Tax Saving Strategies
for the 2012 Filing Season

Provided By:

Patrice Mils, CPA

949 900 6399
patrice@millscpa.com
www.millscpa.com

25431 Cabot Road, Suite 202
Laguna Hills, CA 92653

In a time of sweeping change and continuing economic uncertainty, finding ways to minimize your tax liability and bolster your financial position can be a challenge. In 2011, tax law changes affected areas ranging from family finances to home ownership. However, what remains constant is the need for in-depth knowledge and insights when preparing your income taxes.

Tax Saving Strategies for the 2012 Filing Season provides an overview of key tax law provisions that may affect your return, as well as practical strategies for minimizing your tax bill. Information is current as of Dec. 12, 2011.

Should you have any questions or concerns as you prepare your 2011 tax return, consult with a CPA. He or she can assist you with analyzing current tax incentives as well as planning for next year. By combining unrivaled education, expertise and experience with expert insights into your financial situation, a CPA can recommend sound strategies to help make your goals a reality.

Filing Basics

FILING STATUS

You can file as single, married filing jointly, married filing separately, head of household or qualifying widow(er)/surviving spouse.

If you are married, you can generally take advantage of the most tax breaks if you file "jointly." However, there are a few situations where you may benefit more by filing "married filing separately." Keep in mind that this is a filing status and does not mean that you are legally separated or going through a divorce. It merely means for tax purposes, you are filing separately.

Unmarried taxpayers may file as single or, if they qualify, as head of household or surviving spouse, which have more favorable tax rates. In most cases, you can file as a head of household if you pay more than 50% of the household costs for a dependent child or relative who lives with you, or for a dependent parent who may or may not live with you.

Generally, you can file as a qualifying widow(er)/surviving spouse if: (1) your spouse passed away in 2009 or 2010, and (2) in 2011, you are financially responsible for more than 50% of the household costs for you and your dependent child.

If more than one filing status applies to you, choose the one that results in the lowest tax obligation.

EXEMPTIONS

You may generally claim a personal exemption for yourself, your spouse and each of your dependents. A dependent child includes children born to your family, stepchildren, eligible foster children and adopted children. A dependent child can also include qualifying grandchildren, brothers, sisters, stepsiblings and children of siblings. However, eligibility-test criteria for qualifying children must be met.

Each exemption reduces your taxable income by $3,700 in 2011. The full $3,700 deduction is available for each personal exemption regardless of income because there is no phaseout for 2011.

Top Tax Bracket	Exemption Value
10%	$370
15%	$555
25%	$925
28%	$1,036
33%	$1,221
35%	$1,295

TAX RATES

Tax rates for 2011 remain the same as 2010. The six tax brackets are 10%, 15%, 25%, 28%, 33% and 35%. Legislation enacted on Dec. 17, 2010, extended these tax rates through 2012.

OBTAIN PROFESSIONAL ADVICE

When the right tax and financial advice is essential, talk to someone with an unmatched level of knowledge, experience and education. A CPA understands the business of taxes and finance, and can provide trusted advice and services during the tax season and throughout the calendar year.

DEDUCTIONS FROM ADJUSTED GROSS INCOME

Above-the-Line Deductions

(Individual deductions are subject to limits that are dependent on personal circumstances):

- Alimony payments
- Archer Medical Savings Account (MSA) contributions
- Capital-loss deductions
- Educator expenses
- Health Savings Account (HSA) contributions
- IRA contributions
- Medical savings account contributions (offered by some small businesses)
- Moving expenses (job relocation)
- Net operating losses
- Self-employed health insurance and long-term care policies
- Self-employed qualified retirement plan contributions
- Self-employed Savings Incentive Match Plan for Employees of Small Employers (SIMPLE) contributions
- Self-employed Simplified Employee Pension (SEP) contributions
- Self-employment tax
- Student loan interest
- Tuition and fees

ALTERNATIVE MINIMUM TAX

In addition to the regular income tax, more and more taxpayers are finding themselves subject to the Alternative Minimum Tax (AMT). The AMT applies to both higher income taxpayers and lower income taxpayers with a large number of exemptions or other tax adjustments.

