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YEAR-END TAX PLAN MOVES FOR INDIVIDUALS

By Victor Sy, CPA

As we approach year-end, it's time again to make last-minute moves to save taxes. Here are 20 tax-saving ideas for you to consider before the end of 2011.

1. **Bunch deductions.** If your total itemized deductions are at or near standard deduction of \$11,600 for 2011, you gain little or no tax advantage. For example, if your interest, taxes, and donations total \$8,000, use the bigger standard deduction of \$11,600. You gain no tax benefit from the smaller \$8,000. If your personal deductions total \$12,000, you gain only \$400 of deductions. However, if you bunch deductions, you would prepay 2012 taxes and interest in December 2011 and deduct more expenses for 2011. The trick here is to alternate years - claim standard deduction one year and itemized deductions the following year.
2. **Postpone income until 2012 and accelerate deductions into 2011** to lower this year's tax bill. This can enable you to claim larger deductions, credits, and other tax breaks for 2011 that are phased out over varying levels of adjusted gross income (AGI).
3. If you expect higher income that could bump you into a higher tax bracket next year, do the opposite - **accelerate income into 2011 and postpone paying expenses until January of next year.**
4. Consider using **credit cards to prepay expenses** to generate deductions this year. Expenses are deducted in the year charged, not in the year paid. Paying your April 2012 property tax with a credit card in December 2011 yields a deduction for 2011, even if you pay your credit card in January 2012.
5. If you are lucky enough to get a bonus during these tough economic times, ask your employer to **defer your bonus** to 2012 if you want to reduce this year's tax bill.
6. Consider prepaying 2012 qualified **higher education expenses** by 12/31/11. Unless Congress extends it, the above-the-line deduction up to \$4,000 for qualified higher education expenses will not be available next year.
7. Accelerate big ticket purchases into 2011 to get a deduction for **sales taxes** if you elect to claim state and local general sales tax instead of state and local income taxes. Unless Congress acts, this election won't be available next year. This tip may be timely if you plan to buy a car in early 2012. You may as well buy this year to get a sales tax deduction that may be gone next year.
8. **Increase your withholding** if you are facing a penalty for underpayment of estimated income taxes. Doing so reduces or eliminates the penalty. For example, estimated tax voucher #1 due in April but paid in December subjects you to late payment penalties from April to December. On the other hand, withholdings in December are considered paid from January to December and therefore eliminates penalties for the year.
9. Consider withholding income taxes on tax-free rollovers from a qualified retirement plan before the end of the year if you are facing a penalty for underpayment of estimated tax. Have income tax withheld from that distribution, timely roll over the gross amount to a traditional IRA, and apply the withholding to reduce underpayment penalties. In short, no part of the distribution will be included in income for 2011, but the withheld taxes will be applied pro rata over the full 2011 tax year. This is a neat strategy to save penalties from underpayment of taxes.

10. Take [Required Minimum Distributions \(RMD\)](#) from your IRA, 401(k) plan, or other retirement plans upon reaching age 70 1/2. Failure to take a required withdrawal can result in a ridiculous penalty of 50% of the amount not withdrawn. Penalty applies every year. Ouch!
11. If you are age [70-1/2 or older, own IRA](#), and are planning to make a charitable gift, have the gift made directly by the IRA trustee. Such a transfer, if made by year-end, can achieve tax savings (if you can afford such gift).
12. [Realize stock losses](#) while substantially preserving your investment position. Consider selling your original holding, and then buy back the same securities (but do so after 30 days to avoid violating “wash sale” regs).
13. Consider making [energy saving improvements](#) (insulation, energy saving windows, energy efficient heater, or air conditioner) to your residence by 12/31/11 to qualify for an energy credit. The credit for 2011 is 10% of cost with a \$500 maximum (reduced from 30% of cost with a maximum of \$1,500 for 2010). It expires 12/31/11.
14. Claim Residential [Energy Efficient Property Credit](#) to help pay for qualified residential alternative energy equipment (solar hot water heaters, solar electricity equipment, and wind turbines) installed at your main residence. The credit is 30% of the cost of qualified property. It runs through 2016.
15. Claim a 30% credit for the cost of installing qualified [alternative vehicle refueling](#) property at your principal residence (up to \$1,000 per year per location) or for use in your trade or business (up to \$30,000 maximum per year per location). This credit will no longer apply to property (except for hydrogen refueling property) placed in service after Dec. 31, 2011.
16. Increase the amount you set aside for next year in your employer's [Health Flexible Spending Account \(FSA\)](#).
17. Make a full year's worth of deductible [Health Savings Account \(HSA\)](#) contributions for 2011 if you become eligible to make HSA contributions in December of this year.
18. Watch out for [AMT \(Alternative Minimum Tax\)](#) in all of your planning because what may be a great move for regular tax purposes may create an AMT problem. Keep in mind that many tax breaks allowed for calculating regular taxes are disallowed for AMT purposes. You may reduce your regular income tax but could get hit with the dreaded and despised AMT.
19. Make [gifts of \\$13,000](#) or less before the end of the year. This amount is an annual gift exclusion that escapes the gift tax. You can make gifts to an unlimited number of individuals free of gift tax (remember that you can't carry over unused exclusions from one year to the next). The transfers can also save family income taxes where income-earning property is given to family members in lower income tax brackets who are not subject to the kiddie tax. We do not know if President Obama will keep this exclusion next year.
20. Purchase [Qualified Small Business Stock \(QSBS\)](#) before the end of this year. There is no tax on gain from the sale of such stock if it is (1) purchased after September 27, 2010 and before January 1, 2012, and (2) held for more than five years. In addition, such sales won't cause AMT preference problems. To qualify, the stock must be issued by a regular “C” corporation with total gross assets of \$50 million or less, and must meet a number of other technical requirements.