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AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

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FLORIDA INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

December 2011

Subject: Your 2011 income taxes and future planning ideas

Dear Clients and Friends:

Knowledge of current and future tax rules, rates and limits will help you take action to reduce your taxes and preserve your savings. Our objective for thirty-five years of service has been to assist you by being a reliable source of tax saving information. Changes now are as complex as ever with future rules, rates and limits appearing both as uncertain and ominous as ever, particularly beginning 2013 when current plans call for substantially higher taxes for single filers with modified adjusted gross income higher than \$200,000 and married joint filers above \$250,000 (*Will divorce become an effective tax planning strategy?*) with wealthy taxpayers (over \$1,000,000) facing additional ordinary, medicare and capital gains tax burdens. **Actual tax rates and provisions for 2013 will probably depend heavily on the elections in 2012, and may be set late in 2012, and deferral of income and capital gain recognition from 2012 to later years may result in higher taxes for you. Current uncertainties may also increase future market risks and further delay economic recovery.**

Meanwhile, 2011 offers an opportunity to shelter what remains of corporate profits with increased write-offs of new business assets placed in service in 2011 even if losses exist (at the expense of foregoing deductions in later years when rates and profits may rise), take advantage of some remaining deductions due to expire after 2011 and 2012, and save on current taxes resulting from inflation in brackets of 1.4% in 2011 and 3.8% in 2012 as income tax bracket rates remain the same as 2011.

Highlights are briefly summarized below (see www.fielderco.com for continuing access and updates).

Things to Consider in 2011

(See schedules following for related amounts)

- 1. New SUVs over 6,000 pounds gross weight are eligible for 100% tax write-off of business portion, along with other new assets acquired for business use beginning in 2011, even if depreciation results in taxable loss. Currently, this benefit gets reduced in 2012.**
- 2. Add to basis in your S corporation by contributing cash as needed by December 31 to make losses deductible and bonus owners if additional wages or withholding is needed to avoid underpayment issue.**
- 3. Make additional eligible retirement contributions and contribute full-year contribution allowed to HSA accounts by deadlines for 2011, and increase payroll deductions for 2012, if desired.**
- 4. Take capital losses by year-end in your "non-retirement" accounts or use losses already recognized this year or carried forward from prior years to realize capital gains not subject to taxation when netted with losses (or if net capital gains and other income leaves you below the 25% tax rate bracket). Anticipated capital gain rate increases and surtax imposition on the wealthy beginning in 2013 makes timing of recognition and market risk concerns of greater importance to you now.**

Things to Consider in 2011 (continued)
(See schedules following for related amounts)

5. **Accelerate deductible charitable contributions or medical expenses** by check or credit card charges by **December 31** if you **exceed standard deductions as well as the 7.5% of adjusted gross income (AGI) limit** for medical deductions. Due to expiring provisions in 2012, this may be your last opportunity to **make direct charitable donations from IRAs** (which also qualify for required minimum distributions after age 70 ½) without addition to your AGI. **Consider donating appreciated assets to charities** vs. selling and donating cash. Also consider **buying high ticket items with sales tax** if itemizing by **December 31, 2011**, since this is an expiring option in 2011, as are above-the-line deduction (vs. credit) for qualified higher education costs and \$250 classroom expenses paid by teachers. If subject to alternative minimum tax in prior years or anticipate now being subject, consider that prior to accelerating deductions.

6. Be aware of new tax forms now relevant:

A. **Form 8949 – Capital gains and losses basis reporting** forms report matched, unmatched and non-reported 1099-B basis information due from brokers by February 15, 2012.

B. **Form 8938 – Additional required 1040 form for reporting detailed foreign financial holdings** (not foreign real estate or holdings in U. S. Financial Institutions) if total is over \$50,000 on last day or \$75,000 at any time during the year (**\$100,000/\$150,000, respectively, for married filing jointly**) with a **high penalty for non-reporting of \$10,000 per month** (\$50,000 if not filed after IRS notification).

Lower value reporting by U. S. citizens is required on a separate Treasury Department Form TD F 90-221 to be received by them by June 30, 2012, if aggregate values exceed \$10,000 at any time in 2011, with additional penalties if not filed by you on time. See the form and instructions on www.irs.gov.

