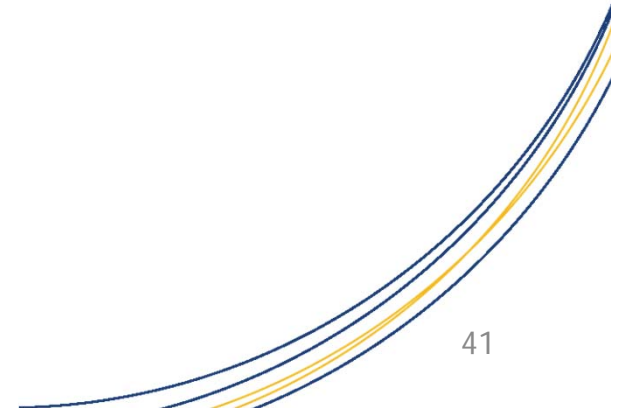
Capital Investment Incentives

- Usual treatment: \$100 spent on computers, furniture, etc. depreciated over 5 to 7 years, or longer, based on IRS tables
- Business will be out of cash in year one, but not get full tax write off for many years



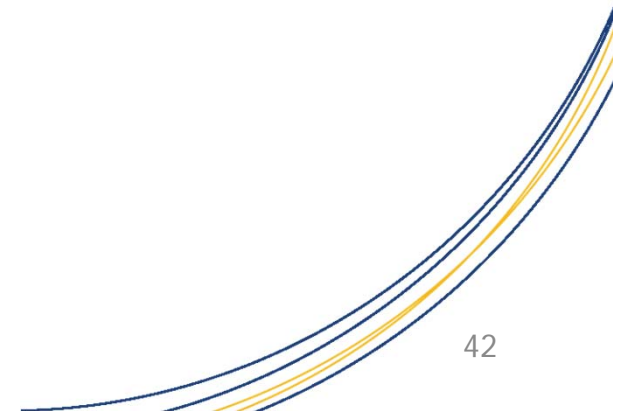
Bonus Depreciation

- Can deduct 100% of cost of new property in 2011



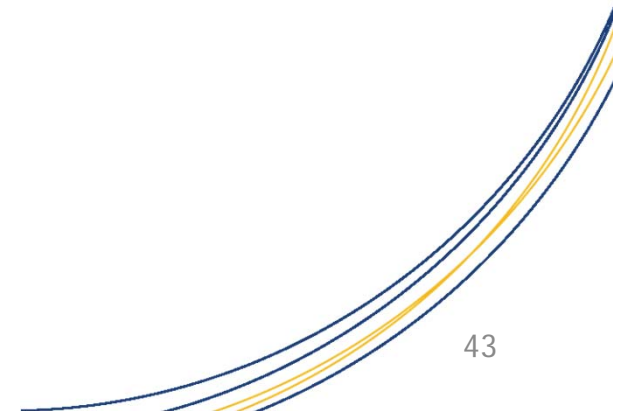
Bonus Depreciation – The Details

- Property must be “qualified.” Includes items such as:
 - Machinery and equipment
 - Most computer software
 - Certain types of leasehold improvements
- Property must be placed in service by December 31, 2011



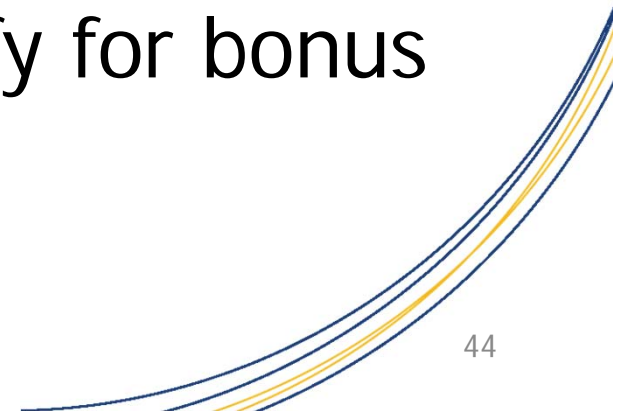
Bonus Depreciation – The Details *(cont.)*

- Just ordering equipment by December 31, 2011 – must be installed and in use by December 31, 2011
- Property must be new. Used equipment does not qualify
- Assets placed in service in 2012 eligible for 50% bonus depreciation



