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## Re: 2011 Year-End Tax Planning

Dear Clients and Friends:

Twenty-five years ago, Congress overhauled the Tax Code in the Tax Reform Act of 1986. At that time, the 1986 Tax Reform Act was lauded for simplifying a Tax Code that had grown too complex. Since 1986, complexity has returned to the Tax Code, largely because Congress has enacted a host of temporary tax incentives with a variety of expiration dates. Today, many taxpayers are trying to navigate all of this complexity as they draft their 2011 year-end tax plans. This letter highlights some of the more widely-utilized 2011 year-end tax strategies for individuals.

### Planning complications

Few tax laws have complicated tax planning as much as the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and its progeny. EGTRRA was enacted as a temporary tax law. Its supporters predicted that a future Congress would make EGTRRA permanent. Indeed, some of EGTRRA's retirement savings provisions were made permanent in 2004. Other provisions, however, have been extended one or two years at a time. The most recent extension of EGTRRA was in the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (2010 Tax Relief Act). Many of the extended tax provisions are scheduled to expire at the end of 2011 or the end of 2012.

Uncertainty over the fate of the expiring tax provisions makes year-end 2011 tax planning a challenge for many individuals. Fortunately, we know that certain tax incentives will be available through the end of 2011 and others through the end of 2012. Additionally, some traditional year-end tax planning strategies are valuable even with all the uncertainty.

In this letter, we have assembled a checklist of some year-end planning strategies. Every taxpayer's situation is different. Please contact our office so we can schedule a time to discuss your year-end tax planning in detail.

### Year-End Tax Planning

**Income/deduction shifting.** Income and deduction shifting is a traditional year-end tax strategy that is worth a look at year-end 2011. However, one key complication is uncertainty over the individual income tax rates after 2012. We know that the individual income tax rates will be 10, 15, 25, 28, 33, and 35 percent for 2012. Under current law, the 10 percent rate is scheduled to expire after December 31, 2012 and the remaining rates are scheduled to revert to 15, 28, 31, 36, and 39.6 percent after December 31, 2012 (unless extended by Congress). As a result, some taxpayers may want to abandon the traditional strategy of shifting income into a future year and recognize income in 2011 or 2012 when the lower rates are available.

**Capital gains/dividends.** Reduced tax rates on qualified dividends and capital gains are scheduled to expire after December 31, 2012 (unless extended by Congress). Taxpayers need to carefully review when to recognize income from qualified capital gains and dividends to maximize their tax savings in 2011 or 2012.

**AMT.** For many individuals, year-end tax planning requires “running the numbers” for regular federal tax liability and alternative minimum tax (AMT) liability and this year is no exception. Taxpayers may want to explore if certain deductions should be more evenly divided between 2011 and 2012 and which deductions may qualify, or will not be as valuable, for AMT purposes.

**Gift tax exclusion.** Many individuals overlook gift-making as a year-end tax strategy. Under current law, the annual gift tax exclusion per recipient on which no gift tax is due is \$13,000 for 2011. Married couples may make combined tax-free gifts of \$26,000 to each recipient. Use of a “lifetime” estate and gift tax exclusion should also be considered for larger gifts.

**Big ticket purchases.** Taxpayers planning a big ticket purchase in 2012 may want to accelerate that purchase into 2011 to take advantage of the deduction for state and local general sales taxes. The deduction for state and local general sales taxes is scheduled to expire after December 31, 2011 (unless extended by Congress). Taxpayers may take the deduction for state and local general sales taxes in lieu of the deduction for state and local income taxes.

**Energy improvements.** In recent years, Congress has enacted a number of tax incentives to encourage homeowners to make energy efficient improvements to their primary residences. The Code Sec. 25C tax credit for certain non-business energy property is scheduled to expire after December 31, 2011 (unless extended by Congress). The credit is complex; if you are considering installing energy efficient improvements such as windows, doors, heat pumps, and other items, please contact our office to determine if your purchase qualifies for the credit.

**More incentives.** More individual incentives scheduled to expire after December 31, 2011 include (not an exhaustive list):

- Employee-side payroll tax cut
- Above-the-line deduction for qualified tuition and related expenses
- Tax-free distributions from individual retirement plans for charitable purposes by individuals age 70 ½ and older
- Deduction for classroom expenses of qualified educators
- Parity for exclusion from income for employer-provided mass transit and parking benefits
- Premiums for mortgage insurance deductible as interest that is qualified residence interest
- Expansion of adoption credit and adoption assistance

If you have any questions or would like to discuss your 2011 year-end tax plans, please contact our office. We look forward to hearing from you.

Also, we have recently updated our website. Please visit <http://www.franzencpa.com> for more information about our staff, our services and other current tax news.

Happy holidays and best wishes for a healthy and prosperous new year!

Sincerely,

Franzen & Franzen, LLP  
Certified Public Accountants