Our Annual Year-End Tax Planning Letter.
Plan to save.

November, 2011

To our clients and friends,

Another year is coming to a close and I am looking forward to the year when I sit down to write this letter when the outlook for our economy and country is optimistic. This year again is not the year. Nevertheless it makes sense at this time again to see if we can implement some strategies to reduce your taxes. There is a lot to cover and any one strategy can save you meaningful dollars.

Before we jump in, I'd like to start this year's year-end tax planning letter by covering a few "topical" items. So first let's talk about the weather. Weather patterns are changing and the weather is becoming more bizarre. Snow in October, earthquakes and hurricanes have resulted in many taxpayers suffering damage and destruction. If you're one of them, the loss of personal or business property may allow you to take a corresponding deduction and reduce your taxes. We describe who's eligible further on in this letter.

With the run up of prices in the gold markets, some people may be wondering about how potential investments in gold are taxed. Generally, gold held as coins or bullion is treated as "collectibles," for which the long-term capital gain rate is 28%. All short-term capital gains are treated as ordinary income. Therefore, a taxpayer in a lower tax bracket would be better off triggering short-term rather than long-term capital gain on gold coins or bullion. On the plus side, the "wash sale rule" (explained below) does not apply to "collectible" losses.

Planning Tip: The higher "collectibles" tax rate does not generally apply to gold held in mutual funds or to non-exchange-traded options on gold.

Efficiency of Capital Loss Offsetting: In general, capital losses are more tax effective if they can be used to offset income taxed at higher tax rates such as short-term capital gains and ordinary income. Long-term losses used against short-term gains are tax-efficient. Short-term losses used against long-term capital gains are tax inefficient.

Something to keep in the back of our mind is the pending tax increases contained in the health care legislation passed last year. Starting in 2013 individual and married taxpayers with incomes in excess of $200,000 and $250,000 respectively will pay a 0.9% surcharge on earned income (i.e. salaries and self-employment income) and 3.8% surtax on investment income such as capital gains, interest and dividends, and rental income.

Income Tax Overview

Anything can happen between now and January 1, 2013, but based on current law, that will be the date the top income tax rate increases from 36% to 39.6%, qualified dividends become subject to ordinary income tax rates, the tax on long-term capital gains jumps from 15% to 20%, and the 3.8% Medicare surtax kicks in (the Supreme Court has just agreed to review the constitutionality of this law). Let's look more closely at what you can do to keep you taxes down.

In this environment where change is the new normal, we need to consider all options. So let's see if we can save you some tax dollars and guide you to avoid missteps that could increase your taxes. Each year at this time we give you a number of strategies to consider. Your personal tax situation is unique to you. Taking advantage of even one or two of these planning strategies could save you real money. So let's get started with our annual year-end review. Please read on . . .

Tax Rates:

Federal tax rates for 2011 are unchanged from last year, but the amount of income needed to reach into a bracket has increased slightly. These rates will also be in effect for 2012. On January 1, 2013 rates are scheduled to be heading higher but elections results could change that.

2011 Federal Tax Brackets	10 %	15 %	25 %	28 %	33 %	35 %
Applies to taxable income over	0	17,000	69,000	139,350	212,300	379,150
2011 AMT Tax Rates	26 %	28 %				
Applies to AMT income over	74,450	247,650				
2010 New York Tax Brackets	4.50%	5.25%	5.90%	6.85 %	7.85 %	8.97 %
Applies to taxable income over	16,000	22,000	26,000	40,000	300,000	500,000
2010 New Jersey Tax Brackets	3.50%	5.53%	6.37%	8.97 %		
Applies to taxable income over	70,000	80,000	150,00	500,000		
2011 CT Tax Brackets	3.0%	5.0%	5.5%	6.0 %	6.5%	6.7%
Applies to taxable income over	Zero	20,000	100,000	200,000	400,000	500,000

Without Congressional action, 2013 Federal rates will be 15, 28, 31, 36 and 39.6%.

Top Marginal Tax Rates for 2011

Connecticut	**6.7 %**
New Jersey	**8.97 %**
New York	**8.97 %**
New York City	**3.876 %**

New York State

This year, 2011, New Yorkers face personal income tax rates of 7.85% and 8.97%. The chart above shows the incomes to which these rates apply. Prior to 2009, the highest rate in New York was 6.85%. In addition, *New Yorkers with incomes over $1 million lose all of their itemized tax deductions other than for charitable contributions.*

New Jersey

The top tax rate of 8.97% applies to incomes above $500,000.

