2011 Year End Tax Topics

November 30, 2011

Sue Folkringa, CPA, MBA
Commercial Pilot, AS/MEL, Instrument Airplane

WELCOME

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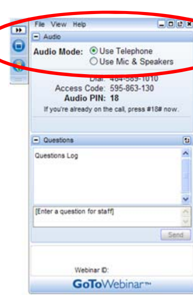

Today's Webinar:

- Today's webinar length will be approximately 1 hour, in 2 sections:
  - Section 1 Business Topics
  - Section 2 Individual Topics
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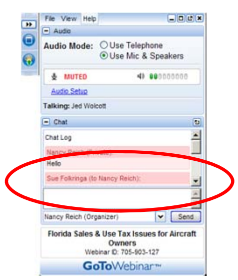

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- We try to answer all questions asked during the webinar
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- We may ask you to contact us after the webinar if your question is too complex to answer using the 'chat' feature

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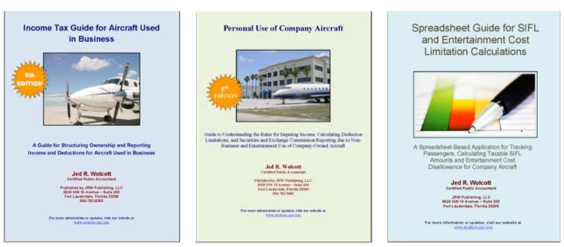

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Upcoming Webinar Events

- **January 12, 2012** – *IRS Reporting for the Personal Use of Company Aircraft Using the SIFL Rate Tables*
- **January 17, 2012** – *Strategies for Reporting Entertainment Flight Cost Limitations*
- **January 26, 2012** – *IRS Passive Activity Loss Limitations for Aircraft*

Resource Materials

- Copies of today's materials are available at our website at www.aviation-cpa.com.
- This PowerPoint presentation – 50105
- Look for green lookup bar on the homepage

Resource Lookup

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Certified Public Accountant

2011 Year End Tax Topics

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Wolcott Aviation Seminars, LLC

Topics

Business
Income/Deduction Shifting
Bonus Depreciation
Section 179
Real Property Expensing – Section 179
Work Opportunity Tax Credit
Payroll Taxes
Small Business Health Insurance Tax Credit
Energy Tax Incentives

Individual
Income/Deduction Shifting
Capital Gains/Dividends
AMT
Gift & Estate Taxes
Big Ticket Purchases
Energy Improvements
Retirement Plans –Roth, IRA, SS, 401k
Payroll Taxes
Life Changes
FSA (Flexible Spending Arrangement)
Tax Extenders
Casualty Losses
Foreign Earned Income
Charitable Deductions
General Tax Tips

Business Tax Issues

Year – End Tax Planning Methods; Income and Deduction Shifting

- Traditionally you time your income and deductions so that your taxable income is about even each year so your tax bracket does not spike in either year
  - Assumes that income and profits remain constant
- Taxpayers may try and shift income and expenses at year-end to shift taxes from one year to the next
  - Reduce taxes this year
  - Shift taxes from 2012 back to 2011, in anticipation of higher income or major income event in 2012

Year – End Tax Planning Methods; Income and Deduction Shifting

- The twist for year-end 2011 is the uncertain future for tax rates after 2012
- Higher-income taxpayers may be asked to pay more, either through higher tax rates or more limited deductions.
  - Suggests a strategy in which income is not deferred but is recognized now at lower tax rates still available in 2011 and 2012

Decreasing Taxes This Year - Cash Basis Taxpayers

- Push income to next year
  - Delay billings and collection activities until January
- Add deductions this year
  - Rent, utilities, equipment
  - Office supplies
  - Employee bonus's
- Taxable profits but no cash?
  - Consider borrowing to pay 2011 and 2012 expenses this year

Decreasing Taxes This Year – Accrual Basis Taxpayers

- Push income to next year
  - Bill December sales or services in January
  - Delay collection activities until January
- Add deductions this year
  - Accrue bonus's in 2011(must be paid by March 15, 2012
  - Order supplies
  - Purchase equipment & Sec 179
  - Write down obsolete inventory
  - Write off bad receivables

Shift Taxable Income Backwards from 2012 to 2011 – Cash Basis Taxpayers

- Add income in 2011
  - Bill customers early
  - Ask customers to pay early, or in advance
- Delay expenses to next year
  - Operating expenses
  - Rent
  - Year-end bonus's
  - Equipment purchases

