Newsletter

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October 15 is the final filing deadline

If you requested a six-month extension to file your 2011 income tax return, you face a major deadline on October 15. That's the final date for filing your 2011 return; the IRS does not give filing extensions beyond that date.

October 15 is also the deadline for undoing a 2011 conversion of a regular IRA to a Roth IRA. If you did a conversion to a Roth last year, you can switch it back to a regular IRA without penalty if you do so by October 15.

If you need details or filing assistance, contact our office.

"Bunching" deductions could cut your taxes

Getting the most benefit from tax deductions requires multi-year planning as well as consideration of the alternative minimum tax (AMT).

The multi-year part involves "bunching" your expenses. That's a strategy where you decide to accelerate or delay payments between different years for itemized deductions such as state income taxes, routine health care, and charitable contributions. You calculate the tax savings for each year and choose the most advantageous time to pay the expense and claim the deduction.

The AMT adds another step to the calculation because it eliminates certain deductions. For instance, state and local income taxes are not deductible when figuring AMT liability.

What if you usually claim the standard deduction? You'll still want to take a look at your total itemized deductions in case you're close enough to the tipping point to consider accelerating some expenses into 2012. In addition, there are circumstances where itemizing makes sense even when the total is lower than your standard deduction. Your exposure to the AMT can come into play here, too, since the standard deduction is not allowed in the AMT calculation.

For 2012, the regular standard deduction when you're married filing jointly is $11,900 ($5,950 for singles). The last few months of the year is a good time to review your situation and consider opportunities for bunching deductions. Planning could help you salvage itemized deductions that would otherwise be lost. Contact our office for more information about this tax-cutting strategy.

The annual gift tax exclusion – use it or lose it!

Did you know that this year you can give gifts of up to $13,000 to as many individuals as you want without being liable for gift tax? Normally, any gift you make counts towards your lifetime exemption from gift and estate taxes. That's so you don't just give away your estate shortly before death to avoid estate taxes.

But each year you can make an unlimited number of gifts free of tax, provided they're below a certain amount. The limit for 2012 is $13,000 per gift. A husband and wife each have their own separate limit, so they can jointly give up to $26,000 to any one person.

You can put the gift exclusion to good use in several situations. For example, you could use a multi-year gift program to decrease the size of your estate and reduce estate taxes. A married couple giving to each of their three children could reduce their estate by a total of $78,000 every year, for example.

You could also use the gift exclusion in an income-shifting strategy. You could make gifts of income-generating assets to a child who is in a lower tax bracket. If done carefully to avoid the "kiddie tax," the result can be a lower overall tax bill for the family unit.

Two types of gifts are exempt from the $13,000 limit. You can make unlimited gifts for tuition expenses or medical expenses on behalf of any person, provided you make the payments directly to the educational institution or health care provider.

Contact our office for advice on how the 2012 gift tax exclusion could work for you.

Is the Social Security Administration mailing out annual Social Security Statements?

In 1995, the Social Security Administration (SSA) began mailing out annual Social Security Statements to everyone age 25 and older. These statements were designed to help Americans plan for the future by providing a detailed record of their earnings and estimates of Social Security benefits. Last year, the SSA suspended mailing these statements because of budgetary concerns, but in March 2012, the SSA resumed mailing annual statements to workers age 60 and older. If you're age 60 or older, you should receive your statement every year, about three months before your birthday. The SSA is also resuming the mailing of one-time statements to workers who are age 25 to introduce them to Social Security programs and benefits.

The SSA has also unveiled an online version of the Social Security Statement, available at the SSA website, www.socialsecurity.gov. You'll have immediate access to your statement once you've signed up for a "My Social Security" account. Statement information includes a projection of your retirement benefits at age 62, at full retirement age, and at age 70; projections of disability and survivor's benefits; a detailed record of your earnings; and other information about the Social Security program. Individuals who are receiving paper statements in the mail will have the option to sign up for online statements instead. While workers are encouraged to use the online statement option, in some cases, the SSA will mail statements upon request to individuals under age 60, including domestic violence or identity theft victims who have blocked online access to their personal information.

There's also another way to estimate the amount of Social Security retirement benefits you will be eligible to receive in the future under current law. You can use the SSA's Retirement Estimator, which is also available at the SSA website. To use this calculator, you must have enough credits to qualify for benefits, and you must not already be receiving benefits or waiting for a decision on your benefit application. You can create various scenarios that will illustrate how different earnings amounts and retirement ages will affect your future retirement benefit.

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