



# tax & financial

U P D A T E



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## Year-end Capital Gains Strategies

2011 has produced some significant gyrations in the financial markets that have had an impact on everyone's portfolios. But for tax purposes, gains and losses are not measured by the increased or decreased value of your portfolio, but by gains and losses recognized from the sale of capital assets during the year. So you still have until the end of the year to structure your gains and losses to suit your particular tax situation.

Conventional wisdom has always been to minimize gains by selling "losers" to offset gains from "winners," and, where possible, generate the maximum allowable \$3,000 (\$1,500 for married taxpayers filing separately) capital loss for the year.

As a reminder, the maximum long-term (assets held for more than a year) capital gains are still at the all-time low maximum rate of 15%, and unless changed by Congress, will remain at that rate through 2012. Taxpayers who are in the 15% or lower marginal tax rate actually enjoy a 0% tax rate on long-term capital gains and should do whatever is possible to take advantage of that tax benefit. The capital gains rates are currently scheduled to revert to 20% (10% to the extent a taxpayer is in the 15% or lower tax bracket) in 2013.

Assets that are not held long-term, referred to as short-term capital gains, do not receive the benefits of the special rates afforded long-term capital gains. Taxpayers achieve a better overall tax benefit if they can arrange their transactions so as to offset short-term capital gains with long-term capital losses.

If you exercised incentive (qualified) stock options with your employer this year and you are still holding the stock, selling the stock before year's end to avoid phantom income created by the alternative minimum tax may be appropriate.

If you are planning substantial gifts to charity or to relatives and have capital assets that have appreciated in value, gifting the appreciated assets rather than cash may be beneficial.

Finally, as an advance warning, the reporting of the sale of capital assets will become significantly more complicated this year. With the advent of brokerage firms being required to track and report basis for stock sales, the transactions for the year will have to be segregated into four possible groups: those for which the broker reported basis and those for which the broker did not know basis, and each of those categories split by short- and long-term transactions. The IRS has developed the new Form 8949 for this purpose. Each category of transactions must be reported on a separate Form 8949, and then the totals transferred to a redesigned Schedule D. The IRS requires this separation of transactions to facilitate its computer matching of transactions.

The actions mentioned above may have additional factors that must be considered and require careful planning. You are encouraged to consult with this office before acting on any of the suggested strategies.





# Maximize Your Charitable Deductions

As the end of the year approaches, there are still things you can do to increase and properly document your charitable contributions for 2011. Here is a brief rundown:

**Non-cash contributions** – If you have used clothing or household goods that are in good or better condition that you don't use any longer, contribute them to a charity thrift shop before the end of the year. Don't forget: a receipt from the charity is required to document the gift. If the gift's fair market value (FMV) is more than \$500, you will also need an itemized list of the items contributed, how and when each was acquired, and the cost. If the FMV of what you've donated is greater than \$5,000, or you contributed a vehicle, call this office for additional documentation requirements. A receipt from the charity is not required if the gift's value is less than \$250 and the donation was made at an unattended drop site. However, you will need to document the donation yourself.

**Cash Donations** – All cash donations must be documented either by a receipt from the charity or by a bank record such as a check, bank statement, or credit

card payment. You can no longer claim contributions of cash dropped into the offering plate or Christmas kettle. So, be wise and drop a check instead. If you regularly tithe at a house of worship, you might consider pre-paying your 2012 tithing and moving the deduction into 2011. In doing so, some taxpayers that marginally itemize may be able to itemize every other year and take the standard deduction in alternate years.

**Charity Volunteer Expenses** – If you volunteer your time for a charity, you may qualify for some tax breaks. Although no tax deduction is allowed for the value of services performed for a charity, there are deductions permitted for out-of-pocket costs incurred while performing the services. Possible expenses might include:

- Away-from-home travel expenses while performing services for a charity, plus lodging and meals at 100 percent, provided there is no significant element of personal pleasure associated with the trip.
- Use of your personal vehicle while performing services for the charity, generally at 14 cents per mile. Be sure to keep a written record of the name of the charity, the date the vehicle was used for charitable purposes, and the number of miles driven.
- Upkeep and cost of uniforms that aren't suitable for everyday use and if worn while performing the charitable service.

No charitable deduction is allowed unless the contribution is substantiated with a written acknowledgment from the charitable organization. The documentation must specify the need for your services and include an acknowledgement by the charity that the expenses claimed were required; be sure to maintain the receipts for the expenses.

