

**Midyear Tax Planning: Top 10 Tips in a Time of Uncertainty**

**From the Inland Empire Chapter of California Society of Enrolled Agents:**

**With the Bush tax cuts set to expire at the end of the year, we are in a time of uncertainty over future tax rates for businesses and individuals—but there are steps that can be taken now in light of this uncertainty to save money.**

#### 1. Consider Accelerating Income to 2012

It is often recommended that businesses defer taxable income to the following year, which can be done by sending out invoices later in the year or postponing some deductible expenses. But this approach is only useful if you expect to pay a lower tax rate next year, and with the Bush tax cuts scheduled to expire at year end, many businesses and individuals may find themselves paying higher rates in 2013. If this is the case, then it may be more beneficial to accelerate some taxable income into this year so that it can be taxed at the lower rate.

#### 2. Take Advantage of the 0% Rate on Investment Income

The tax rate on qualified dividends and long-term capital gains is currently zero percent for those who fall within the 10 and 15 percent tax brackets. This generous tax rate could be history by the end of the year, and now may be time to take advantage of it. If your income is too high to qualify for this rate (available to married couples making less than $70,700 or single filers making less than $35,350), then consider giving some appreciated stock or mutual fund shares to loved ones who fall within the lower brackets. Just remember, giving securities to anyone under age 24 could result in them being taxed at their parents’ rates.

#### 3. Time Investment Gains and Losses and Consider Being Bold about It

#### Consider selling appreciated securities this year while the maximum tax rate on long-term capital gains from 2012 sales is only 15 percent. This favorable rate applies to appreciated securities held for at least a year and a day before selling. Biting the bullet and selling some loser securities—those currently worth less than you paid for them—before year end can also be a good idea. The resulting capital losses will offset capital gains from other sales this year.

#### 4. Leverage Standard Deductions by Bunching Deductible Expenditures

If your 2012 itemized deductions are likely to be just under—or just over—the standard deduction amount, you may consider bunching together some expenditures every other year. For example, you could prepay your 2013 property taxes by December 31 of this year and claim both the 2012 and 2013 property tax payments on your 2012 return. Again, beware of the potential that you’ll be paying a higher tax rate next year. If you think this will be the case, you may want to claim the standard deduction this year and bunch your itemized deductions into 2013 where they can offset the higher taxed income

#### 5. Business Tip: Save on New and Used Equipment and Software

Section 179 of the IRS tax code allows eligible businesses to claim first-year depreciation write-offs for new and used equipment and software. The maximum deduction is currently a generous $139,000, but it is set to drop to $25,000 next year. Now might be the time to take advantage.

#### 6. Business Tip: Take Advantage of 50 Percent Bonus Depreciation

Above and beyond the Section 179 deduction, your business can also claim first-year bonus depreciation equal to 50 perfect of the cost of most new equipment and software placed in service by December 31 of this year. This generous break will expire at year-end unless Congress extends it.

#### 7. Don’t Overlook Estate Planning

The unified federal gift and estate tax exemption for 2012 is a historically generous $5.12 million, but it is scheduled to drop back to only $1 million in 2013. The maximum estate tax rate is also expected to rise starting next year—from 35 percent to 55 percent. Given the generous tax exemption and lower maximum tax rate, you may want to re-evaluate your financial plan when it comes to estate and gift planning so that you’re taking advantage of these breaks where possible.

#### 8. For the Charitably Inclined: Sell Loser Shares and Give Away the Resulting Cash

If you’re thinking of giving away loser shares as gifts to relatives, you’re better off selling them and giving relatives the cash. This approach will allow you to take advantage of the resulting capital losses. It is, however, beneficial to give away winner shares, as recipients will likely pay lower tax rates than you would if you sold them. The same rules apply when it comes to giving shares to IRS-approved charities. You can save by selling loser shares and claiming the capital loss on your tax return, and then giving the cash proceeds to charity and claiming a charitable write-off.

#### 9. Convert Traditional IRA into Roth IRA

If your traditional IRA still hasn’t recovered from the 2008-2009 stock market meltdown, then it’s likely worth much less than it once was. Correspondingly, the tax hit from converting it to a Roth IRA right now would also be less. While any tax hit is likely unwelcome, it may be a small price to pay for tax savings since future income gains that accumulate in a Roth IRA will be free of federal income taxes, whereas traditional IRA distributions could be hit with tax rates even higher than today’s.

#### 10. Pay Attention to the Alternative Minimum Tax

While many recent tax law changes have been helpful in reducing your regular taxes, they didn’t do much to reduce the odds that you’ll owe the dreaded Alternative Minimum Tax. Therefore, it’s critical that you and your tax professional evaluate all tax planning strategies in light of the AMT rules before making any moves.

To contact an Enrolled Agent, ***The tax professional***, in your area visit [www.csea.org](http://www.csea.org) or call 800-829-7765.