



2011 Year-End Tax Planning for Individuals

Thanks to legislation enacted at the end of 2010, tax rates are stable for 2011 and 2012, although the uncertainty will return as 2013 approaches, as political pressure in Washington builds to do something quickly for the economy.

Ordinary income tax rates for individuals currently are 10, 15, 25, 28, 33 and 35 percent; capital gains rates are zero and 15 percent. President Obama has proposed to preserve these tax rates for taxpayers with income below \$200,000 (individuals) and \$250,000 (married couples filing jointly) and to raise the rates for taxpayers in these higher-income brackets. If Congress is gridlocked and takes no action, everybody's rates will rise, but again, not until 2013.

Some specific tax provisions and other benefits that will terminate at the end of 2011, unless Congress and the President agree to extend them include:

- Tuition and fees above-the-line deduction for higher education expenses
- Deduction for mortgage insurance premiums
- The state and local sales tax deduction
- The classroom expense deduction for teachers
- Non-business energy credits
- The exclusion for distributions of up to \$100,000 from an IRA to charity
- A higher deduction limit for charitable contributions of appreciated property for conservation purposes

It is worthwhile to look at these 2011 provisions to realize last-minute tax benefits before they expire.

In 2010, it was particularly important to consider whether to convert a traditional IRA to a Roth IRA, because the income realized on conversion could be recognized over two years. While a conversion continues to be worthwhile to consider (because distributions from a Roth IRA are not taxable), there are no longer any special breaks to defer a portion of the income from the conversion.

In regards to the Alternative Minimum Tax, the AMT has been "patched" for 2011 and the exemptions have been temporarily increased from the normal statutory levels to the "patched" levels (please consult with your tax planner for the "patched" levels). While planning for the AMT is difficult, taxpayers may want to consider realizing AMT income, such as capital gains, in 2011, when the patch is higher, rather than in 2012.

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An old standby that makes sense from year-to-year is maximizing contributions to an IRA. The contribution is deductible up to \$5,000 (\$6,000 for taxpayers over 50), depending on some specific taxpayer income levels and circumstances. Taxpayers in a 401(k) plan can reduce their income by contributing to their employer plan, for which the limit in 2011 is \$16,500.

Please don't hesitate to contact us if you want to further explore any of the options discussed in this Client Alert. If you are a small-business owner and are interested in taking advantage of temporary business tax breaks, please contact us.

The above information was courtesy of Lawrence Tax Service and our thanks to them for their assistance.

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