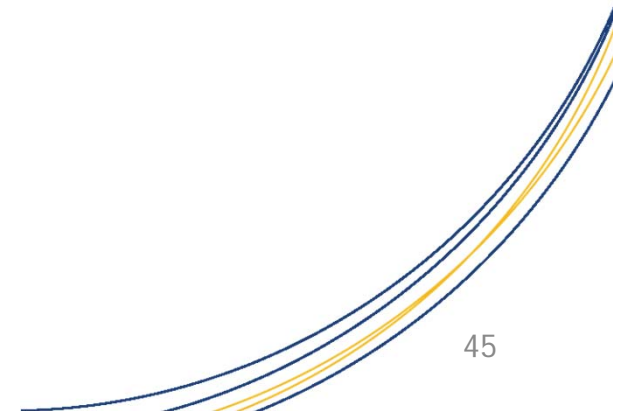
Section 179 Expensing

- Alternative cost recovery to bonus depreciation
- Like 100% bonus, allows full expense of purchase of capital equipment
- More restrictions than bonus depreciation
- Usually helpful if assets purchased are used or otherwise don't qualify for bonus depreciation



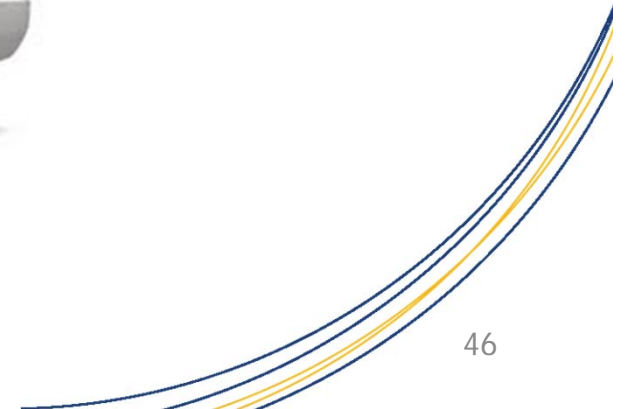
Business Automobile Purchases

- Business autos subject to severely limited depreciation deductions
- \$3,060 per year, regardless of vehicle costs
- Under 2011 bonus depreciation, business autos eligible for \$8,000 first year deduction



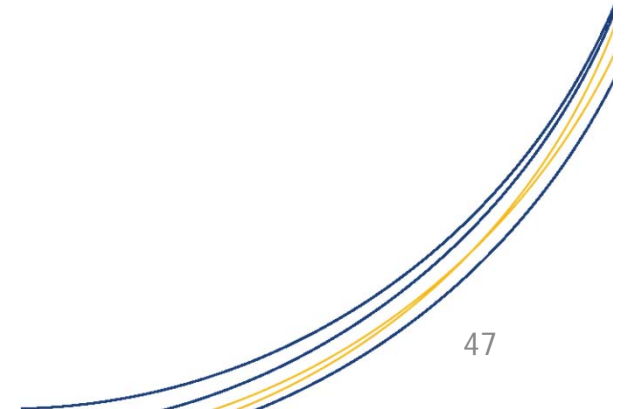
Heavy SUVs

- If SUV has Gross Vehicle Weight (GVW) of over 6,000 pounds, limits don't apply
- Cost is 100% deductible in year of purchase



Business Autos – The Details

- Autos must be new
- Deductions – \$8,000 or 100% of costs – based on 100% business use. Must prorate for less than 100% business use
- Commuting is not business use

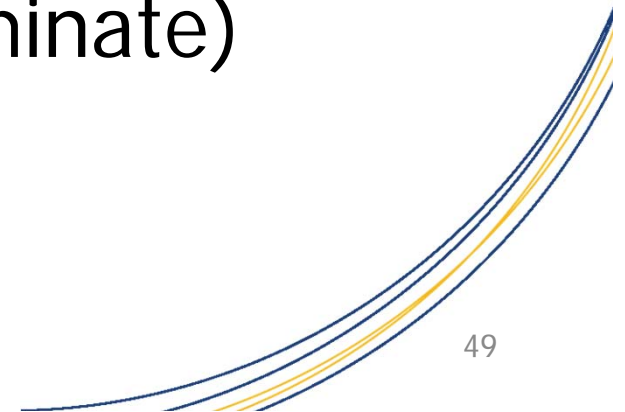


Business Retirement Plans

- Many varieties
- Allows tax deduction today, recognize upon retirement
- Discrimination concept
 - Can't contribute for owners / highly compensated employees and not for lower grade employees
- Contributions can be made by extended due date of tax return – usually September 15, 2012 for 2011 calendar year business

