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2011 YEAR-END TAX PLANNING TIPS

Recession and Politics Again Complicate Year-end Tax Planning...

Year-end tax planning is especially challenging this year because it is beginning to look as though Congress may not enact any tax legislation at all, let alone pass legislation that could have a major impact in 2012 and beyond. And even if there's no major tax legislation in the immediate future, next year Congress still must cope with a host of thorny issues, such as:

- Whether to once again “patch” the alternative minimum tax (e.g., to avoid a drastic drop in post-2011 exemption amounts),
- What to do about the post-2012 expiration of the Bush-era income tax cuts,
- Whether to enact a surtax on the biggest earners,
- Whether to limit itemized deductions,
- What to do about the low tax rates for long-term capital gains and qualified dividends, and
- How to handle the expiration of favorable rules for estates, gifts, and generation-skipping transfers made after Dec. 31, 2012.

Regardless of what Congress does late this year or early the next, there are still solid tax savings to be realized by taking advantage of tax breaks that are on the books for 2011 but may be gone next year unless they are extended by Congress.

For individuals:

- The option to deduct state and local sales and use taxes instead of state and local income taxes;
- The above-the-line deduction for qualified higher education expenses; and
- Tax-free distributions from IRAs for charitable purposes by those who are age 70 1/2 or older.

For businesses:

- 100% bonus first-year depreciation for most new machinery, equipment and software;
- An extraordinarily high \$500,000 expensing limitation (and within that dollar limit, \$250,000 of expensing for qualified real property); and
- The research tax credit.

What's New for 2011?

Payroll Tax Holiday. Employees will pay only 4.2% (instead of the usual 6.2%) OASDI (Social Security) tax on compensation received during 2011 up to \$106,800 (the wage base for 2011). Similarly, for tax years beginning in 2011, self-employed persons will pay only 10.4% Social Security self-employment taxes on self-employment income up to \$106,800. In either case, the maximum savings for 2011 will be \$2,136 (2% of \$106,800) per taxpayer. If both spouses earn at least as much as the wage base, the maximum savings will be \$4,272.

Stricter Rules for Energy Saving Home Improvements. You can claim a tax credit for energy saving home improvements you make this year, but stricter rules apply for 2011 than for 2010.

You can only claim a 10% credit for qualified energy property placed in service in 2011 up to a \$500 lifetime limit (with no more than \$200 from windows and skylights). What's more, the credit you claim for any year can't exceed \$500 less the

total of the credits you claimed for all earlier tax years ending after Dec. 31, 2005.

The amount you claim for windows and skylights in a year can't exceed \$200 less the total of the credits you claimed for these items in all earlier tax years ending after Dec. 31, 2005.

The credit is equal to the sum of: (1) 10% of the amount you pay or incur for qualified energy efficient improvements (such as insulation, exterior windows or doors that meet certain energy efficient standards) installed during the year; and (2) the amount of the residential energy property expenses you paid or incurred during the year.

The credit for residential energy property expenses can't exceed: (A) \$50 for an advanced main circulating fan; (B) \$150 for any qualified natural gas, propane, or hot water boiler; and (C) \$300 for any item of energy efficient property (advanced types of energy saving equipment, such as electric heat pumps, meeting specific energy efficient standards).

Two Mileage Reimbursement Rates for 2011. The optional mileage allowance for owned or leased autos (including vans, pickups or panel trucks) for business travel taking place **from January 1, 2011 through June 30, 2011 is 51¢ per mile.** This rate can also be used by employers to reimburse tax-free under an accountable plan, those employees who supply their own autos for business use, and to value the personal use of certain low-cost employer-provided vehicles.

The business travel mileage allowance increases 4.5¢ to **55.5¢ per mile for travel during July 1, 2011 through Dec. 31, 2011.**

The rate for using a car to get medical care or in connection with a move that qualifies for the moving expense for the first half of 2011 is 19¢ per mile. Both rates will also increase 4.5¢ for the last half of 2011 from 19¢ to 23.5¢ per mile.

Changed Rules for Health Plan Reimbursements. Beginning this year, the cost of **over-the-counter medicines can't be reimbursed with excludible income** through a health flexible spending arrangement (FSA), health reimbursement account (HRA), health savings account (HSA), or Archer MSA (medical savings account), unless the medicine is prescribed by a doctor or is insulin.

