

Eight Tax-savers at Year-end

How can taxes be cut at the end of the year? There are numerous opportunities, but here are eight popular tax-saving strategies for individuals to consider under the tax laws in effect at this writing.

1. Harvest tax losses: If a capital loss is realized at the end of the year, it can offset capital gains, plus, if there is an excess, up to \$3,000 of ordinary income. This can avoid or reduce tax on significant capital gains realized earlier in the year. Any remaining loss may be carried over to the next year. Review investment portfolio for suitable candidates to sell.

2. Cash in on capital gains: Conversely, if it is warranted, capital gains realized at year-end can effectively absorb capital losses realized earlier in the year. Any remaining net long-term capital is taxed at a maximum tax rate of 15% in 2011 (0% for certain low-income taxpayers such as children).

3. Be generous to charity. Monetary gifts made to qualified charitable organizations before year-end are generally deductible this year. Note that donations made by credit card may be deducted in 2011 as long as the account is charged before January 1, 2012. Caution: Donors must observe strict substantiation rules.

4. Estimate AMT liability. If a taxpayer's regular income tax liability exceeds a special calculation, he or she must pay the alternative minimum tax (AMT) for 2011. Have the liability assessed by a tax adviser before the end of the year. Depending on the situation, a taxpayer may be able to reduce or avoid AMT liability by postponing certain "tax preference" items. Alternatively, income accelerated into 2011 may be taxed at a lower rate than the taxpayer's usual tax rate. For example, a taxpayer in the regular 35% bracket may pay tax at the 28% AMT rate on income received in 2011.

5. Play off the "kiddie tax." Unearned income received by a child in 2011 may be taxed at the parent's top tax rate if the child's income exceeds \$1,900. Under current law, this so-called "kiddie tax" may apply to a dependent child younger than age 19 (age 24 for full-time students). If it is practical, try to keep income under or near the \$1,900 threshold through astute investing on behalf of young children.

6. Generate energy credits. A homeowner may claim a residential energy credit for installing qualified energy-saving improvements. The credit for 2011 is 10% of qualified expenses up to a maximum of \$500 (reduced by prior credits). Complete installations before January 1, 2012. Currently, the credit is scheduled to expire after December 31, 2011.

7. Prepay state and local taxes. If taxes due early in 2012 are paid in late December, the payment will increase the property owner's deduction for state and local taxes in 2011. This prepayment strategy generally makes sense for someone who expects to be in the same or a lower tax bracket in 2012. Caveat: This may not be advisable for someone who owes the AMT this year (see item 4) because

state and local taxes are not deductible for AMT purposes. Similarly, a taxpayer might not prepay expenses if he or she expects to be in a higher tax bracket in 2012.

8. Bunch up medical expenses. Unreimbursed medical expenses are deductible to the extent they exceed 7.5% of adjusted gross income (AGI). Try to group elective medical expenses in the year they might provide a tax benefit. For instance, a taxpayer who is already over the 7.5%-of-AGI threshold for 2011 might accelerate expenses into this year. Alternatively, nonemergency expenses may be postponed until next year.

Other year-end strategies may be appropriate for a particular situation. Caution: Year-end tax planning may be affected by new legislation, so obtain professional guidance before any tax action is taken.