Shift Taxable Income Backwards from 2012 to 2011 – Accrual Basis Taxpayers

- Add income in 2011
  - Bill customers early
- Delay expenses to next year
  - Defer ordering supplies and equipment
  - Record and pay 2011 bonus's in January 2012
  - Defer inventory and receivable write downs until January

Summary : Business Tax Planning is Essential for Reducing Taxes

- Consider long-term tax trends
- Adjust income and expenses to move taxes to periods of lower rates or brackets
- Time major income events to coincide with major expense events
  - Bonus depreciation, Sec 179 purchases
- Use forward tax planning to time estimated tax payments and avoid late-deposit penalties
- Use borrowings, lines of credit to smooth out expense payments
- Profits but no cash? Consider borrowing to pay 2012 expenses in 2011

Bonus Depreciation:
100% This Year, 50% Next Year

- First-year depreciation equal to 100% of the adjusted basis of property is available for qualified property:
  - Acquired after September 8, 2010 and before January 1, 2012, and,
  - Placed in service before January 1, 2012 (or before January 1, 2013 for certain longer-lived and transportation property).

Bonus Depreciation (continued)

- This additional depreciation deduction, known as "100 percent bonus depreciation" is temporary.*
  - 2011 year-end tax planning should take into account 100% bonus depreciation scheduled drop to 50% for qualified property acquired after December 31, 2011 and before January 1, 2013 (or before January 1, 2014 for certain longer-lived and transportation property).

*Unless extended by Congress

Section 179:
$500,000 This Year, $139,000 Next Year

- Business taxpayers are allowed to expense up to a certain dollar amount in annual investment expenditures for qualified property.
- The maximum amount that can be expensed is reduced by the amount by which the taxpayer's cost of qualified property exceeds a certain investment limit.
  - For tax years beginning in 2010 and 2011, the Code Sec. 179 dollar limit is $500,000 and the investment limit is $2 million.
  - The dollar limit is scheduled to fall to $125,000 (indexed for inflation at $139,000) and the investment limit is scheduled to fall to $500,000 ($560,000 indexed for inflation) after 2011.

Section 179: Continued

- Business taxpayers contemplating qualified purchases should weigh the benefits of accelerating those purchases into 2011
- Code Sec. 179 expensing is also allowed for off-the-shelf computer software placed in service in tax years beginning before 2012

SECTION 179

Section 179: Real Property Expensing

- Real property generally is excluded from Code Sec. 179 expensing, HOWEVER,
  - For tax years beginning in 2010 and 2011, qualified real property is eligible for up to $250,000 of Sec. 179 expensing.
    - Qualified leasehold property
    - Qualified restaurant property, and
    - Qualified retail improvement property
  - Any Section 179 deduction for this property that is unused due to the taxable income limit, cannot be carried to a year beginning after 2011.

*Unless extended by Congress

Section 179: Real Property Expensing

- A taxpayer that places qualified leasehold improvement property, qualified restaurant property or qualified retail improvement property in service in a tax year that begins in 2010 or 2011 may elect to treat the property as Code Sec. 179 property and expense up to $250,000 of the cost of the property.
  - While qualified leasehold improvement property is eligible for bonus depreciation, qualified restaurant property and qualified retail improvement property are generally ineligible unless they meet the definition of qualified leasehold improvement property.
  - This special expensing provision is temporary and is scheduled to expire after 2011*.

Work Opportunity Tax Credit (WOTC) Up To 40% Of 1st Year Wages

- WOTC was designed as an incentive to encourage employers to hire individuals from nine targeted groups, which have historically, experienced higher than average unemployment rates and other barriers to employment.
  1. Long-Term TANF recipient (Temporary Assistance for Needy Families)
  2. Other TANF recipient
  3. Qualified veteran
  4. Qualified ex-felon
  5. Designated community resident
  6. Vocational rehabilitation referral
  7. Qualified summer youth employees
  8. Qualified food stamps recipient
  9. Qualified SSI recipient

Work Opportunity Tax Credit (WOTC)

- Scheduled to expire after December 31,
  - The WOTC generally is 40% of the qualified worker's first-year wages up to $6,000 (with higher and lower amounts for certain groups).
  - Under current law, the WOTC applies to wages paid to qualified individuals who begin work for the employer before January 1, 2012.
  - Wages paid to qualified individuals who begin work for the employer after December 31, 2011 (under current law) are ineligible for the WOTC.