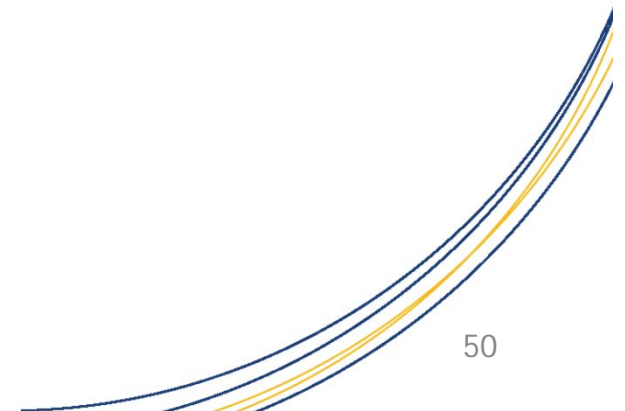
Corporate Dividends

- Corporate dividends still taxed at 15% rate through December 31, 2012
- For closely held C corporations (and certain S corporations), consider distributing earnings out now at favorable tax rates
- Opportunity to distribute (eliminate) shareholder loans

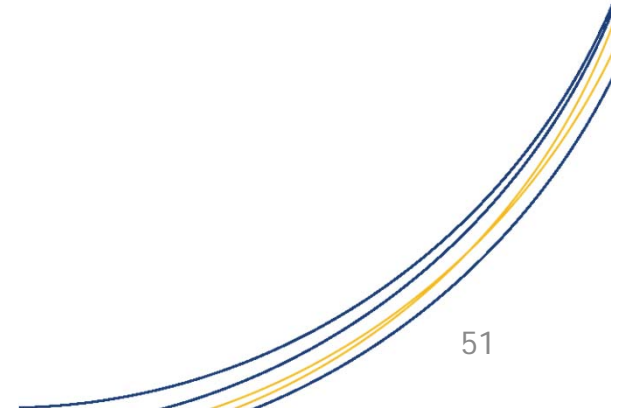
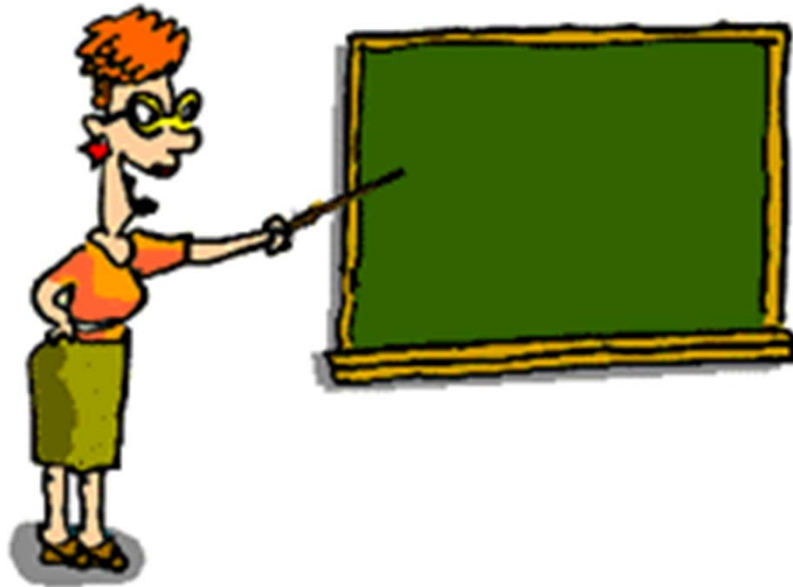




IRS Voluntary Classification Settlement Program

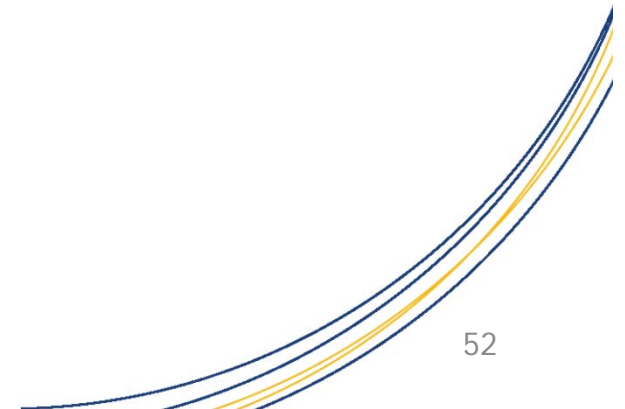
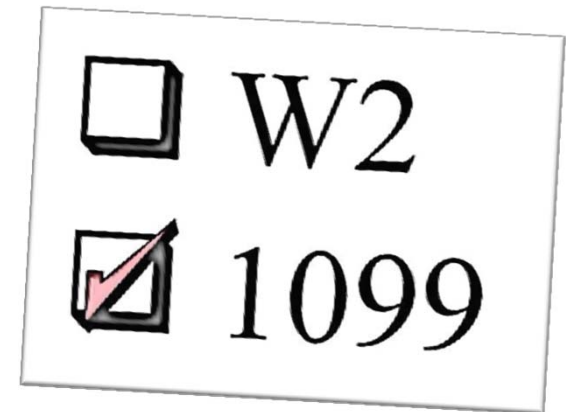


