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Happy holidays! As in prior years, I prepared a tax letter that I hope will help you with tax planning and make you aware of recent changes.

While many of the items in the Tax Highlights and Planning Strategies (pages 3-8) are similar to prior years, I wanted to emphasize the following:

1) If your taxable income (income after deductions) is below $34,500 ($69,000 married), consider either a Roth conversion or realizing long-term capital gains as a way to report higher income in 2011 without paying much (or in some cases any) additional tax (see item 7d on page 6).
2) The American Opportunities Credit for tuition and course materials is available again for 2011 (see item 9a under Tuition on page 6). Up to $1,000 of the credit is "refundable," helping taxpayers with lower income receive a tax benefit. It important to decide when (i.e. in which tax year) it is best to pay for tuition. If you have not paid more than $4,000 of tuition per student in 2011 (enough to qualify for the maximum American Opportunities Credit), consider paying tuition for the spring semester early (in December 2011) to reach $4,000 per student in 2011. On the other hand, if the spring 2012 semester is the last semester you will be paying tuition and you have already paid $4,000 tuition in 2011, then delay paying the spring 2012 tuition until January 2012.

New Federal Tax Law

December 2010 – Tax Relief, Unemployment Insurance Reauthorization and Job Creating Act:

- Extended through 2012 - the lower ordinary and capital gains tax rates (including the lower rate on qualified dividends) and other tax breaks (including the American Opportunity Tax Credit)
- Items only extended through 2011 include the tuition deduction and residential energy credit
- New for 2011 (one year only) - employees pay 4.2% Social Security tax (lowered from 6.2%)
- Also new for 2011 - 100% bonus depreciation for business property placed in service by 12/31/11
- Items not extended beyond 2010 include the First Time Home Buyer Credit, the Additional Standard Deduction of Property Taxes (for people who do not itemize) and the Making Work Pay Credit (up to $400 for single taxpayers and $800 for married taxpayers)
- More detailed information about this legislation is on my website (www.shonborncpa.com); click on "News and Analysis" and "December 2010 Tax Update Letter"

April 2011 – Before the law even took effect, Congress repealed the requirement for expanded 1099-MISC reporting for payments for goods (not just services), for payments to Corporations, and for payments by landlords.

July 2011 – Federal unemployment tax (FUTA): This employer paid tax was reduced as of July 1, 2011 to .6% on the first $7,000 of wages (previously .8% on the first $7,000 of wages).

December 2011 – Congress is considering extending the 4.2% employee Social Security tax rate for 2012. The rate was lowered from 6.2% to 4.2% only for 2011. The debate is over how to pay for this tax cut. Proposals include various spending cuts as well as a higher tax on income over $1 million.

New Reporting to the IRS for 2011:

- 1099-K forms will be sent to the IRS and taxpayers (starting in January 2012 for year 2011) to report payments from "payment settlement entities" (i.e. credit and debit card processors, as well as payment networks like PayPal). The processor will only issue the form when total payments for the year exceed $20,000 and the number of transactions exceed 200. A Form 1099-MISC is not issued for amounts already reported on Form 1099-K. *(Note: If I prepare your tax return and you receive a 1099-K, please give it to me with your other information since the IRS will be expecting to find the income on a specific line of your tax return.)*
- In past years, for sales of stock, mutual fund and other securities, the IRS has only received information showing the sales proceeds (i.e. no cost basis or realized gain/loss was reported to the IRS; this information was reported by the taxpayer on the tax return). New cost basis reporting requirements are being phased-in. Starting for stocks sold in 2011 (if purchased after 12/31/10), the IRS will receive cost basis information. Mutual funds will be required to report cost basis information to the IRS starting next year for 2012 sales.
- There are two new forms that are required to be filed with your tax return (starting for 2011) relating to foreign accounts and transactions. Form 8938 is required if you own property outside of the U.S. worth more than $50,000 (this includes bank accounts, securities accounts, life insurance policies with a cash value, annuities with a cash value, mutual funds, real estate and interests in businesses; it does not include foreign securities held in the U.S. through a U.S. mutual fund or in a U.S. brokerage account). Form 3520 is required if you received gifts or inheritances worth more than $100,000 from a foreign individual or estate, or a gift greater than $14,375 from a foreign corporation or partnership.
- Your employer may report on your 2011 Form W-2 the value of healthcare benefits you received (the reporting is optional for 2011 and 2012). This is "informational" reporting – it does not mean the benefits are taxable to you.