**Vehicle Donations** – Generally, the deduction for used cars, boats, planes, etc. is limited to \$500. More than \$500 can be claimed based upon the charity's use of the vehicle or the actual amount the charity received from the sale of the vehicle. You will need Form 1098-C from the organization to claim the deduction and attach it to your return. Call for further details related to claiming more than \$500.

**Timing of Acknowledgments** – Whenever you are required to have an acknowledgment from a charity for donations you've made, you must have that letter or statement in your hands by the earlier of the date you file the return for the year of the donation or the extended due date of that return.

If you have additional questions or would like to determine how a specific donation will impact your tax return, please give this office a call.

## Last-Chance Opportunity to Deduct General Sales and Use Taxes?

For 2011, taxpayers have the option of deducting the amount of state and local income tax that they paid during the year or, if they so elect, of deducting their state and local general sales and use taxes as an itemized deduction on their federal income tax return. This choice is currently scheduled to expire at the end of 2011.

If a taxpayer elects to deduct the sales and use tax, then the taxpayer may opt to deduct the actual sales and use taxes paid or use the amount indicated in the tables published by the IRS, alongside certain big ticket items, such as vehicles, motor homes, boats, aircraft, and mobile and prefabricated homes. The IRS tables take the state of residence, taxpayer's income, sales and use tax rates, and family size into account.

Although the sales tax option primarily benefits taxpayers in states with no state income tax, it can also benefit taxpayers who make big-ticket purchases. Their sales tax deduction may exceed their state income tax deduction when they itemize their deductions.

Thus, if you are considering a big-ticket purchase, making the purchase prior to the end of the year may enable you to benefit from a potentially increased tax deduction. If you do plan on deducting sales tax in 2011 and you are paying state income tax estimates, you should avoid paying the fourth-quarter estimate installment until after the first of the year. Paying it in 2011 provides no additional benefit for 2011 on your federal return when electing to deduct sales and use tax.

Congress has extended this tax provision before, but at this time, there is no way of telling if it will do so again. Please give this office a call if you have concerns about how the sales tax election and purchasing big-ticket items before the end of the year might benefit you.

# Last Year for Tax-Free Charitable Donations from IRAs

If you are 70.5 years of age or older and are considering making a donation to a charity, you may wish to consider the option of making the contribution from your IRA account.

For 2011, you can donate up to \$100,000 to your favorite charity, provided it is an eligible charitable organization, tax free from your traditional IRA, Roth IRA, or a SEP or SIMPLE IRA. To be considered valid, the distribution from the IRA to the charity must be made directly. It cannot pass through your hands or other accounts. Note: These distributions are not permitted from ongoing SEP or Simple Plans, i.e. plans to which a contribution has been made for the year.

Here are the pertinent facts related to making a donation using this provision of the law:

- The distribution is not taxable and does not add to your income for the year. The advantage is that your income remains low and helps to minimize taxable Social Security income and tax disadvantages associated with higher income.
- There is no charitable deduction, as the distribution was tax free. However, this can be a considerable benefit to taxpayers who take the standard deduction and do not itemize anyway.
- If you have not already taken your required minimum distribution (RMD) for the year, the charitable distribution can count toward this year's RMD. Without Congressional action, 2011 will be the last year in which this option will be available.

Please call this office for additional information related to this tax provision and how it might help your tax picture for 2011.

# Report Those Foreign Financial Connections!



FinCEN is the acronym for the Treasury Department's Financial Crimes Enforcement Network. FinCEN is a government-wide, multisource, financial intelligence and analysis network tasked with detecting money laundering, terrorist financing, tax evasion, and other financial crimes. To do its job, FinCEN must collect financial data from a multitude of sources, including each U.S. person with connections to foreign financial transactions. This has resulted in a number of reporting requirements imposed upon taxpayers that many are unaware can result in draconian penalties for non-compliance.

**Foreign Account Reporting Requirements** – Each United States person who has a financial interest in or signature or other authority over any foreign financial accounts, including bank, securities, or other types of financial accounts, in a foreign country, if the aggregate value exceeds \$10,000 at any time during the calendar year, must report that relationship to the U.S. government each calendar year. This is done by filing Form TD F 90-22.1 (often referred to as FBAR) on or before June 30 of the succeeding year. No extensions of time to file are available, and failing to comply can result in civil penalties up to \$10,000. Willful violations are subject to penalties that are the greater of \$100,000 or 50% of the account's balance.