Background



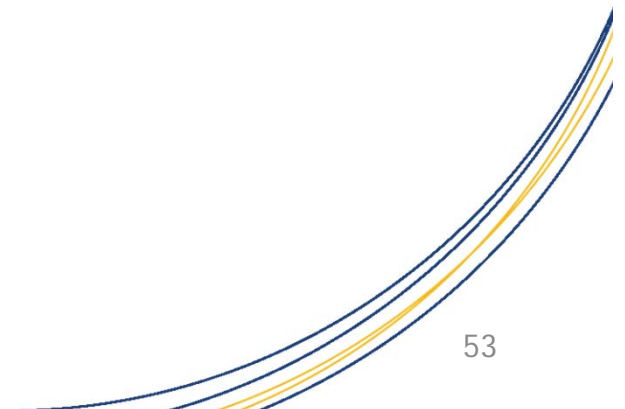
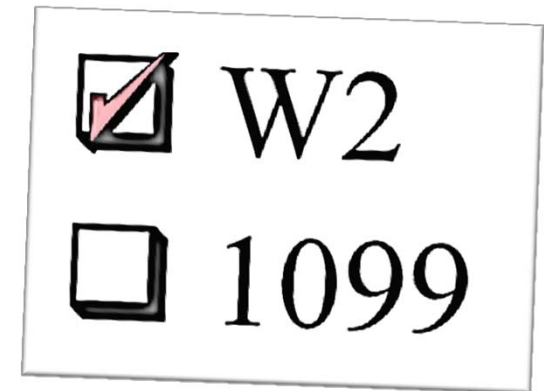
Classification of Workers – Employer's Perspective

- Independent contractor
 - No employer level payroll taxes
 - Not considered for retirement plans and other fringe benefit plans
 - Issued Form 1099



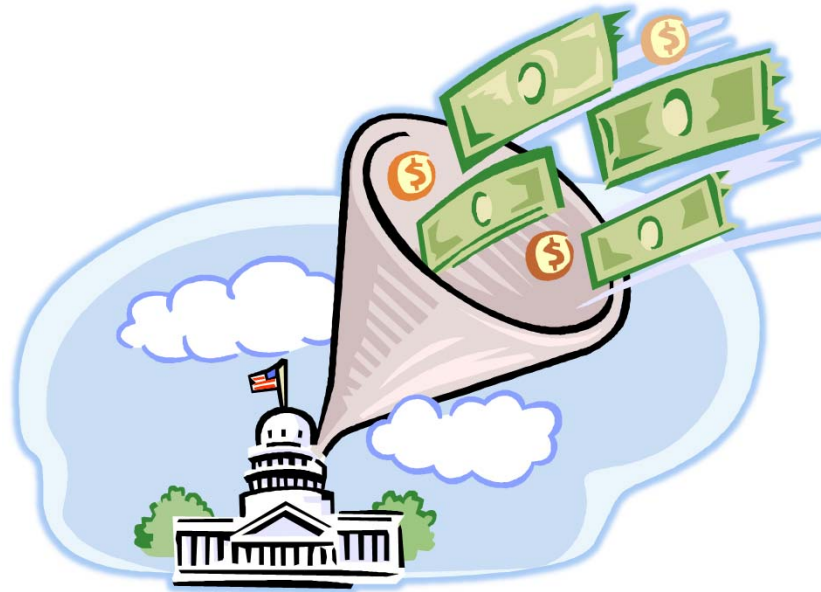
Classification of Workers – Employer's Perspective *(cont.)*

- Employee
 - Employer level payroll taxes
 - FICA 6.2%
 - Medicare 1.45%
 - State unemployment and disability
 - State labor laws (overtime, paid time off, etc.)
 - Issued Form W-2



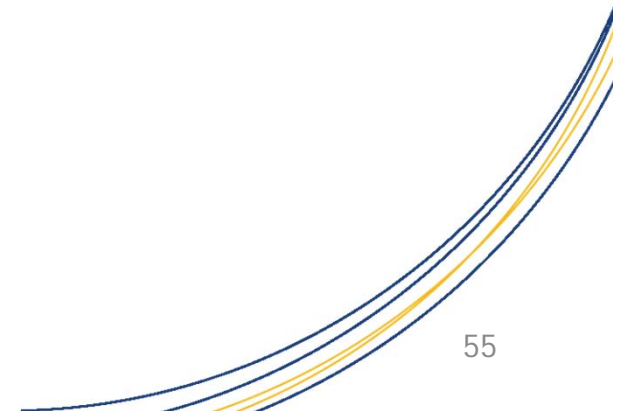
Classification of Workers – IRS Perspective