*Unless extended by Congress

Work Opportunity Tax Credit (WOTC)

- EFFECTIVE November 21, 2011 to December 31, 2012
  - 2011 Repeal Act Includes:
    - Returning Heroes Tax Credit
      - Employers may be eligible for up to $5,600 per employee if they hire a veteran of the U.S. Armed Forces who has been unemployed for 6 months or more. ($2,400 if unemployed for less than 6 months)
    - Wounded Warriors Tax Credit
      - Employers may be eligible for up to $9,600 per employee if they hire a veteran who has a service-connected disability and who has been looking for work for 6 months or more. ($4,800 if unemployed for 6 months or less)

Payroll Taxes

- Employers should remind employees that effective January 1, 2012, the employee-share of Old Age Survivors and Disability Insurance (OASDI)* taxes is scheduled to revert to 6.2% (unless the 2011 payroll tax holiday is extended by Congress).
- Under the 2011 payroll tax holiday, employees paid OASDI taxes at a rate of 4.2% rather than 6.2%.
  - A similar benefit was provided to self-employed individuals.
- The employer-share of OASDI taxes for 2011remains at 6.2%.

*OASDI: Old-Age, Survivors and Disability Insurance

Payroll Taxes

- The employer's FUTA* tax liability did change mid-year in 2011.
  - The 0.2% FUTA surtax expired after June 30, 2011.
- Social Security
  - Maximum earnings subject to Social Security increase for 2012 from $106,800 to $110,100.

*FUTA: Federal Unemployment Tax Act

Small Business Health Insurance Tax Credit

- Small employers that provide health care coverage to their employees and that meet certain requirements are generally eligible for the Code Sec. 45R tax credit for health insurance premiums they pay for certain employees.

Small Business Health Insurance Tax Credit

- Eligibility Rules:
  - **Providing health care coverage.** A qualifying employer must cover at least 50% of the cost of health care coverage for some of its workers.
  - **Company size.** A qualifying employer must have less than the equivalent of 25 full-time workers.
  - **Average annual wage.** A qualifying employer must pay average annual wages below $50,000.
  - **Maximum Amount.** The credit is worth up to 35% of a small business' premium costs in 2010. On Jan. 1, 2014, this rate increases to 50%.
  - **Phase-out.** The credit phases out gradually for companies with average wages between $25,000 and $50,000 and with the equivalent of between 10 and 25 full-time workers.

Energy Tax Incentives

- Energy tax incentives are a mixed bag for businesses.
  - A number of tax credits for alcohol fuels and biodiesel/renewable diesel will expire after December 31, 2011*.
  - Tax credits for construction of new energy efficient homes and manufacture of energy efficient appliances will also expire after December 31, 2011*.
  - Other energy tax incentives, including the deduction for energy efficient commercial buildings, do not expire until after 2013 or subsequent years.

*Unless extended by Congress

Individual Tax Issues

Income and Deduction Shifting: For Individuals

- Income and expense-shifting strategies work for individuals as well as companies
- Overall objective is to keep income and expenses constant
- Planning is important to prepare for rising tax rates, occasional income or expense events

To Reduce 2011 Taxable Income

- Ask your employer to pay out any bonuses in January 2012 instead of in 2011.
- Hold off on selling stocks and other investments with taxable gains until next year.
- Hold off on taking distributions from an IRA or other retirement account until January.
- Convert pre-tax retirement savings to a Roth account, and opt to report the income in 2011 and 2012.

Increasing 2011 Tax Deductions

- Pay tax deductible expenses in 2011 instead of 2012, such as medical bills, charity donations and property tax.
- Sell off stocks and other investments that have lost value so you can take the losses on your 2011 return.
- Increase your 401(k) or IRA contributions.

Capital Gain Rates Going Up After 2012

- Reduced tax rates on qualified dividends and capital gains are scheduled to expire after December 31, 2012
- 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 Will Affect More Taxpayers In 2012

- As the law currently stands, the AMT will be affecting many more taxpayers in 2012 than in 2011.
  - Congress often adjusts the AMT at the end of the year or the early part of next year to minimize this tax increase.

AMT Will Affect More Taxpayers In 2012

- 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.
- Anyone impacted by the AMT should sell any incentive stock options that they exercised during the 2011 calendar year since the value of an exercised but unsold ISO is added to your income for calculating the AMT.