New Wisconsin Tax Law

- Starting 2011, there is a new subtraction for child and dependent care expenses (the same expenses as used for the federal credit). For 2011, the state will allow a subtraction from income of $750 ($1,500 if 2 or more children). This increases to $1,500/$3,000 for 2012, $2,250/$4,500 for 2013 and $3,000/$6,000 for 2014 and later years. Note that this is not for expenses paid using a pre-tax dependent care plan through work (since money spent through a plan is already pre-tax).
- The state increased the subtraction for health insurance premiums paid with after-tax dollars. For taxpayers who do not have insurance through their employers (including retirees), 100% of the premium (including Medicare) is allowed as a subtraction from income on the state return (increased from 66% in 2010). If an employer pays part of the premium and the employee pays the rest (other than as pre-tax payroll deductions), then the employee can subtract 25% of the amount they paid on their state return (increased to 45% for 2012 and 100% thereafter).
- Starting 2011, the state treats Health Savings Account contributions as pre-tax (same as federal).

Tax Highlights for Individuals

Rates: Tax rates remain the same except for increases in income levels for inflation, as shown below:

Federal Tax Rate	10%*	15%*	25%**	28%**	33%**	35%**
2011 Taxable Income:						
Single	$0-$8,500	$8,501-$34,500	$34,501-$83,600	$83,601-$174,400	$174,401-$379,150	>$379,150
Head of Household	$0-$12,150	$12,151-$46,250	$46,251-$119,400	$119,401-$193,350	$193,351-$379,150	>$379,150
Married	$0-$17,000	$17,001-$69,000	$69,001-$139,350	$139,351-$212,300	$212,301-$379,150	>$379,150
2012 Taxable Income:						
Single	$0-$8,700	$8,701-$35,350	$35,351-$85,650	$85,651-$178,650	$178,651-$388,350	>$388,350
Head of Household	$0-$12,400	$12,401-$47,350	$47,351-$122,300	$122,301-$198,050	$198,051-$388,350	>$388,350
Married	$0-$17,400	$17,401-$70,700	$70,701-$142,700	$142,701-$217,450	$217,451-$388,350	>$388,350

* Except 0% rate on qualified dividends and long-term capital gains
** Except 15% rate on qualified dividends and long-term capital gains

Personal Exemption: $3,700 subtraction from income for yourself and each dependent ($3,800 for 2012). There is no phase-out of exemptions at higher income levels for 2011 and 2012.
Note: personal exemptions do not reduce your total federal tax if you are paying AMT.

Standard or Itemized Deduction: You are allowed to subtract from taxable income the higher of your standard deduction or itemized deductions (primarily state income taxes, real estate taxes, mortgage interest and charitable donations). There is no phase-out of itemized deductions at higher income levels for 2011 and 2012. The standard deductions are as follows:

	Married	Head of Household	Single	Extra for Age 65+ or Blind	Dependent
2011	$11,600	$8,500	$5,800	$1,150 married; $1,450 single	$950
2012	$11,900	$8,700	$5,950	$1,150 married; $1,450 single	$950

Child Tax Credit: The child tax credit remains $1,000 per qualifying child under age 17 for 2011 and 2012. The credit is gradually phased-out once income exceeds $110,000 ($75,000 if single or head of household) at a rate of $50 per $1,000 of extra income (e.g. for a married couple with two children, the $2,000 total credit is lost once income exceeds $150,000).