C. **Form 8939 - Must be filed by January 17, 2012**, for representatives of **2010 decedents** not electing to file Form 706 estate tax return to elect out of estate tax but **report modified carryover basis of inherited assets to IRS and beneficiaries** (allowing additions to allocate decedent basis up to \$3,000,000 to spouse, plus general basis increase of \$1,300,000 and additional carryover/unrealized loss basis increase not exceeding fair values at death). **Spouses of 2011 decedents must file timely Form 706 estate tax returns** (within 9 months of date of death) even if not required to allow potential increase of the applicable unused estate tax exemption of their spouse to their estate tax exemption.

D. **Form 8952 – Application for Voluntary Classification Settlement Program (VCSP)** to apply for acceptance in new IRS program allowing taxpayer agreement to treat previously misclassified independent contractors or other non-employees prospectively as employees, pay only 10% of employment taxes for the most recent prior tax year determined under favorable reduced rates, and extend statute of limitation period on future three years of payroll returns in exchange for avoiding employment tax audits for the worker classifications of prior years with potential consequent high penalties, interest and peripheral associated costs with determination of misclassification.

7. **Make contributions to your deductible traditional or ROTH IRAs for 2011 by the April 17, 2012 deadline**, if eligible, and **consider converting regular IRA accounts** beaten down in value to **ROTH-IRA accounts** by December 31 if intention is to remain in the market in the long term and **your tax rate bracket will be unusually low for 2011 due to deductible business losses or lack of income**. Potential current tax increases should always be considered before converting IRAs. You have until the due date of your tax return, including extension, to recharacterize ROTH conversions to avoid tax on higher conversion values if there are declines or if your tax impact in conversion year is later considered too much.

Things to Consider in 2011 (continued)
(See schedules following for related amounts)

8. Energy-efficient home improvement credits are scheduled to expire after 2011, and for 2011 taxpayers are only eligible for credit of 10% of cost up to \$500 (\$200 for windows) less what has been claimed in the past since 2005 for qualifying energy-efficient improvements to your residence.
9. The 2010 Make Work Pay credit for eligible taxpayers economic stimulus expired for 2011, replaced by the potentially more stimulating 2% reduction in employee and self-employed FICA for 2011 and 2012, pending Congressional approval for the balance of 2012.

Additional Considerations

Required documentation supporting charitable donations and business mileage claimed must be possessed by filing due date to avoid disallowance of all such deductions, especially critical to implications of losing all deductions for business expenses related to auto use and potential underpayment penalties assessed on significant amounts. See thrift shop valuation guide at www.salvationarmyusa.org for referencing values for required detailed listings if donating total non-cash items in excess of \$500. We have a gift of pocket size daily diaries good for recording daily business trip mileage and description for 2012 and 2011 for you free of charge while supplies last just for asking.

New Tax Rates, Deductions and Limits

2011 and 2012 tax information is illustrated below for some commonly applicable examples, using information available to date:

	<u>2011</u>	<u>2012</u>
Individual retirement accounts (IRAs) to extent of earned income, if not 70-1/2 by end of tax year (self or spouse); maximum contributions due by April 16, 2012	\$ 5,000	\$ 5,000
Additional IRA contributions available if over 50 by year-end	1,000	1,000
Phase-out AGI for:		
Active participant in other plan (traditional IRA) -		
Married	90,000-110,000	92,000-112,000
Single or head of household	56,000-66,000	58,000-68,000
Married filing separately (for traditional and Roth, active or non-active)	0-10,000	0-10,000
Non-active participant with active spouse		
(and Roth IRAs)-joint filers	169,000-179,000	173,000-183,000
Roth IRA AGI limits-single or head of household	107,000-122,000	110,000-125,000
Roth IRA AGI limits-married filing separately	0-10,000	0-10,000
Balance of contributions may be allowed as non-deductible (reported on Form 8606) or withdrawn with attributable earnings by due date of return. Note: \$200 contribution may be made if phase-out reduces allowable contribution to lower than \$200 but higher than zero.		
Maximum modified AGI limit to convert traditional IRA to Roth (and pay tax on converted amount) (Note: Income on 2010 conversions may be taxed 1/2 in 2011 and 1/2 in 2012 or could have been elected for inclusion in 2010)	None	None

New Tax Rates, Deductions and Limits (continued)