AMT

- The AMT eliminates or reduces the federal tax benefits for:
  - Medical expenses
  - State and local taxes, and
  - Miscellaneous itemized deductions.
- The AMT defers the federal tax benefits for :
  - Depreciation
  - Disposition of property
  - Passive activities

AMT Will Affect More Taxpayers In 2012

AMT Exemption*	2012 Before Patch	2011 After Patch	2010 After Patch	2009 After Patch
MFJ or QW	45,000	74,450	72,450	70,950
Single Or HOH	33,750	48,450	47,450	46,700
MSF	22,500	37,225	36,225	35,475

* MFJ=Married Filing Jointly, QW =Qualifying Widow/er, HOH = Head of Household, MSF=Married Filing Separately

AMT Will Affect More Taxpayers In 2012

AMT Exemption*	2012 Before Patch	2011 After Patch	2010 After Patch	2009 After Patch
MFJ or QW	45,000	74,450	72,450	70,950
Single Or HOH	33,750	48,450	47,450	46,700
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Gift Tax Exclusion

- 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.

Estate Tax Exclusion

- The current estate tax through 2012 is set at a maximum 35% rate and a $5 million exclusion amount.
  - Many experts predict after 2012 that Congress will lower the exclusion to $3.5 million and raise the top rate to 45%.
  - In light of this possibility, lifetime gift-giving, ideally on an annual basis, should continue to form part of a master estate plan.
  - Making a gift at year-end 2011 to take advantage of the annual, per-donee exclusion should be considered by anyone with even modest wealth.

Big Ticket Purchases: Buy Now

- 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*
  - Taxpayers may take the deduction for state and local general sales taxes in lieu of the deduction for state and local income taxes.

*Unless extended by Congress

Energy Improvement: Tax Break Expires This Year

- 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 nonbusiness energy property is scheduled to expire after December 31, 2011*.
    - If you are considering replacing your roof, HVAC system, or windows and doors, doing so using energy-efficient materials before January 1, 2012 may generate tax savings.

*Unless extended by Congress

Energy Improvement: Tax Break Expires This Year

- Through the end of 2011, a number of residential energy-efficiency improvements qualify for a tax credit.
  - These include qualified windows and doors, insulation products, HVAC systems, and roofing.
    - The "lifetime" credit amount for 2011, however, is $500 and no more than $200 of the credit amount can be attributed to exterior windows and skylights.

30% Energy Improvement For Certain "GREEN" Purchases

- There is still a credit of 30% of cost, no upper limit for:
  - Geothermal Heat Pumps
  - Small Wind Turbines
  - Solar Energy Systems

Roth Plans

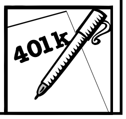
- If you converted an individual retirement account (IRA) to a Roth IRA in 2010, you were given an option:
  - Recognize all income in 2010 or
  - Defer that income, half into 2011 and half into 2012.
    - If you elected to defer that income into 2011 and 2012, do not forget to figure that income into your year-end planning for 2011.
- If you initiated a Roth conversion earlier in 2011 and that Roth account has declined in value since then, you should consider a "Roth reconversion."
  - Reconverting your Roth IRA back to a regular IRA before year-end will allow you to avoid paying income tax on an account balance at its higher value.

Roth Plans

- If you have not yet made a Roth conversion, doing so at year-end 2011 might be an opportunity worth serious consideration.
- Variables include your present income tax bracket, how close you are to retirement, and your access to other funds both to pay the conversion tax and to delay distributions from your Roth account later.

Social Security

- Maximum earnings subject to Social Security tax increase $3,300 from $106,800 to $110,100 from 2011 to 2012.
- Be aware that the amount you contribute to a 401k or IRA in your 3 years prior to eligibility for Social Security my affect the amount of Social Security income you can receive.



Retirement Plan Contribution Limits

	2011	2012
IRA Contribution Limits		
Under age 50	$5,000	$5,000
Age 50 and older	$6,000	$6,000
SIMPLE IRA elective deferral limits		
Under age 50	$11,500	$11,500
Age 50 and older	$14,000	$14,000
401(k) elective deferral limits		
Under age 50	$16,500	$17,000
Age 50 and older	$22,000	$22,000
Profit-sharing plans / SEPs		
Contribution limit	$49,000	$50,000
Compensation limit (for contributions)	$245,000	$250,000

Payroll Taxes Are Going Up

- FICA
  - All wage earners and self-employed individuals will experience a tax increase in 2012 unless Congress extends the current employee-side payroll tax cut.
    - For calendar year 2011, the employee-share of OASDI taxes is reduced from 6.2 percent to 4.2 percent up the Social Security wage base of $106,800 (self-employed individuals receive a comparable benefit).
      - President Obama has proposed to extend and enhance the payroll tax cut. The fate of the payroll tax cut will likely be decided by Congress later this month.