Income Earned by Children:

a) If the child is a dependent, the following thresholds apply for 2011 and 2012:
   - No tax on first $950 of investment income; tax at child's rate for the next $950 of investment income; tax at parent's tax rate for any additional investment income (see Kiddie Tax below)
   - For 2011, if the child has wages, up to $5,800 of income may be tax-free (wages + up to $300 of investment income, not to exceed $5,800 total); the $5,800 increases to $5,950 for 2012

b) Kiddie Tax:
   The portion of investment income (interest, dividends, capital gains, rental income, IRA distributions, etc.) **that exceeds $1,900** is taxed at the **parent's marginal tax rate** if one of the following applies:
   1) Child is under age 18
   2) Child is 18 at year-end (or 19-23 and a full-time student) and didn't have earned income (wages) providing greater than 50% of their own support

   Caution – a child who is not a dependent can still be subject to the Kiddie Tax. An example is a child who is 18 (or a 19-23 year old student) who provides >50% of their own support from investment income (not wages).

Student Loan Interest: For 2011 and 2012, up to $2,500 interest is deductible and the deduction starts to phase-out once income exceeds $60,000 ($120,000 married). The interest deduction is completely eliminated once income exceeds $75,000 ($150,000 married).

Mileage Rates:	Business	Medical & Moving	Charitable
Jan – June 2011	51¢	19¢	14¢
July – Dec 2011	55.5¢	23.5¢	14¢
2012	55.5¢	23¢	14¢

Social Security: For 2011, the employee portion of the Social Security tax was temporarily reduced to 4.2% (the employer share remained 6.2%), and the Medicare tax remained 1.45% (both the employee and employer portions). For 2012, the employee portion of the Social Security tax is scheduled to revert back to 6.2% ***(Note: Congress is currently considering lowering the rate again for 2012).*** The rate for self-employed persons is just the total of the employee and employer rates for these two taxes. Social Security taxes are paid on the first $106,800 of earnings in 2011 (increased to $110,100 for 2012).

If you are already collecting Social Security, the federally taxable portion of your Social Security benefits depends on the level of your other income (up to 85% may be federally taxable). Wisconsin no longer taxes Social Security benefits. Social Security benefits will be increased by 3.6% in January 2012 for inflation as measured by the CPI. If you are collecting Social Security benefits and have not yet reached your "full retirement age" (FRA), in the years before you reach your FRA you can earn a small amount of wages or self-employment income (up to $14,160 for the year 2011; $14,640 for 2012) and still collect your full Social Security (above this level of earnings, SSA will reduce your benefits by $1 for every $2 by which you exceed the limit). In the year you reach your FRA, the income limit only applies for the months before your birthday, and the limit is much higher ($3,140 per month for 2011; $3,240 for 2011), and your benefit is only reduced by $1 for every $3 by which you exceed the monthly limit.

Medicare Part B Premiums: The monthly premiums for Medicare Part B are shown below. Note that premiums will not increase for individuals in the lowest income bracket.

Monthly Premium		**Modified Adjusted Gross Income*** **		
2011	**2012**	**Single***	**Married Filing Jointly**	**Married Filing Separate**
$115.40**	$ 99.90	$ 85,000 or less	$170,000 or less	$85,000 or less
161.50	139.90	$ 85,001-$107,000	$170,001-$214,000	N/A
230.70	199.90	$107,001-$160,000	$214,001-$320,000	N/A
299.90	259.70	$160,001-$214,000	$320,001-$428,000	$85,001-$129,000
369.10	319.70	Above $214,000	Above $428,000	Above $129,000

* Also includes Head of Household, Qualified Widow/Widower with dependent child, and Married Filing Separate if you lived apart all year.
** 2011 premium is $96.40 if the premium is deducted from your Social Security check and you started Medicare before 2009.
*** The 2012 premium is based on your 2010 tax return. If your return was filed late, then a one year earlier tax return is used instead.