This new rule applies to amounts paid after 2010. However, it does not apply to amounts paid in 2011 for medicines or drugs bought before Jan. 1, 2011. Also, for distributions after 2010, the additional tax on distributions from an HSA that are not used for qualified medical expenses increases from 10% to 20% of the disbursed amount, and the additional tax on distributions from an Archer MSA that are not used for qualified medical expenses increases from 15% to 20% of the disbursed amount.

Partial Annuitization of Annuity Contracts. When you receive non-retirement-plan annuity payments from an annuity contract, part of each payment is a tax-free recovery of your basis (cost of the annuity contract for tax purposes), and part is a taxable distribution of earnings.

For amounts received in tax years beginning after Dec. 31, 2010, taxpayers may partially annuitize such an annuity (or endowment, or life insurance) contract. If you receive an annuity for a period of 10 years or more, or over one or more lives, under any portion of an annuity, endowment, or life insurance contract, then that portion is treated as a separate contract for annuity taxation purposes.

The net effect is that the annuitized portion is treated as a separate contract, and each annuity payment from that portion is partially a tax-free recovery of basis and partially a taxable distribution of earnings. Absent this rule, the payments might have been treated as coming out of income before recovery of any basis. The portion of the contract that is not annuitized is also treated as a separate contract and will continue to earn income on a tax-deferred basis.

Small Employers May Establish "Simple Cafeteria Plans". For years beginning after Dec. 31, 2010, small employers (those having an average of 100 or fewer employees on business days during either of the two preceding years) may provide employees with a "simple cafeteria plan". An employer that uses this type of plan gets a safe harbor from the

nondiscrimination requirements for cafeteria plans as well as from the nondiscrimination requirements for certain types of qualified benefits offered under a cafeteria plan, including group term life insurance, benefits under a self-insured medical expense reimbursement plan, and benefits under a dependent *care assistance program*.

Year-end Tax Planning Strategies during a Recession. Year-end tax techniques usually involve postponing income and accelerating deductible expenses to reduce taxes for the current year. But, because the economic downturn continued through 2011, some of us will have significantly less income in 2011 than we expect to have in 2012. Doing things in reverse (deferring expenses and accelerating income) may save more in taxes if you will be in a higher tax bracket in 2012 than in 2011. But, of course, you will have to factor in the time-value of money to see if this reverse strategy is truly worthwhile.

New Stock Broker Reporting Rules. Generally effective on Jan. 1, 2011, every broker required to file an information return reporting the gross proceeds of a "covered security" such as corporate stock must include in the return the customer's adjusted basis in the security and whether any gain or loss with respect to the security is short-term or long-term. The reporting is generally done on Form 1099-B, "Proceeds from Broker and Barter Exchange Transactions."

Assets Inherited in 2010 May Need Basis Allocations or Zero Estate Tax Election. The 2010 Tax Relief Act reduces estate, gift and generation-skipping transfer (GST) taxes for 2011 and 2012. It preserves estate tax repeal for 2010, but in a roundabout way: estates wanting zero estate tax for 2010 must elect that option, along with the less favorable modified carryover basis rules that were set to apply for 2010. Otherwise, by default, the estate tax is revived for 2010, with a \$5 million exemption, a top tax rate of 35%, and a step-up in basis. Executors have until January 15, 2012, to make the election and/or allocate basis.

In the case of a married person who dies after Dec. 31, 2010, a deceased spouse's unused exemption may be shifted to the surviving spouse. WARNING: these generous rules are temporary—much harsher rules are slated to return after 2012.

2011 YEAR-END TAX TIPS

Use this Checklist and then Call Us

Not all these tips based on current tax rules will apply in your particular situation, but you (or a family member) are likely to benefit from many of them. The sooner you call us and make an appointment, the more time we will have to meet, narrow down the specific actions that will benefit you and your family and get you started on your year-end tax-saving moves.

- 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.