Connecticut

The marginal personal income tax rates have been hiked again and the amount of income needed to reach the higher rates have been reduced. Income over $500,000 is now taxed at the highest rate of 6.7%.

What to do between now and December 31, 2012.

With tax rates scheduled to increase on January 1, 2013 it makes sense to at least be aware of tax saving strategies that you can implement over the next 13 months. With that in mind, consider the following strategies which go against the usual suggestions.

1. Accelerate income and take bonuses in 2012 to pay taxes at potentially lower rates.
2. If you have stock that has appreciated, sell it prior to the end of 2012. Capital gains rates are scheduled to increase in 2013. You can buy the stock back in 31 days if you wish.
3. Take retirement plan distributions by the end of 2012 rather than waiting until 2013.
4. Defer deductions such as medical, property taxes, and charitable contributions into 2013 when they will be worth more.
5. If you have or are going to convert your existing traditional IRA into a Roth IRA, consider doing it now and pay the taxes in 2012. See more on this below.

- We'll review these strategies again next year as political developments could affect the advisability of these strategies. New political realities make it very difficult to evaluate tax planning options over the long term.

Among the services we provide . . .
at this time of the year especially is a tax planning analysis. We gather current year tax information from our clients and use it to project our clients' taxes for the current year. We then determine what strategies we may be able to implement to reduce their taxes come this April 15th.

Roth Conversions

High-income taxpayers with traditional IRAs or rollover IRAs have been presented with an opportunity first available in 2010 to roll over their IRAs into a Roth IRA. Many of you reading this may want to consider this. Over time it could save you and your heirs big taxes. However, it does not make sense in all cases and needs to be analyzed carefully.

Distributions from traditional and rollover IRAs are generally taxable when received. Contributions to Roth IRAs are non-deductible when made, but all principal and earnings will be distributed tax free. Therefore, Roth IRAs may be preferable to traditional IRAs.

Prior to 2010, only individuals with modified adjusted gross incomes ("AGI") of $100,000 or less could convert amounts in their traditional IRA to a Roth IRA. Moreover, married taxpayers filing separate returns couldn't convert irrespective of AGI. Starting in 2010, the $100,000 AGI limit on conversions of traditional IRAs to Roth IRAs was eliminated. Filing status restrictions were also lifted, allowing married taxpayers filing a separate return to convert. When you convert to a Roth IRA, you must pay tax on the converted amount in the year of conversion.

There's another important point on this. The government gives you a do over, called re-characterization. You are allowed to change your mind if the value of your now Roth IRA goes down and you don't want to pay taxes on the old higher value. You can put it back to a regular IRA like nothing ever happened. And what makes this even better is that the government gives you until you file your tax return for that year. So in a perfect world, if you convert on January 7, 2012 and you extend your 2012 tax return, you would actually have until October 15, 2013, to look back, see how it is doing and perhaps re-characterize it. But if you convert your traditional IRA to a Roth on December 15, 2011, you only have a ten-month window to evaluate its performance. If you are thinking about doing a Roth conversion, consider waiting until January of 2012.

Last point on this, issues related to transferring wealth to succeeding generations also come into play here and should be considered. There is a lot to think about when it comes to whether or not to convert an IRA to a Roth IRA. Reasons for us to chat!

The alternative minimum tax (AMT)
If you are ensnared in the AMT, remember that many deductions normally allowed, ARE NOT allowed for the AMT calculation…personal exemptions, the standard deduction, state and city income taxes and real estate taxes.

So . . . taxpayers who happen to have significant deductions, such as those who live in states that have relatively high personal income tax rates and high real estate taxes like New York, are a likely candidate for the clutches of the AMT. There are other deductions that could trigger the AMT too, such as exercising incentive stock options, taking numerous personal exemptions for a large family, experiencing significant deductible medical expenses, or large miscellaneous itemized expenses (such as employee business expenses).

The AMT makes year-end planning difficult and potentially dangerous if done in a vacuum. By reducing regular tax liability through deductions, deferral and overall rate reductions, the alternative minimum tax liability exposure is increased. Since many of the strategies that are used for reducing your regular taxes will backfire when it comes to the AMT, you really need to know your exposure to the AMT.

Additionally, if in fact you are in the AMT, the irony is that unlike the basic strategy (discussed below) of postponing income, you may want to actually accelerate income into 2011 since the AMT tax rate is in fact lower. Yes, this is a bit confusing! All planning is highly personalized and unique to each individual and must consider multiple years to be truly effective.