Keep in mind that if you reported an unusually large amount of income in 2010 (for example, because of a gain on the sale of an asset or a large withdrawal from an IRA), you will be paying a higher Medicare premium during 2012 (the premium year based on your 2010 taxable income), but then your premium will drop back down in 2013 (based on lower income reported on your 2011 tax return). If you have had a "life-changing event" that has substantially reduced your income, you may appeal the higher premium by completing form SSA-44 (found online at www.ssa.gov/online/ssa-44.pdf) or by calling 800-772-1213 to schedule an interview at a local Social Security office. You can provide an estimate of your 2011 income and request that the government use the estimate instead of your 2010 tax return if you experienced a reduction in your income in 2011 due to a life-changing event that occurred in 2011 or an earlier year. Life-changing events include marriage, divorce, death of a spouse, work stoppage or reduction, loss of income from income-producing property (not due to sale of a property, but for example due to a natural disaster), and loss of pension income (due to plan termination or change in benefits).

Planning Strategies

1) **Itemized Deductions:** To increase your itemized deductions, consider the following:
   a) Pay your real estate taxes by December 31st. *Note: Paying property taxes does not reduce your federal tax if you are subject to AMT, but there is still a state benefit - the first $2,500 paid each year gives you a $300 Wisconsin tax credit.*
   b) If you pay quarterly estimated taxes to a state, pay your 4th quarter state amount (due January 15th) by December 31st. *Note: This does not reduce your federal tax if you are paying AMT.*

2) **Alternative Minimum Tax:** If you paid AMT in 2010 and your 2011 income and deductions are about the same, your AMT should be about the same in 2011. AMT mainly impacts taxpayers with income between $150,000 and $500,000, especially people with high property and state income taxes (not

deductible for AMT), and numerous dependents (no personal exemptions for AMT). What can you do to minimize AMT? Avoid doubling up on real estate tax payments (if you pay your real estate taxes in December, continue this pattern; same if you normally pay your real estate taxes in January). Similarly, if you pay your 4th quarter state estimated taxes before December 31st, do so again (but if you pay in January each year, then continue this pattern).

3) **Charitable Donations:** Charitable contributions mailed or charged by December 31st are deductible in 2011. To support the deduction if you are audited, you are required to obtain supporting documentation prior to filing your tax return (a bank record or written communication from the charity showing the donation amount and date for all donations under $250; for donations to any charity of $250 or more on a single day, you must obtain a written communication from the charity). For donations done through payroll (like United Way), keep something from the employer showing the payroll deduction (i.e. year-end pay stub) <u>and</u> a pledge card or document prepared by the charity. As always, the value of any goods or services received must be subtracted from the donation (i.e. Girl Scout cookies, item purchased at auction, etc.). Non-cash donations over $5,000 (except publicly traded stock) require a written appraisal. Car or boat donations over $500 are limited to the amount reported by the charity on Form 1098-C (which must be sent to the IRS with the tax return).

4) **Child and Dependent Care Expenses:** A dependent care plan at work allows up to $5,000 of expenses to be paid pre-tax. Qualifying expenses include daycare costs, in-home care, nursery or pre-school costs, before or after-school care, and camps (including those specializing in a particular activity like sports camps, but not overnight camps). The cost of summer school or tutoring does not qualify. Qualifying dependents include children under age 13 (for care up to their 13th birthday, although the actual payment can be after that date), as well as a disabled dependent or spouse. If you have expenses <u>in addition</u> to those reimbursed through a pre-tax plan, there is a federal tax credit based on up to $3,000 of expenses ($6,000 for taxpayers with two or more dependents), and starting in 2011, there is also a Wisconsin state subtraction (up to $750 of expenses; $1,500 if two or more dependents).

5) **Pre-Tax Medical Savings Plans:** If you participate in a medical savings plan at work where you "use it or lose it," remember that many over-the-counter items can be reimbursed under these plans. If you have money left over at year-end, don't forfeit it. Ask your company for a list of items you can buy. You effectively save to a 40% (depending on your tax bracket) for purchases through the plan.