- 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 for us to meet to discuss year-end trades you should consider making.
- 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). These include child tax credits, higher education tax credits, the above-the-line deduction for higher-education expenses, and deductions for student loan interest.
- Postponing income also is desirable for those taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances. Note, however, that in some cases, it may pay to actually accelerate income into 2011. For example, this may be the case where a person's marginal tax rate is much lower this year than it will be next year.
- 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.
- If you expect to owe state and local income taxes when you file your return next year, consider asking your employer to increase withholding of state and local taxes (or pay estimated tax payments of state and local taxes) before year-end to pull the deduction of those taxes into 2011 if doing so won't create an alternative minimum tax (AMT) problem.
- Take an eligible rollover distribution from a qualified retirement plan before the end of 2011 if you are facing a penalty for underpayment of estimated tax and the increased withholding option is unavailable or won't sufficiently address the problem. Income tax will be withheld from the distribution and will be applied toward the taxes owed for 2011. You can then timely roll over the gross amount of the distribution, as increased by the amount of withheld tax, to a traditional IRA.
- No part of the distribution will be includible in income for 2011, but the withheld tax will be applied pro rata over the full 2011 tax year to reduce previous underpayments of estimated tax.
- Estimate the effect of any year-end planning moves on the alternative minimum tax (AMT) for 2011, keeping in mind that many tax breaks allowed for purposes of calculating regular taxes are disallowed for AMT purposes. These include the deduction for state property taxes on your residence, state income taxes (or state sales tax if you elect this deduction option), miscellaneous itemized deductions, and personal exemption deductions. Other deductions, such as for medical expenses, are calculated in a more restrictive way for AMT purposes than for regular tax purposes. As a result, in some cases, deductions should not be accelerated.
- 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.
- You may be able to save taxes this year and next by applying a bunching strategy to "miscellaneous" itemized deductions, medical expenses and other itemized deductions.
- If you are a homeowner, make energy saving improvements to the residence, such as putting in extra insulation or installing energy saving windows, or an energy efficient heater or air conditioner. You may qualify for a tax credit if the assets are installed in your home before 2012.
- Unless Congress extends it, the up-to-\$4,000 above-the-line deduction for qualified higher education expenses will not be available after 2011. Thus, consider prepaying eligible expenses if doing so will increase your deduction for qualified higher education expenses. Generally, the deduction is allowed for qualified education expenses paid in 2011 in connection with enrollment at an institution of higher education during 2011 or for an academic period beginning in 2011 or in the first three months of 2012.
- 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.
- Purchase qualified small business stock (QSBS) before the end of this year. There is no tax on gain from the sale of such stock if it is (1) purchased after September 27, 2010 and before January 1, 2012, and (2) held for more than five years. In addition, such sales won't cause AMT preference problems. To qualify for these breaks, the stock must be issued by a regular (C) corporation with total gross assets of \$50 million or less, and a number of other technical requirements must be met. Our office can fill you in on the details.
- If you are age 70-1/2 or older, own IRAs and are thinking of making a charitable gift, consider arranging for the gift to be made directly by the IRA trustee. Such a transfer, if made before year-end, can achieve important tax savings.

- Take required minimum distributions (RMDs) from your IRA or 401(k) plan (or other employer-sponsored retired plan) if you have reached age 70-½. Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn.
- If you turned age 70-1/2 in 2011, you can delay the first required distribution to 2012, but if you do, you will have to take a double distribution in 2012—the amount required for 2011 plus the amount required for 2012.
- Think twice before delaying 2011 distributions to 2012—bunching income into 2012 might push you into a higher tax bracket or have a detrimental impact on various income tax deductions that are reduced at higher income levels. However, it could be beneficial to take both distributions in 2012 if you will be in a substantially lower bracket that year, for example, because you plan to retire late this year.

Your business is appreciated, as are your referrals of friends, relatives and business contacts.

**NOW IS THE TIME TO
PLAN FOR
YOUR 2011 TAXES!**

Situations occur almost every day that can impact your income taxes. Waiting until 2012 is likely to mean missing tax saving opportunities that are only available until the end of 2011.

In 2011 did you have a significant income change; change your name or address; marry, divorce or live apart from your spouse; have or adopt a child; lose a spouse or a child; start or sell a business; purchase or sell business equipment or rental property; create a living trust; or receive any correspondence from the IRS?