**Reporting Foreign Gifts, Bequests and Trusts** – Gifts of more than \$100,000 from a non-resident alien individual or foreign estate and gifts of more than \$14,375 in 2011 (\$14,723 in 2012) from foreign corporations or partnerships must be reported. Form 3520 is used to report the gifts and to report ownership in a foreign trust. Failure to comply can result in a penalty of the greater of \$10,000 or 35% of the gross value of any property transferred to a foreign trust.

**Annual Report of Individuals with Foreign Assets** – This is a new reporting requirement for 2011. Generally, U.S. persons with ownership of certain foreign assets not held by a domestic financial institution with an aggregate value of more than \$50,000 must file Form 8938 with their tax returns, providing details of the assets. Failure to file can result in penalties of up to 40% of the undisclosed value.

**Watch for Overlooked Accounts** – You may not realize you have accounts that fall under one or more of these reporting requirements. Don't overlook accounts where family members in foreign countries have included you on a foreign account or as part owner of a business entity or trust. Don't overlook foreign retirement savings accounts such as Canadian RRSP and RRIF accounts. Consider business accounts where, as an officer or board member of a company, you may have signature authority over a foreign account.

If you have questions related to these reporting requirements, please give this office a call.



**YOU ASKED:** I am considering converting my traditional IRA to a Roth IRA this year. However, I cannot afford to pay the entire tax on the conversion by the April due date. There was an option to spread the conversion income over two years in 2010. Is that option also available for 2011?

**ANSWER:** No. That provision was limited to conversions made in 2010. However, you are not required to make the entire conversion in one year. You can actually make the conversion by means of a series of partial conversions spread out over several years and in amounts that you can afford.

**YOU ASKED:** I have been reading all of these ads about selling personal jewelry for the gold value, and I was wondering if there were any tax ramifications?

**ANSWER:** Generally, when you sell a personal use asset there are no tax ramifications since personal use items

such as a car, furnishings, clothing, etc., usually are sold for less than you paid for them, and losses are not allowed. However, if you sell a personal use item for a profit, then the profit is taxable. Your jewelry is a personal use item. Gold has increased in value by approximately 500% since 2000. So there is a good chance of having a profit in selling old jewelry, and that profit would be a long-term capital gain taxable at the current Federal tax rate of no more than 15%. However, the problem is determining the profit. If you received it as a gift, what did the purchaser pay for it? If you bought it yourself, what did you pay for it? How can you document the cost? Without being able to determine a cost (basis), the reportable gain will be the entire amount you receive for selling the jewelry. Another issue is if any of the jewelry includes gold coins. Gold bullion and rare coins are considered “collectables” and are taxed at Federal rates up to 28%.



## taxcalendar November 2011 – April 2012

### November-December 2011

– It's time for 2011 year-end and 2012 tax planning. This is highly recommended if you have substantial increases in income or fewer deductions. Please call for an appointment.

### December 31, 2011

– This is the last day to pay deductible expenses for the 2011 return. This doesn't apply to IRA, SEP or Keogh contributions, all of which can be made after December 31, 2011.

– This is the last day to set up a Keogh Retirement Account if you plan to make a 2011 contribution.

– This is the last day to take advantage of the IRA to charity direct rollover for taxpayers who are age 70.5 and over.

### January 17\*, 2012

– The fourth quarter 2011 federal individual estimated tax payment is due unless the 2011 return is filed by January 31, 2012 and the entire balance due is paid with the return.

**Caution:** Some states may have different filing dates for state estimated payments. Note that the normal due date would be January 15, but because it falls on a weekend and with January 16 being a Federal holiday, the due date is January 17, 2012.

### January 31, 2012

– This is the deadline for businesses to provide 1099s and W-2s to those people they paid

during 2011. If you are a business owner and you paid \$600 or more for the services of individuals (other than employees) during the year, you will need to provide 1099s to those workers by January 31, 2012. “Services” can mean everything from labor and professional fees to rents on property. In addition, in order to avoid a penalty, copies of 1099s need to be sent to the IRS by February 29, 2012. This firm can prepare these documents for you.

### February 29, 2012

– This is the deadline for filing (sending) 1099s and W-2s to the government.

### April 17\*, 2012

– This is the deadline for individuals to file a 2011 federal income tax return or request an extension of time to file. **Caution:** Some states may have a different filing date for state income tax returns.

– The first installment of the 2012 federal individual estimated tax payment is due.

**Caution:** Some states may have different filing dates for state estimated payments.

– The first installment of the 2012 defined benefit pension plan contributions is due.

*\*Note that the normal due date would be April 15th, but because it falls on a weekend and with April 16th being a Federal holiday, the due date is April 17th, 2012.*