	<u>2011</u>	<u>2012</u>
Retirement plan contribution limits:		
401(k)/403(b)/SEP/thrift savings/457 plan elective contributions	\$ 16,500	\$ 17,000
50 and older additional catch-up contributions for:		
401(k), 403(b), and 457 plans	5,500	5,500
SIMPLE IRA elective contributions	11,500	11,500
SIMPLE IRAs-50 and older additional catch-up contributions	2,500	2,500
Defined contribution plans total (lesser of income or profit-sharing/SEP)	49,000	50,000
Defined benefit (pension) plans annual benefit limitation	195,000	200,000
Compensation limit for plan purposes	245,000	250,000
Health Savings Accounts (HSAs):		
Minimum deductible:		
Self	1,200	1,200
Family	2,400	2,400
Maximum contribution:		
Self	3,050	3,100
Family	6,150	6,250
Age 55 catch-up	1,000	1,000
Maximum out-of-pocket:		
Self	5,950	6,050
Family	11,900	12,100
Additional tax on HSA distributions not for qualified medical expenses (over-the-counter medications are not qualified unless prescribed)	20%	20%
Standard deductions:		
Joint return or surviving spouse	11,600	11,900
Single filers	5,800	5,950
Head of household (H of H)	8,500	8,700
Married filing separately (zero if spouse itemizes)	5,800	5,950
Additional for married 65 or older or blind	1,150	1,150
Additional for single or H of H, 65 or older, or blind	1,450	1,450
For dependents on another's return (\$300 in 2011 and 2012 plus earned income, if greater, not to exceed regular standard deduction of \$5,800 in 2011 and \$5,950 in 2012)	950	950
Standard deduction is zero for:		
...A married individual filing separately whose spouse itemizes		
...A non-resident alien individual		
...An individual filing a short-year return due to a change of accounting period		
Note: Standard deduction, personal exemptions and many itemized deductions are not allowed when calculating tax liability due to alternative minimum tax (AMT)		
Personal exemption amount (insure your eligible child dependent doesn't file and claim exemption first)	3,700	3,800
Unearned income exemption without trigger of "kiddie tax" at parents' rate to age 18 (and for dependents 19 – 24)	1,900	1,900

New Tax Rates, Deductions and Limits (continued)

	<u>2011</u>	<u>2012</u>
Education credits:		
American Opportunity Credit:		
First four years of qualifying higher education tuition and fees (plus cost of books and other required materials now) for each qualifying student		
Up to 100% of first	\$ 2,000	\$ 2,000
25% of next	2,000	2,000
to a total maximum credit per individual of \$2,500 in 2011 and 2012, applying only to tuition and related expenses paid for and related to academic periods of 2011 and 2012. Unless subject to the "kiddie tax," 40% of the credit is refundable for parent or child, if not parent's dependent		
Phase-out AGI – single (both years)		80,000 - 90,000
Phase-out AGI – joint return (both years)		160,000 -180,000
Lifetime Learning Credit:		
Available for only one qualifying undergraduate, graduate or professional courses student per taxpayer equal to up to 20% of \$10,000 qualifying expenses to a maximum per return for 2011 and 2012 with phase-out for single filer AGIs from \$51,000 to \$61,000 in 2011 (\$52,000 to \$62,000 in 2012); and \$102,000 to \$122,000 in 2011 (\$104,000 to \$124,000 in 2012) for married filing jointly.		
	2,000	2,000
Optional "above the line" deductions may be taken for higher education expenses vs. credits in 2011 up to \$4,000 for single filers with AGI limit of \$65,000 or joint filers of \$130,000; \$2,000 maximum for AGI limits up to \$80,000 and \$160,000, respectively, with none available for other taxpayers.		
Child tax credit for each qualifying dependent child under age 17 at end of year:		
Maximum credit	1,000	1,000
Reduction by \$50 for each \$1,000 or fraction thereof of modified AGI above:		
Joint filers	110,000	110,000
Unmarried individuals	75,000	75,000
Married filing separately	55,000	55,000
The credit is refundable to the extent of 15% of taxpayer's earned income in excess of \$3,000 in 2009 and 2010. In 2010, the credit will be allowed against AMT tax.		
Qualifying student loan interest deductible "above-the-line":		
Maximum interest amount (if not claimed as dependent of another or is married filing separately)		
	2,500	2,500
Phase-out AGI – single	60,000-75,000	60,000-75,000
Phase-out AGI – joint return	120,000-150,000	120,000-150,000
Maximum retirement saver credit for lower income taxpayers (phased from 50% to 10% of up to \$2,000 of elective qualified plan deferrals and IRA contributions)		
	1,000	1,000
Maximum modified AGI for credit:		
Joint filers	56,500	57,500
Heads of household	42,375	43,125
All other filers	28,250	28,750