6) **Health Savings Accounts (HSA)**: If you have a high deductible health insurance plan (i.e. an annual deductible of at least $1,200 single/$2,400 family; same amounts for 2012), you can contribute to an HSA. Contributions are limited to $3,050 for individuals and $6,150 for families (for 2012, the contribution limits are $3,100 for individuals and $6,250 for families). Individuals age 55 or older can contribute an extra $1,000 (same for 2012). The deadline is April 15th of the following year. Contributions cannot be made after age 65, but withdrawals after age 65 continue tax-free. Starting for 2011, Wisconsin treats HSA contributions as pre-tax (same as federal).

7) **Investment Strategies:**
   a) In your taxable accounts, consider selling losing investments before year-end so that you can deduct the loss in 2011. Gains and losses are first netted, but if the net result is a loss, you are allowed to deduct up to $3,000 ($500 for Wisconsin) against ordinary income. Any excess loss is carried over to future years. A popular year-end strategy is to sell stocks or mutual funds where you have losses and buy similar (not the same) stocks or funds to maintain your position. If you buy back the same exact investment within 30 days of sale (including reinvested distributions), your loss will be limited under the "wash sale" rules.
   b) In your taxable accounts, be careful of large investments in mutual funds late in the year. You may wind up paying tax on a distribution (in effect, part of your principal is returned to you and taxed as income). Before making a sizeable December investment, check if a distribution is still planned. If the income would be significant, consider waiting to invest until after the dividend record date.
   c) If you are in the 25% or higher tax bracket, consider federally tax-exempt investments (for example, a tax-exempt money market or municipal bond fund) to increase your after-tax return.

d) If your taxable income (income after deductions) is below the end of the 25% federal tax bracket ($34,500 single and $69,000 married), most likely it would make sense to increase your 2011 taxable income (especially if you anticipate higher future income):
   - Consider a Roth conversion (i.e. converting some or all of your Traditional IRA into a Roth IRA). Conversions are especially attractive if your investment has lost value and you expect it to recover, since the amount taxed as income is the value at the time you convert and subsequent income/gains in your Roth IRA are tax-free.
   - Because of the 0% tax rate on long-term capital gains for taxpayers who are below the 25% federal tax bracket, consider selling investments with realized gains. *Keep in mind that the 0% rate applies only until you reach the end of the 25% federal tax bracket. Also, children whose income is subject to the "Kiddie Tax" (see "Income Earned by Children" under "Tax Highlights") do not receive the 0% rate because they are being taxed at their parent's tax rate.*

8) Education Savings:

a) Section 529 plans (such as EdVest in Wisconsin) are one alternative for education savings. Earnings are not taxed if the money is used to pay for education costs. There is no federal tax deduction for contributions, but parents, grandparents, aunts, uncles and great-grandparents receive a Wisconsin tax deduction on up to $3,000 of EdVest contributions per child per year (or for yourself or your spouse), saving about $200 in state taxes for each $3,000 contribution.

b) Another alternative is a Coverdell Education Savings Account (CESA). The annual contribution limit per child (regardless of how many people contribute) remains $2,000 for 2011, but is limited if your joint income is over $190,000 ($95,000 for single taxpayers). However, other family members (including your child) can contribute to the CESA if the parent's income is too high. CESA contributions can be made as late as April 15th of the next year. There is no tax deduction, but earnings are tax-free if the money is used to pay education costs.

c) Before depositing money into education accounts, be sure to first take full advantage of IRAs and retirement plans since this is better for taxes and financial aid. If you save enough for retirement, you will be in excellent financial shape and can help your child with college costs. You can use student loans to pay college costs, but there are no loans for retirement. Contribute to Roth IRAs if you are eligible. You can withdraw Roth contributions at any time, without tax or penalties, so Roth IRAs give you the flexibility to use savings for retirement, college costs and any other priorities.