Since the AMT is not indexed for inflation, taxpayers are increasingly finding themselves affected by it. Congress has attempted to limit the impact, however, by increasing the amount of income exempt from the AMT.

For 2011, the exemption amounts are $48,450 for single filers and heads of households, $74,450 for married taxpayers filing jointly or a qualifying widow(er), and $37,225 for married taxpayers filing separately. However, 25% of the exemption amount is phased out for each dollar of AMT income exceeding $112,500 if single or head of household, $150,000 if married filing jointly or qualifying widow(er) and $75,000 if married filing separately.

Health Care

HEALTH FLEXIBLE SPENDING ARRANGEMENTS

Amounts you contribute for medical expenses to accounts under your employer's Flexible Spending Arrangements (FSAs) are not taxed in 2011. Funds can be accessed any time during the year to pay for health insurance premiums as well as medical costs and other expenses not covered by insurance, although they must qualify as a deductible medical expense. Beginning in 2011, the cost of non-prescription drugs other than insulin can no longer be reimbursed by an FSA.

Your company's plan determines contribution terms and limits. Funds not used during the year, or by the end of any grace period the plan may offer, are lost.

HEALTH SAVINGS ACCOUNTS

Health Savings Accounts (HSAs) are designed for individuals covered by a high-deductible health insurance policy and are not covered by Medicare. They offer a number of tax advantages.

Contributions within certain limits are tax deductible and earnings that accumulate within the account are not taxed until withdrawn, and even under those circumstances, withdrawals to pay for qualified medical expenses are tax free. However, withdrawals you may make for medical expenses that are not qualified are both taxable and subject to a 20% penalty unless you are age 65 or older or disabled.

You and your employer can make contributions, and the total maximum contribution is $3,050 for self-only coverage ($4,050 if age 55 or older by the end of the year) and $6,150 for family coverage ($7,150 if age 55 or older and $8,150 if spouse is also age 55 or older by the end of the year).

Home Ownership

MORTGAGE INTEREST

Home mortgage interest on up to $1 million ($500,000 if married filing separately) of home-acquisition loans secured by your principal residence and/or second home is generally fully deductible.

You can use the loan proceeds to buy, build or significantly renovate your home. Also, mortgage interest on a home equity loan up to $100,000 ($50,000 if married filing separately) can be deducted. Therefore, interest can be deducted on total home debt of up to $1.1 million ($550,000 if married filing separately).

TAX EXCLUSION OF THE SALE OF A PRINCIPAL RESIDENCE

When you sell your principal residence, you can exclude from income up to $250,000 in gains ($500,000 if married filing jointly or a surviving spouse if the sale is within two years of the other spouse's death).

To qualify, you must have owned and occupied the home as your principal residence for at least two years (aggregate) during the five-year period ending on the date of sale and could not have claimed an exclusion on another sale within the previous two years.

The exclusion is available even if you took temporary absences (including vacations) or rented out the home while not living there. Special rules are provided for a sale of the home due to certain health issues, employment reasons or unforeseen circumstances.

Keep in mind that if you took a First-time Homebuyer Credit, you may have to repay or recapture some or all of the loan/credit in 2011.

Children and Education

CHILD TAX CREDIT

For 2011, the Child Tax Credit is worth $1,000 for each qualifying child who is under age 17 at the end of the calendar year and who qualifies as a dependent. The credit is in addition to the child's dependency exemption. Be aware that this credit will phase out for higher income taxpayers.

DEPENDENT CARE CREDIT

If you are a parent who must pay for the care of a dependent under age 13, whom you also claim as a dependent, you may be eligible for a tax credit between 20% and 35% of qualifying expenses. You must have earned income to receive the credit.