Call us at (630) 416-9422 today for a tax planning appointment. The sooner we meet, the more time we will have for tax saving action.

感謝多年的信任與支持！

敬祝新年快樂；萬事如意！

Thanks for your trust and support.

Happy New Year!!

2011 Individual Income Tax Rates

Single

If taxable income is . . .	Your tax liability is...
\$0 - \$8,500	10% of taxable income
\$8,500 - \$34,500	\$850 + 15% of the amount over \$8,500
\$34,500 - \$83,600	\$4,750 + 25% of the amount over \$34,500
\$83,600 - \$174,400	\$17,025 + 28% of the amount over \$83,600
\$174,400 - \$379,150	\$42,449 + 33% of the amount over \$174,400
\$379,150 & Over	\$110,016.50 + 35% of the amount over \$379,150

Head of Household

If taxable income is . . .	Your tax liability is...
\$0 - \$12,150	10% of taxable income
\$12,150 - \$46,250	\$1,215 + 15% of the amount over \$12,150
\$46,250 - \$119,400	\$6,330 + 25% of the amount over \$46,250
\$119,400 - \$193,350	\$24,617.50 + 28% of the amount over \$119,400
\$193,350 - \$379,150	\$45,323.50 + 33% of the amount over \$193,350
\$379,150 & Over	\$106,637.50 + 35% of the amount over \$379,150

Married Filing Jointly or Qualifying Widow(er)

If taxable income is . . .	Your tax liability is...
\$0 - \$17,000	10% of taxable income
\$17,000 - \$69,000	\$1,700 + 15% of the amount over \$17,000
\$69,000 - \$139,350	\$9,500 + 25% of the amount over \$69,000
\$139,350 - \$212,300	\$27,087.50 + 28% of the amount over \$139,350
\$212,300 - \$379,150	\$47,513.50 + 33% of the amount over \$212,300
\$379,150 & Over	\$102,574 + 35% of the amount over \$379,150

Married Filing Separately

If taxable income is . . .	Your tax liability is...
\$0 - \$8,500	10% of taxable income
\$8,500 - \$34,500	\$850 + 15% of the amount over \$8,500
\$34,500 - \$69,675	\$4,750 + 25% of the amount over \$34,500
\$69,675 - \$106,150	\$13,543.75 + 28% of the amount over \$69,675
\$106,150 - \$189,575	\$23,756.75 + 33% of the amount over \$106,150
\$189,575 & Over	\$51,287 + 35% of the amount over \$189,575

2011 Personal Exemption & Standard Deductions

Personal exemption before phase-out: \$3,700

Filing Status	Standard deduction for age under 65	Additional deduction for age 65 or older / blind
Single	\$5,800	\$1,450
Head of Household	\$8,500	\$1,450
Married Filing Jointly	\$11,600	\$1,150
Married Filing Separately	\$5,800	\$1,150

2011 Net Capital Gain Tax Rates

	Rates
For taxpayers in the 10% or 15% bracket	0%
For taxpayers in higher brackets	15%

2011 Gift & Estate Tax

Gift Tax Annual Exclusion: \$13,000

Year of death	Exemption	Maximum rate on estate greater than exemption
2010	Repealed	0%
2011	\$1,000,000	55%

2011 Standard Mileage Rates

Purposes	Rates 1/1 - 6/30/11	Rates 7/1 - 12/31/11
Business	\$0.51	\$0.555
Charitable	\$0.14	\$0.14
Medical and moving	\$0.19	\$0.235

2011 Corporate Tax Rates

If taxable income is . . .	The tax liability is...
\$0 - \$50,000	15% of taxable income
\$50,001 - \$75,000	\$7,500 + 25% of the amount over \$50,000
\$75,001 - \$100,000	\$13,750 + 34% of the amount over \$75,000
\$100,001 - \$335,000	\$22,250 + 39% of the amount over \$100,000
\$335,001 - \$10,000,000	\$113,900 + 34% of the amount over \$335,000
\$10,000,001 - \$15,000,000	\$3,400,000 + 35% of the amount over \$10,000,000
\$15,000,001 - \$18,333,333	\$5,150,000 + 38% of the amount over \$15,000,000
\$18,333,334 or more	\$6,416,667 + 35% of the amount over \$18,333,333