9) Tuition: Review tuition paid this year and expected for next year (including tuition paid using loans). Consider whether to pay for the spring semester in December or January (the payment date is critical because a payment in December 2011 counts for 2011 deductions and credits, not 2012 when the student actually attends class). Shifting payments between years may allow you to take advantage of one of the available tax breaks for an extra year.

a) Federal American Opportunities Credit (scheduled to expire at the end of 2012):
   - Up to $2,500 tax credit per student (100% of first $2,000 of tuition & books/supplies/equipment + 25% of next $2,000)
   - Enrolled at least half-time; available for 4 years of undergraduate tuition (Freshman – Senior)
   - Credit phases-out for couples with income between $160k-$180k (for single filers $80k- $90k)
   - Up to $1,000 is refundable *(Note: a dependent child can't claim a refundable credit on their tax return)*

b) Federal Lifetime Learning Credit:
   - Up to $2,000 tax credit per student (20% of first $10,000 of tuition and course materials)
   - Available for both degree and non-degree programs; no limit on number of years claimed
   - Credit phases-out for couples with income between $102k-$122k (for single filers $51k- $61k)

c) Federal Tuition Deduction (scheduled to expire at the end of 2011):
   - $4,000 tuition/books deduction if income is $130k or less ($65k or less for single filers)
   - $2,000 tuition/books deduction if income is $130,001-$160,000 ($65,001-80,000 for single)
   - Maximum deduction is the total that can be claimed on a return (not per student)
   - Available for all undergraduate and graduate levels; no limit on number of years claimed
   - Cannot deduct tuition if claimed one of the above credits for the same student

d) Wisconsin Tuition Deduction (per student):

- $6,185 deduction for 2011 in-state tuition if income is $80k or less ($50k or less for single filers); deduction is reduced if income is $80k-$100k ($50k-$60k for single filers)

10) Retirement Contributions:

a) Contribution limits for IRAs and various plans are as follows:

	IRAs		401(k), 403(b), 457(b) Plans		SIMPLE Plans	
	< Age 50	Age 50+	< Age 50	Age 50+	< Age 50	Age 50+
2011	5,000	6,000	16,500	22,000	11,500	14,000
2012	5,000	6,000	17,000	22,500	11,500	14,000

b) The income limits for allowing IRA contributions are as follows:

	Joint Taxpayers	**Single/HOH Taxpayers**
Roth IRA for 2011	$169k - $179k phase-out	$107k - $122k phase-out
Roth IRA for 2012	$173k - $183k phase-out	$110k - $125k phase-out
Traditional IRA - deductible:		
No employer plan	Always allowed	Always allowed
Covered by employer plan:		
For 2011	$90k - $110k phase-out	$56k - $66k phase-out
For 2012	$92k - $112k phase-out	$58k - $68k phase-out
Spouse has employer plan:		
For 2011	$169k - $179k phase-out	NA
For 2012	$173k - $183k phase-out	NA
Traditional IRA – nondeductible	Always allowed	Always allowed

c) Remember that IRA contributions are only allowed to the extent of earned income (wages, self-employment income, etc.). It's fine if only one spouse earns the income - both individuals can contribute to an IRA to the extent of joint income. Children can contribute to IRAs if they have earnings (there is no minimum age). If you are age 70½ or older at year-end, you can contribute to a Roth IRA but not a Traditional IRA. You have until April 15th of the next year to contribute.

d) If you are self-employed, consider a SEP IRA, SIMPLE IRA or single-person 401(k). SEPs can be set up even after December 31st (not SIMPLE and 401(k) plans). Funding can be as late as April 15th (or later with an extension). Except for corporations, contributions are based on net business income, therefore your exact contribution limit is determined when I prepare your return.

e) If your employer allows you to contribute to a Roth 401(k) account (versus pre-tax contributions), I recommend taking advantage of Roth accounts under two scenarios: 1) If you think you are likely to be in a higher tax bracket in the future or 2) if you already have significant pre-tax retirement savings and want to diversify from a tax perspective.

f) Anyone can convert a Traditional IRA into a Roth IRA, regardless of their income.

g) For defined contribution plans, the maximum contribution (employee + employer) is the lesser of 25% of compensation or $49,000 ($50,000 for 2012). Individuals age 50 or older are allowed $5,500 more. "Compensation" is capped at $245,000 ($250,000 for 2012).

h) There is a "saver's credit" on the first $2,000 of contributions to IRAs and employer plans. The credit reduces federal tax at the rate shown below, based on the following 2011 income:

