Newsletter

APRIL 2011

April 18 is a major tax day

Monday, April 18, is a red letter day in the world of taxes. It is the deadline for filing certain returns and taking certain tax-related actions. Here are the major deadlines.

- Filing 2010 income tax returns for individuals. If you cannot file your return by this deadline, be sure to file an extension request by April 18. The automatic extension (you don't need to explain to the IRS why you need more time) gives you until October 17, 2011, to file your return. An extension does not, however, give you more time to pay taxes you still owe. To avoid penalty and interest charges, taxes must be paid by April 18.
- Filing 2010 partnership returns for calendar-year partnerships.
- Filing 2010 income tax returns for calendar-year trusts and estates.
- Filing 2010 annual gift tax returns.
- Making 2010 IRA contributions.
- Paying the first quarter installment of 2011 individual estimated tax.
- Amending 2007 individual tax returns (unless the 2007 return had a filing extension).
- Original filing of 2007 individual income tax return to claim a refund of taxes. Each year taxpayers have tax refunds due them for prior years, and unless a return is filed to claim the refund by the three-year statute of limitations, the refund becomes the property of the U.S. Treasury.

Check the new rules for 2011 tax planning opportunities

Sunset was postponed last December, at least in the world of taxes. Many existing laws, which had been due to expire, or "sunset" at the end of 2010, were extended through 2012. At the same time, new rules that can impact your tax planning came into effect. With so many changes, you'll want to make sure you understand the possibilities available to you as you undertake your tax planning for 2011. Here are some suggestions.

Business tax planning

There's a new twist on an existing option for accelerated write-off of assets you purchase from September 9, 2010, through December 31, 2011. You can choose to expense 100% of the cost of new equipment, such as machinery, some vehicles, and computers, under expanded "bonus" depreciation rules.

While this sounds similar to Section 179, which also allows immediate expensing of assets you'd otherwise have to write off over several years, differences between the two methods exist. For instance, the amount of Section 179 expensing you can claim may be limited by your income. In contrast, bonus depreciation can create an operating loss that you may be able to carry back to prior years to generate a refund. Also, bonus depreciation is available only for new assets; Section

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179 expensing applies to both new and used assets.

And what about the rules for Section 179? The expensing limit was increased to $500,000. Your deduction begins to shrink if you buy more than $2 million of assets.

Another depreciation break was also extended: the 15-year life for certain leasehold and retail improvements and restaurant buildings and improvements. These assets will no longer qualify for 15-year depreciation after 2011.

Check out this tax break if your business has fewer than 25 full-time employees: You might qualify for a tax credit of up to 35% of employer-paid health care costs.

Investment planning

Capital gain rates will remain at a maximum of 15% (and a minimum of 0%) through December 31, 2012. The rates apply to qualified dividends and long-term gains from investments you sell. That makes 2011 a good time to implement strategies for potential tax savings.

One example: You may be able to manage your income to stay within the 10% or 15% income tax brackets, which would allow you to take advantage of the 0% capital gain rate.

Alternatively, you could gift appreciated stock to family members in those brackets. For 2011, the cutoff for the 15% bracket is $69,000 of taxable income when you're married filing jointly ($34,500 for singles).

Also a tax-savvy way to completely eliminate your capital gains tax might be to donate appreciated stock to charity and receive a deduction equal to the security's current market value. Special rules apply to noncash donations, so check with us before you move forward on this strategy.

IRA planning

Thanks to the extension of the "charitable IRA rollover" rule, taxpayers age 70½ and older can again use their IRA to make a donation to their favorite charity. The distribution can be used to offset some or all of your required annual minimum distribution.

Another exciting option is a Roth IRA conversion. If you procrastinated on converting your regular IRA to a Roth last year, you can still do so in 2011. Although converting your IRA generates taxable income in the year of the transfer, later withdrawals of contributions and income from the Roth are tax-free. Making this transfer while income tax rates remain low could pay off big time. And your conversion opportunities are not limited to just traditional IRAs. You can also convert your 401(k), 403(b), or 457 plan to a Roth.

Estate and gift tax planning

The new rules for estates include a maximum tax rate of 35% and a $5 million exemption for 2011 and 2012. The exemption is the amount you can leave to heirs, tax-free, and it applies to lifetime gifts as well. Therefore, you and your spouse could gift up to $10 million of cash, investments, or ownership in a business without incurring gift tax. That's in addition to your annual exclusion of $13,000 per recipient.

Estates of persons who died in 2010 have the option of applying the restored estate tax rules and receiving a step-up in basis on property passing to heirs or having no estate tax but using a carryover of the decedent's basis in property.

The December tax law contains other provisions that offer planning opportunities – almost all of which are temporary. Please give us a call for details and planning guidance.

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