New Tax Rates, Deductions and Limits (continued)

	<u>2011</u>	<u>2012</u>
Credit for dependent care for qualifying individuals including taxpayer's under-age-13 dependent, or another dependent or spouse physically or mentally incapable of self care with same abode for more than half the year:		
Maximum credit – 1 qualifying individual	\$ 3,000	\$ 3,000
Maximum credit – 2 or more qualifying individuals	6,000	6,000
The credit is calculated as 35% of employment related care expenses limited to earned income (lesser of earned income if joint) for taxpayers with AGI of \$15,000 or less with percentage decreases by 1% for each \$2,000 (or fraction) of AGI above \$15,000, but not below 20%		
Reporting requirements include name, address and ID numbers of care providers		
Nanny tax (domestic service employee) minimum wages for FICA tax	1,700	1,800
Allowable auto mileage reimbursement for business use	51 cents/55.5 cents/mi. (Jan-Jun/Jul-Dec)	55.5 cents/mi.
Depreciation component of business mileage	22 cents/mi.	23 cents/mi.
Allowable auto mileage deduction for moving and medical	19 cents/23.5 cents/mi. (Jan-Jun/Jul-Dec)	23 cents/mi.
Allowable auto mileage deduction for charitable mileage (statutory rate not adjusted by inflation)	14 cents/mi.	14 cents/mi.
First-year Sec 179 expensing limit (against other profits) (Note: Qualifying SUV expense limit is \$25,000)	500,000	139,000 (may be addressed with late tax bill)
Phase-out of Sec 179 limit (dollar for dollar) if eligible new property purchases exceed	2,000,000	560,000
Bonus Depreciation for qualified Sec 168 less-than-20-year life original use property acquired in year	100%	50% (to be extended to 100% if House passes bill)
First year bonus depreciation for luxury autos/non-electric	8,000	8,000
Foreign earned income exclusion (plus limited foreign housing cost exclusion)	92,900	95,100

New Tax Rates, Deductions and Limits (continued)

	<u>2011</u>	<u>2012</u>
Social security (See Page 1 regarding FICA rates)		
Social security earnings wage base (no Medicare tax base limit)	\$ 106,800	\$ 110,100
Earnings limit at less than full retirement benefits age (e.g., 66 in 2008 or 2009, and for those born from 1943-1954) for those turning 62 and collecting benefits (no earnings limit at full retirement age for social security): under full retirement age all year (\$1 per \$2 earned above limit is deducted from benefits)	14,160	14,640
Earnings limit to avoid \$1 to \$3 decrease in benefits in full retirement year to month you reach full retirement	37,680	38,880
Increase in benefits for cost of living	none	3.6%
Annual total gift reporting exclusion to each recipient (gift tax reporting above)	13,000	13,000
Estate /lifetime gifts tax exemption per decedent/individual (unified credit equivalent)	5,000,000	5,120,000

Taxable Income Rate Brackets

	<u>Joint or Surviving Spouse</u>	<u>Single</u>	<u>H of H</u>	<u>Married filing separately</u>
10% RATE ENDS:				
2011	\$ 17,000	\$ 8,500	\$ 12,150	\$ 8,500
2012	17,400	8,700	12,400	8,700
15% RATE ENDS:				
2011	69,000	34,500	46,250	34,500
2012	70,700	35,350	47,350	35,350
25% RATE ENDS:				
2011	139,350	83,600	119,400	69,675
2012	142,700	85,650	122,300	71,350
28% RATE ENDS:				
2011	212,300	174,400	193,350	106,150
2012	217,450	178,650	198,050	108,725
33 % RATE ENDS (35% IN EXCESS):				
2011	379,150	379,150	379,150	189,575
2012	388,350	388,350	388,350	194,175

We have tailored this planning information for general relevance to our diverse clientele. Please call on us for specific planning questions in your case. We wish you great success and happiness.

Sincerely,


Jim Fielder

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