

2011 TAX REDUCING STRATEGIES

As we approach the end of the year, please check that you have taken advantage of all of these 2011 tax-reducing strategies:

- As always, make sure that you are making the maximum contributions to your retirement savings plans:
 - Both traditional and Roth IRAs limits are \$5,000; \$6,000 if you are age 50 or older.
 - 401(k) and 457 plans have an annual \$16,500 contribution limit; \$22,000 if you are age 50 or older.
 - 403(b) has an annual contribution limit of \$16,500 or \$22,000 if you are age 50 or older.
 - SIMPLE plans have an annual contribution of \$11,500 or 14,000 if you are age 50 or older.
 - SEP Plans have a limit on annual additions of \$49,000.
- The American Opportunity credit has been extended through 2012. It is equal to 100 percent of the first \$2,000 of tuition and 25 percent of the next \$2,000, for a total credit of up to \$2,500. It is also 40 percent refundable and allowed against the alternative minimum tax (AMT). The Lifetime Learning credit can be used anytime during the college years, as well as for graduate education, but it is less generous. It provides a credit of up to 20 percent of qualified college tuition and fees up to \$10,000, for a maximum credit of \$2,000. For 2009 through 2012, it also phases out at a much lower income threshold than the American Opportunity credit. Bear in mind that you cannot use both credits in the same year for the same student.
- Look into opening an **Education savings account** (such as a Coverdell). The contribution limit for educational savings accounts is \$2,000 per beneficiary. The education savings account can be used for qualifying expenses for elementary through graduate level.
- A 529 plan can be a powerful estate planning tool for parents or grandparents. Contributions to 529 plans are eligible for the annual gift tax exclusion (\$13,000 per beneficiary in 2011), and you can also avoid any generation-skipping transfer (GST) tax when you fund a 529 plan for a grandchild — without using up any of your GST tax exemption. Plus, a special break for 529 plans allows you to front-load five years' worth of annual exclusion gifts (\$65,000) in one year, and married couples splitting gifts can double this amount to \$130,000 per beneficiary.

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For PA residents, there is an additional incentive to fund a 529 plan (in any state). Pennsylvania taxpayers can deduct up to \$13,000 in contributions per beneficiary per year (\$26,000 if married filing jointly assuming each spouse had income of at least \$13,000) from their Pennsylvania taxable income for the

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purposes of determining their state income taxes. You can deduct up to \$13,000 in contributions per beneficiary (or \$26,000-MFJ) provided each spouse has \$13,000 of taxable income. A \$13,000 contribution results in a \$399 reduction in PA taxes.

- If you are self-employed, consider starting a Keogh, such as a **Simplified Employee Pension** plan by December 31st.
- **Roth Conversions:** Roth rollover limitation disappears. No matter what your income, you can now roll over a traditional retirement account such as a 401(k) or IRA into a Roth IRA if you want the unique benefits that Roth accounts offer. In addition, if your employer offers a Roth alternative within your qualified plan and allows certain distributions, under a new provision enacted last year, some taxpayers can now roll over from their 401(k) directly into a Roth version within the employer plan. Keep in mind the special temporary rule in place for 2010 conversions to Roth IRAs. The tax on a 2010 Roth conversion is paid in equal installments in 2011 and 2012 (unless you elected out of this tax treatment), so if you converted in 2010 you must pay half of the tax this year. If you roll over into a Roth after 2010, you must pay all the tax in the year of the conversion.

- **Refinancing:** In addition to the regular write-offs that all homeowners have -- such as deductible mortgage interest and property [taxes](#) -- people who refinance their mortgage often overlook some tax breaks: **Deducting points paid.** You can deduct the points paid to get a mortgage in the year you buy a home-- even if the [seller](#) paid the points for you. You can also deduct the points paid to refinance a mortgage, but the rules are more restrictive....instead of writing off those points all at once, you must spread the deduction over the life of the loan.

If you refinance that mortgage again, though, you can generally deduct the remaining points in the year that your loan is paid off with the second refinancing. If you refinance with the same lender, however, you cannot deduct the remaining points in one year. Instead, they are added to the points charged on the second refinancing and deducted over the life of the loan.

- Rethink your **charitable giving.** If you have stocks that have decreased in value, you could donate the stocks to charity. By doing this, you are able to claim both a capital loss and a charitable contribution.

Taxpayers age 70½ must take annual minimum withdrawals from their IRAs or pay a steep penalty -- 50% of the amount they failed to withdraw. But this year you can direct up to \$100,000 of your IRA distribution to a charity and exclude it from income. Note that the money must be transferred **directly** from your IRA to the charity. Although you can't claim a charitable deduction for the donation, reducing your adjusted gross income could make you eligible for other income-related tax breaks.

Note: All cash contributions made to any qualified charity must be supported by a dated bank record or a dated receipt. Also, no deduction is allowed for contributions of clothing and household items unless the donated property is in "good" used condition, or better.

- If you have a very active stock portfolio, you could consider using capital losses to offset capital gains—a net capital loss of \$3,000 can offset ordinary income. Don't forget to check your 2010 tax return for excess investment losses that were carried over to 2011.....you can carry over to reduce your 2011 tax bill.
- Consider these **asset-shifting options:** Any US Citizen can gift another US Citizen up to \$13,000 per person. Those receiving the gift are not required to pay taxes on the gift. Also, consider gifting stocks. If you are in a 25% or higher tax bracket and 'gift' stock to someone in the 15% or 10% tax brackets, they would only have a capital gain tax rate of 5% if they choose to sell the stock, opposed to your 15% tax rate.
- **Cash remittances** made directly to education or medical providers (for an individual's tuition or medical expenses) are not subject to gift tax rules as they are not considered gifts. Therefore, a grandparent could pay for their grandchildren's' expenses in these areas and this would be a tax free transfer of assets spanning two generations.
- **Certain medical expenses** such as laser surgery and obesity weight loss programs are deductible if total medical expenses exceed 7.5% of gross income. Also, Employees who participate in their employer's health flexible spending account (FSA) should keep in mind that medical expenses reimbursed under the account generally must be incurred during the participant's period of coverage (normally 12 months) under the FSA. Expenses are treated as having been incurred when the participant is provided with the medical care that gives rise to the expenses, and not when the participant is formally billed or charged for, or pays for, the medical care.

- **Energy credits.** This is your last chance to claim a tax credit for making energy-efficient improvements to your principal residence. The home-energy tax credit expires at the end of this year. It is worth 10% of the cost of new windows, doors, skylights, insulation, and heating and air conditioning systems, up to a maximum \$500 credit (but no more than \$200 can be allocated to new windows). You must install the upgrades by December 31 in order to claim the credit, but you can't claim it for 2011 if you already took advantage of \$500 or more of energy tax credits in previous years.

An even bigger credit is available to homeowners who install renewable-energy equipment, such as geothermal heat pumps, solar panels and small wind turbines, in their primary residence or vacation home by the end of the year. You can claim a credit for 30% of the cost, including installation, with no limit. This credit is good through 2016.

If you have questions, please do not hesitate to contact us-we will be happy to assist you. 215-343-2727