Married	Head of Household	Single	Credit Rate
Up to $34,000	Up to $25,500	Up to $17,000	50%
$34,001 - $36,500	$25,501 - $27,375	$17,001 - $18,250	20%
$36,501 - $56,500	$27,376 - $42,375	$18,251 - $28,250	10%

11) **Required Withdrawals from IRAs/Retirement Plans:** Required Minimum Distributions (RMDs) are required for 201. For individuals who reach age 70½ during 2011, it is very important to start withdrawing money from Traditional IRAs and retirement plans. The government imposes a nasty penalty (**50%** of the under-withdrawal). You must withdraw your RMD by December 31st each year, except in the year in which you first turn 70½, when the deadline is extended to April 1st of the following year (but then you will receive two year's worth of distributions in one tax year). There is an exception from the RMD requirement if you have not yet retired from a job (but the exception doesn't apply if you own the company). Also, withdrawals are not required from Roth IRAs.

12) **Business Purchases**: If you are planning to purchase business equipment soon, consider doing so by December 31st to get a write-off ("Section 179" expense) against your 2011 income. Note that Section 179 doesn't apply to landlords, as renting is not considered a business under tax law. You can expense up to $500,000 of capital items on your federal return for 2011 (versus depreciating the cost over the asset life), as well as up to $139,000 for 2012. For Wisconsin taxes, only $25,000 of capital items can be expensed under Section 179 each year, and off-the-shelf software is excluded.

13) **Business/Rental/Farm Expenses**: Don't forget small out-of-pocket costs. If you own a corporation, partnership or LLC, reimburse yourself for business expenses paid personally. If you are a sole proprietor, comb through your records now to maximize your deductions. Remember that amounts charged to a credit card are considered paid (it's an expense in the year the item is charged to your credit card, not when you make a payment on the credit card). The key to being able to deduct an expense is that it's "ordinary and necessary" to your business or rental activity. Here is a reminder of expenses that may be overlooked:
    - Office and computer supplies, miscellaneous software and postage
    - Entertainment costs (for clients and employee gatherings)
    - Gifts for business reasons (up to $25 to an individual)
    - Business subscriptions, dues to professional groups and continuing education
    - Promotional and advertising costs
    - Travel expenses (keep a mileage log to deduct business use of your vehicle)
    - Internet and cell phone costs, and long-distance charges to your home phone
    - Interest on credit cards (prorated between personal and business if used for both)
    - Legal and accounting fees

14) **Business Form 1099s**: Your business may need to file 1099-MISC Forms (due January 31st). If your business paid more than $600 to a vendor for services (not products), you are required to send a 1099-MISC to the vendor, the IRS and the state. This does not apply if the vendor is a corporation (except 1099-MISC forms are required to be sent to attorneys and medical care providers even if they are incorporated). Call me if you have any questions or would like me to prepare your 1099s.

15) **Estate Planning & Gifts**: The estate tax was retroactively reinstated, but for 2010-2012 at a lower rate (maximum 35%) and at a higher exclusion amount ($5 million per person for 2010 and 2011; $5,120,000 for 2012). Inherited assets once again receive a "step up" in basis. For 2010 deaths, estates can choose instead to follow 2010 law (no estate tax but also limited basis step-up). If you have significant wealth and have not met with an attorney in the past few years to review your wills, trusts, and other estate planning documents, now may be a good time to update your estate plan. You should also have a health care power of attorney. If you give more than $13,000 to any individual in 2011 (same for 2012), you are required to report the gift to the IRS on Form 709. Note that the "giver" pays no gift tax unless lifetime gifts reported on Form 709 exceed $5 million ($5,120,000 for 2012). Certain gifts are not reported on Form 709, such as gifts to spouses, or directly paying someone's medical or education expenses.

I hope this summary is helpful to you. This is only a summary and additional "details" may have a material impact. Please feel free to call or e-mail if you would like to discuss any of these items or other issues, especially before you decide to proceed with a large transaction. Thank you for your business and I look forward to working with you next year!