Changes enacted in the past few years:

As you may know, when a husband and wife sell their home, the first $500,000 of gain is not subject to tax. In the past, if one spouse died, the surviving spouse was only entitled to half of that tax exemption ($250,000) on the sale of the home if sold after the year in which the spouse died. Now the surviving spouse can still use the full $500,000 exclusion if the house is sold within two years of the spouse's death. In light of the currently depressed real estate market, the surviving spouse should remember that their exclusion will be only $250,000 if they don't sell the house within two years.

Now children under age 19 and full-time students ages 19-23 who don't provide more than half of their own support are subject to the "kiddie tax." This means that if these children have unearned

income in excess of $1,900, that income will be taxed at their parent's top rate. "Unearned income" refers to items such as interest, dividends and capital gains. Take it from me, this can have a dramatic impact on your family's total tax picture. See more below.

Capital gains and qualifying dividends will be taxed at a maximum rate of 15% in 2011 and 2012. Taxpayers in the lowest two tax brackets will pay *zero tax* on their capital gains and qualifying dividends. The expanded kiddie tax mentioned above means that many college kids will NOT be able to take advantage of the 0% rate.

A credit for plug-in electric vehicles is now available through 2014. The credit will equal $2,500 plus an additional $417 per kilowatt hour in excess of 4 kilowatts per hour (whatever that means).

If you convert a second home into a principal residence, a portion of the gain on the subsequent sale of that home may be *ineligible* for the home-sale exclusion of up to $500,000, even if you meet the two-year ownership and use tests.

Among the services we provide . . .
We provide comprehensive financial planning and implementation services including investment review and planning, investment management, life and long-term care insurance services and pension planning and management.

The old standby strategies:

1. Postpone income

All things being equal, it usually pays to postpone income to a subsequent year. This gives you the use of the money for a year before having to pay tax.

To delay income to the following year, you might defer compensation, defer year-end bonuses, defer the sale of capital gain property (or take installment payments rather than a lump-sum payment) or postpone receipt of distributions (other than required minimum distributions) from retirement accounts.

2. Accelerate your deductions

There is no longer a phase-out of your itemized deductions. If you itemize deductions consider paying medical expenses in December rather than January, if doing so will allow you to qualify for the medical expense deduction. Charge deductible expenses on credit cards to get the current deduction even if the payment of the charge will not be made until 2012. Also, you can prepay your January mortgage payment in December, so you can deduct the interest included in that payment this year. Pay your final state estimated tax payment before year-end as long as you are not in an AMT situation. If you are likely to be paying taxes under the AMT rules, hold off this payment until January as you will get no benefit at all this year by paying it early and you'll lose the deduction for next year.

You also can make alimony payments early or make charitable contributions in advance, subject to certain limitations. If you are planning to donate property, do it before the end of the year.

Remember substantiation rules. If the property is valued at more than $5,000, a "qualified" written appraisal is mandatory. Remember you must get receipts for contributions over $250. Your cancelled check alone will not satisfy the IRS. If you want to make a donation but won't have the money until next year, consider charging your gift on a credit card before the end of the year. The gift will be deductible on your 2011 return!

The rules for substantiation of charitable contributions changed in 2007. You must keep a bank record of the contribution or a written receipt from the charity. This rule applies to contributions of $250 or more regardless of the amount of the contribution. Instead of putting cash in the collection basket, you may want to put a check in!

You can't deduct contributions of clothing or household items unless the property is in at least "good condition".

3. Distributions from IRA's
Whenever possible withdraw money you need from taxable savings and investments accounts. IRA accounts should be left to grow tax-free as long as possible. Once you reach the age of 70½, you MUST begin taking distributions and paying income tax on the monies withdrawn.

4. Incentive stock options
Exercise ISO's early in the year. Exercise of ISO's may put you in the AMT unless you dispose of the stock in the same calendar year it was purchased. Exercising your options early in the year gives you the full year to see if the shares are down, get rid of them and not get hit with the AMT. You may have heard the horror stories of people who converted their options, then held the stock they got until it subsequently went down. They ended up with an AMT bill higher than the value of their stock. A nightmare scenario.

5. Capital gains and losses. If you have realized capital gains this year be sure to take capital losses now to offset those capital gains. Anyone sitting with net gains in 2011 should take action now if possible.

Long-term gains are taxed at a lower rate than short-term gains and ordinary income. Planning for investment gains can reduce your taxes significantly. The top long-term capital gains rate on most sales is still 15%. An asset must be held for more than a year to be considered long-term.

