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To Our Clients and Friends

As we approach year-end, it's again time to focus on last-minute moves you can make to save taxes—both on your 2011 return and in future years. To get you started, we've included a few money-saving ideas here that you may want to put in action before the end of the year. Contact us if you have questions about which ideas may be appropriate for you or if you want to discuss other tax-saving strategies.

- For 2011, the standard deduction is $11,600 for married taxpayers filing joint returns and $5,800 for single taxpayers. These amounts will likely be about the same for 2012. If your total itemized deductions are normally close to these amounts, you may be able to leverage the benefit of your deductions by bunching deductions in every other year. This allows you to time your itemized deductions so that they are high in one year and low in the next. For instance, you might consider moving charitable donations you normally would make in early 2012 to the end of 2011. If you're temporarily short on cash, charge the contribution to a credit card—it is deductible in the year charged, not when payment is made on the card. You can also accelerate payments of your real estate taxes or state income taxes otherwise due in early 2012. But, watch out for the Alternative Minimum Tax (AMT), as these taxes are not deductible for AMT purposes.

- If you have appreciated stock that you've held more than a year and you plan to make significant charitable contributions before year-end, keep your cash and donate the stock (or mutual fund shares) instead. You'll avoid paying tax on the appreciation, but will still be able to deduct the donated property's full value. However, if the stock is now worth less than when you acquired it, sell the stock, take the loss, and then give the cash to the charity. If you give the stock to the charity, your charitable deduction will equal the stock's current depressed value and no capital loss will be available.

- If you're age 70½, or older, you can arrange to transfer up to $100,000 of otherwise taxable IRA money to a charity. Such a transfer is federal-income-tax-free to you, but you don't get to claim a charitable deduction on your Form 1040. However, the tax-free treatment equates to a 100% writeoff, and you don't have to itemize your deductions to get it. Be careful—to qualify for this special tax break, the funds must be *transferred directly* from your IRA to the charity. Also, this favorable provision will expire at the end of this year unless Congress extends it. So, this could be your last chance.

- Because of the roller-coaster stock market this year, you may have investments that are worth less than what you paid for them. If so, you may want to cut some of your losses before year-end to gain a tax benefit. Losses are normally deductible to the extent of any capital gains that you've realized this year, plus an additional $3,000 (or $1,500 for married individuals filing a separate return).

- If you have a 401(k) plan at work, it's just about time to tell your company how much you want to set aside on a tax-free basis for next year. Contribute as much as you can stand, especially if your employer makes matching contributions. You give up "free money" when you fail to participate to the max for the match.

- If it looks like you are going to owe income taxes for 2011, consider bumping up the Federal income taxes withheld from your paychecks now through the end of the year. When you file your return, you will still have to pay any taxes due less the amount paid in. However, penalties will be minimized, if not eliminated.

- And finally, watch out for the AMT in all of your planning because what may be a great move for regular tax purposes may create or increase an AMT problem.

Again, these are just a few suggestions to get you thinking. Please call us if you'd like to know more about them or want to discuss other ideas.

Best regards,

Rudinger, Heller + Filippone, LLP

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