MORE DEDUCTIONS FROM ADJUSTED GROSS INCOME

Itemized Deductions

(Individual deductions are subject to limits that are dependent on personal circumstances):

- Casualty and theft losses (unreimbursed)
- Charitable contributions – cash, property, donated clothing or household items and appreciated long-term assets
- Employee business expenses (unreimbursed)
- Gambling losses
- Health insurance costs and medical expenses (see Form 1040 and 1040A instructions for complete list). Amount is deducted after insurance reimbursements:
  - Alcohol or drug abuse treatment§
  - Annual physical
  - Crutches, canes and orthopedic shoes§
  - Long-term care insurance
  - Medical transportation§
  - Orthodontia
  - Prescription eyeglasses, contact lenses and hearing aids§
- Income tax preparation software and fees*
- Investment expenses*
- Job-search expenses*
- Legal fees to earn income
- Mileage and expenses associated with volunteer work
- Mortgage interest (including interest on equity loans)
- Points paid for a mortgage or refinancing
- Professional investment-advisory fees*
- Taxes – state and local income and personal property
- Unreimbursed employee business expenses*

§ Deductible to the extent the total of all medical and dental expenses exceeds 7.5% of adjusted gross income

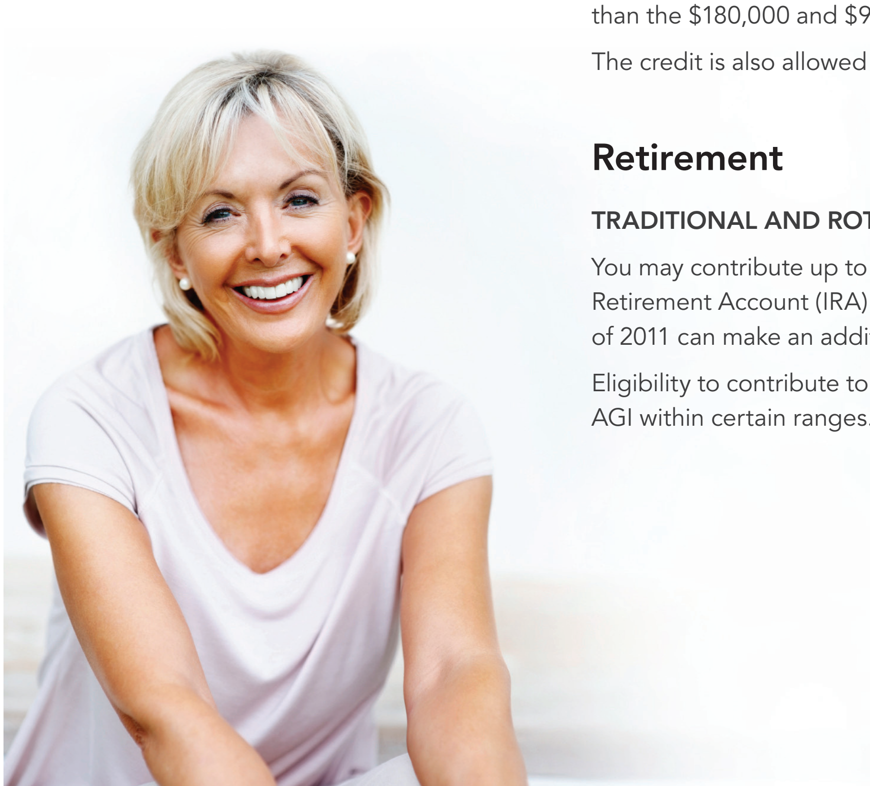
* Deductible as miscellaneous itemized deductions to the extent the total exceeds 2% of adjusted gross income

EMPLOYMENT

JOB SEARCH EXPENSES

Many unreimbursed expenses incurred as a result of employment are deductible as miscellaneous itemized deductions, though they can only be claimed to the extent they are greater than 2% of adjusted gross income (AGI).

Included among these expenses are job search costs. These expenses are deductible if the search is for a job in the same line of work, regardless of whether a new position is obtained. However, if a period of unemployment is lengthy, the IRS may disallow the deduction. Also, expenses for finding a first job are not deductible.



The credit, which is determined by your AGI, is not restricted to child-related care costs. If you pay someone to look after an incapacitated spouse or dependent of any age, such as a parent or disabled family member, you may also be eligible for this tax break.

The maximum amount of expenses on which the credit can be claimed is $3,000 for the care of one qualified dependent and $6,000 for the care of two or more. Thus, the maximum credit allowed in 2011 is $1,050 if you have one qualified dependent and $2,100 if you have two or more qualified dependents.

The Dependent Care Credit is reduced by the value of qualifying day care provided by your employer under a written, non-discriminatory plan, which generally is not taxable up to $5,000 ($2,500 if married filing separately).