Life Changes Have Tax Effects

- If you have had a life change, you need to review how that change will impact your federal tax liability.
  - Marriage
  - Divorce
  - Birth of a child
  - Death
  - Change in job or loss of a job
  - Retirement
- After December 31, 2011, it will be too late to alter most of your bottom-line tax liability for 2011.

FSA Rules Have Changed

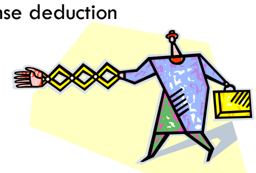
- Effective January 1, 2011, the Patient Protection and Affordable Care Act (PPACA) provides that over-the-counter medications and drugs can **no longer be reimbursed** from a health flexible spending arrangement (health FSA) unless a prescription is obtained.
  - The rule also applies to:
    - Health reimbursement arrangements (HRAs)
    - Health savings accounts (HSAs), and
    - Archer medical savings accounts (Archer MSAs),
  - This is an important consideration for taxpayers who are required to make a decision by year-end 2011 on how much to fund their accounts in 2012.

Spend Your FSA Balance

- If you set up a flexible spending account (FSA) and had money regularly withdrawn from your paychecks and deposited into the account, make sure you spend the money before Jan. 1 or you risk losing it.
  - Check with your human resources department if you are unsure about how much money you currently have in your FSA.
  - Make doctor's appointments or purchase any necessary medical equipment or supplies now to use the savings you have accumulated.

Tax Extenders - Overview

- Set to expire December 31, 2011
  - Higher education tuition deduction
  - Teacher classroom expense deduction
  - Sales tax deduction
  - Energy tax breaks



Don't Overlook Casualty Loss Deductions

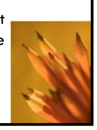
- Many states experienced natural disasters in 2011
  - A casualty loss can result from the damage, destruction or loss to your property from any sudden, unexpected or unusual event, such as a hurricane, earthquake, wildfire, or flood.
  - Casualty losses are generally deductible in the year the casualty occurred, less ten percent of your adjusted gross income and a $100 per casualty deductible.
- If you have a casualty loss from a federally declared disaster, you can elect to treat the loss as having occurred in the year immediately preceding the tax year in which the disaster happened.
  - You can either:
    - Deduct the loss on your return or
    - Amended return for that preceding tax year.
  - The election gives taxpayers the opportunity to maximize their tax savings in the year in which the savings will be greatest.

Foreign Earned Income When Working Overseas

- For 2011qualified individuals may elect to exclude up to $92,900 (up from $91,500 in 2010) of foreign earned income from taxable income.
  - Qualified Individuals must meet one of the two tests:
    - Bona fide residence test:
      - The individual must be a resident for an uninterrupted period that includes an entire year.
    - Physical presence test:
      - The individual must be physically present in a foreign country or countries 330 full days during a period of 12 consecutive months.

Charity & Volunteer Work Deductions

- Be Sure To Fully Value Your Donations
  - If you are giving back to the community through volunteer work and by donating household items, you may have deductions that in the past you overlooked.
    - Mileage incurred to volunteer at a soup kitchen or other charitable event can be written off at 14 cents per mile.
    - When you donate your used household items, such as furniture, clothing and appliances, you are doing your community a favor and scoring a tax deduction at the same time.
    - If your donation is worth more than $250, get the receipt from the organization to which you are donating. If you're donating goods, make an itemized list with each item's estimated fair market value.



General Tax Tips

- Rental property typically shows loss and that still may be negative cash flow to you. Assess your financial position. Just because you "get" to take a loss doesn't mean it puts more money in your pocket.
- Many people focus only on their refund. Don't forget to "pay yourself" by contributing to a savings plan (401k and the like).
- Flying communities are not exempt from sales tax
- Delaware corporations are NOT exempt from sales tax
- Pets are not dependents and their expenses are not deductible

General Tax Tips

- T-shirts and personal grooming items are not deductible even for pilots and flight crew personnel. (We have code and a case reference for this too)
- Can't get back more than you pay in!
- If you file LATE, even if you get a refund back, the IRS considers you a late filer. Example – ask for penalty abatement later and you will be denied.
- If you change your mailing address during the year, don't forget to advise your tax preparer.

Flight Tax Systems, Inc. – Coming Soon

- Aviation software created to assist aircraft owners and operators in properly recording and documenting business flight use. Calculates:
  - Primary purpose flights
  - SIFL employee fringe benefits
  - Entertainment cost disallowance

And Much More!

Call for more information 954-763-9363

Thank You Very Much!

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