- Easier to collect tax from employers
- 20 factor test



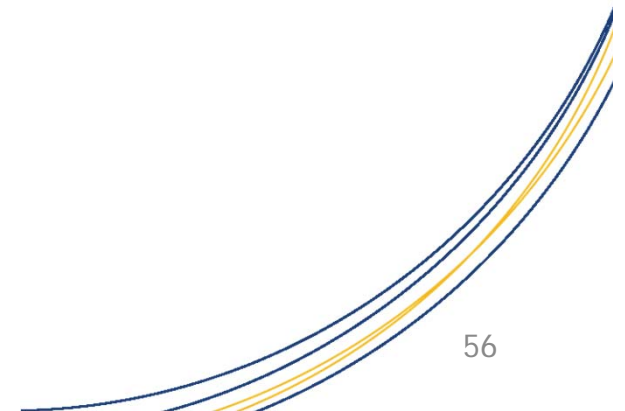
General Rule

- Independent contractor
 - Concern is with end product, not how product is developed
- Employee
 - Concern is both how work is performed as well as end product



Voluntary Classification Settlement Program

- Fresh start for employers
- Prospective treatment of workers as employees
- Relatively small penalty for prior years



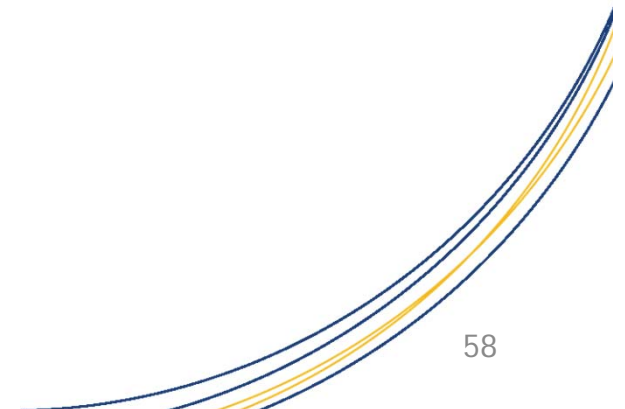
The Fine Print



- Employer must apply for relief for either all employees or class of employees
- Employer filed Forms 1099 previously
- Employer must not be under audit by IRS, DOL or state agency
- Employer must agree to extend statute of limitations for year of application and two subsequent years

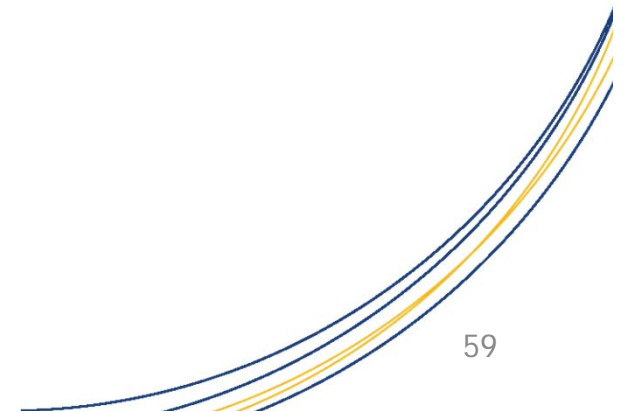
The Cost

- 10% of the total amount of payroll taxes due for the prior taxable year
- No interest and penalties



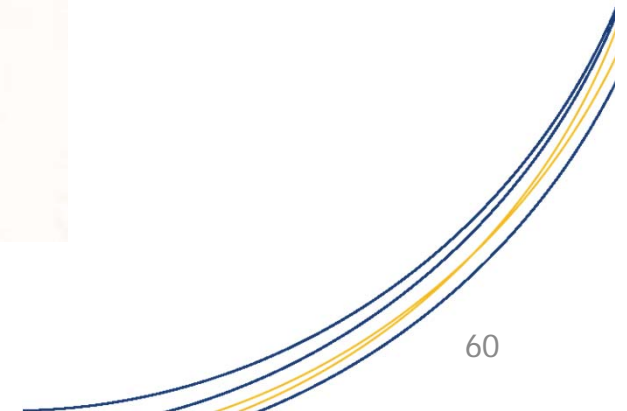
Interested?

- Form 8952 – Application for Voluntary Classification Settlement Program
- File 60 days prior to proposed change in treatment of worker status



Other Considerations

- Impact on retirement plans?
- State payroll considerations?



Questions?

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