THE AMERICAN OPPORTUNITY TAX CREDIT

The American Opportunity Tax Credit is available to each eligible student and for the first four years of college or other postsecondary school that lead to a degree, certificate or other recognized educational credential. The maximum credit is $2,500 per student for each year and 40% of the credit is refundable – that is, it can reduce your liability below zero.

The credit applies to 100% of the first $2,000 of costs and 25% of the next $2,000 of costs. This means you must spend at least $4,000 to obtain the maximum credit of $2,500.

Similar to the Child Tax Credit, this credit phases out for higher income taxpayers. If modified AGI is less than or equal to the $160,000 and $80,000 thresholds, the full credit can be claimed. However, if it is equal to or greater than the $180,000 and $90,000 thresholds, the credit is not available.

The credit is also allowed against the AMT.

Retirement

TRADITIONAL AND ROTH IRAS

You may contribute up to $5,000 to fund a traditional or Roth Individual Retirement Account (IRA) in 2011. Individuals age 50 or older by the end of 2011 can make an additional catch-up contribution of $1,000.

Eligibility to contribute to a Roth IRA begins to phase out for modified AGI within certain ranges.

FILING STATUS	MODIFIED ADJUSTED GROSS INCOME
Single, head of household or married	$107,000 to $122,000
Married filing jointly or qualifying widow(er)	$169,000 to $179,000
Married filing separately	$0 to $10,000

If modified AGI is less than or equal to the phaseout thresholds of $107,000 or $169,000, or equal to $0, contributions can be made up to the contribution maximum. If modified AGI is equal to or greater than the phaseout thresholds of $122,000, $179,000 or $10,000, no contribution can be made.

CONVERSION OF TRADITIONAL IRA TO ROTH IRA

Regardless of filing status or income, a traditional IRA can be converted to a Roth IRA, with no dollar limit on the amount converted. However, the entire transfer must be reported as income unless after-tax contributions were made to any of your traditional IRAs.

Although income tax is due on the amount converted, the 10% early-distribution penalty does not apply if you are younger than age 59½ and keep the funds in the Roth IRA for at least five years. A conversion can be reversed no later than the extended due date for the 2012 tax return.

ROLLOVER TO IN-PLAN ROTH IRA

A 401(k), 403(b) or 457(b) plan that includes a qualified Roth contribution program may now permit a qualified rollover contribution from a participant's non-Roth account to the participant's designated Roth account within the same plan.

Similar to a conversion from a traditional IRA, the converted amount is a taxable distribution, except for any amounts that are a return of any after-tax contributions, and a conversion can be unwound prior to the extended due date for the 2012 tax return.

EMPLOYER-SPONSORED 401(K)

Pre-tax contributions to your employer-sponsored retirement plan reduce your taxable wages. Matching contributions and income earned within your plan also are tax deferred. Your dollar-limit contribution for 2011 is $16,500. If you are age 50 or older by the end of 2011, you may make an additional catch-up contribution of $5,500 to reach $22,000.

INVESTORS

LONG-TERM CAPITAL GAINS AND QUALIFIED DIVIDENDS

The maximum tax rate on net capital gains remains at 15% for 2011. However, for taxpayers in the 10% or 15% income tax bracket, the tax rate on net capital gains is zero. Capital gains on investments held for one year or less are taxed at regular income tax rates.

Qualified dividend income is also taxed at a top rate of 15% (generally zero for taxpayers in the 10% or 15% income tax bracket).

OFFSET CAPITAL GAINS WITH LOSSES

Capital losses are netted against capital gains. If your capital losses are greater than your capital gains, you can deduct up to $3,000 of your combined long-term and short-term capital losses against ordinary income ($1,500 if married filing separately). Any remaining net capital losses may be carried over to future years.

Please feel free to contact me if I can be of any further assistance in helping to implement a money saving tax strategy for you or for your business!

Patrice Mils, CPA

949 900 6399
patrice@millscpa.com
www.millscpa.com

25431 Cabot Road, Suite 202
Laguna Hills, CA 92653

Patrice Mills, CPA
25431 Cabot Road, Suite 202 - Laguna Hills, CA
949 900 6399 - patrice@millscpa.com
www.millscpa.com

CPA

11554T-312