Beginning on or after January 1, 2013, long-term capital gains will be taxed at a top rate of 20% unless the law is changed. Taxpayers should consider selling (or otherwise disposing of) appreciated property and recognizing the taxable gain by the end of 2012. Taxpayers who have realized capital gains deferred on an installment note may want to consider accelerating the unrecognized gain into 2011 or 2012.

Here is an easy way to save some potential taxes that every investor should take the time to check out. Review the securities you have sold so far this year to see if you have a net gain or loss. Net any carry-forward losses from last year against 2011 trades. If the result is a short-term capital gain, it will be taxed as ordinary income unless you offset it with additional losses. If you have a net loss, remember that the maximum net capital loss you may deduct in any one year is $3,000. Losses in excess of this limit may be carried forward to 2012 and beyond, if necessary. It would make sense for Congress to increase the $3,000 limitation as so many people still have huge unused losses from 2008 that they are still carrying forward. I have heard no discussion of this however. I guess it makes too much sense.

What to do? If you have net gains, review your current holdings for sales that would result in a loss and which will reduce or eliminate your net gain. If you have losses already and are holding some positions with gains that you no longer wish to own, sell them to use up your existing losses.

Remember that capital losses realized in an IRA account are not deductible. ☹ Although you can choose when to realize capital gains and losses, we advise you to consider the worth of investments and not let tax consequences alone dictate when to sell.

6. Watch out for the "wash sale" rule

To accelerate a loss without significantly changing your investment position, you can "tax swap" securities. That is, sell securities to recognize a loss and replace them with the same or similar securities. But watch out for the "wash sale" rule. If you sell a stock to recognize a loss, you may not repurchase the same stock for a 30-day period before or after the date of sale or the loss will be disallowed. You can replace it with a similar, but different security. The wash sale rule does not apply to gains.

If you like a particular stock for the long term, but would like to sell it this year to get the benefit of the loss, double up on the position more than 30 days before selling the original position. After at least 31 days, sell the higher cost shares. You'll create a tax loss and be left with the same number of shares you originally owned. You must act quickly so as to have owned the shares for at least 31 days and be able to sell the shares prior to December 31st.

7. Contribute to a Qualified Tuition Program ("QTP") for your child's future college costs

These so-called Section 529 plans let you establish a savings plan from which tuition can be paid. Contributions are generally deductible for state tax purposes and distributions are tax-free as long as used for qualified higher education costs. The income earned in such accounts will not be taxed. This definitely is worth a look for those with young children. Speak to us as we can help you setup and manage such an account.

8. Take losses on your 529 plans! Yes, that's what I said, take losses on the college savings plan you set up for your child.

This is not widely publicized. You may be able to take a loss on your investment in a QTP, if you distribute all of the amounts in an account and the total distributions are less than the amounts contributed. The loss is not taken as a capital loss, but rather as a miscellaneous itemized deduction which is an ordinary deduction (i.e. not subject to the $3,000 capital loss limitation). All miscellaneous itemized deductions must exceed 2% of adjusted gross income to be of benefit. Of course if you find yourself in the AMT, this strategy won't help you at all. You can reinvest the money taken out into another 529 plan account, but there are some rules to be dealt with.

Among the services we provide . . .
When you are considering life, health or long-term care insurance, we can help find the right policy for you. We'll help you analyze your needs, determine the appropriate amount of coverage necessary to protect your family and determine the right policy to suit your needs.

9. Reduction of tax on certain dividends

Eligible dividends for the time being are taxed at the same rate as capital gains, a maximum of 15%. Under current law, in tax years beginning on or after January 1, 2013, qualified dividends will be subject to ordinary income tax rates.

If you are an owner of a closely held 'C' corporation and the company is in the 15% bracket and you are in at least the 25% bracket, taking a dividend payout in place of salary can result in more money in your pocket after taxes.

Note that dividends on stocks are taxed at a lower rate than interest paid on bonds.

10. Keep track of accrued interest you paid

Keep accurate records for any accrued interest you paid when you bought bonds. You received interest from the last date the bond paid interest. This interest will be reported on your 1099

Form. But since you purchased the accrued interest, it's not all taxable to you. Speak to us for information on how to write-off the accrued interest on your 2011 return.

11. Get a receipt from your charity
As previously noted, the Internal Revenue Service requires that you have a written receipt from charities for each contribution. The receipt must be for a donation made in 2011. If you are examined and you do not have a receipt, your deduction will be disallowed; the check will not be

enough. You can make more than one contribution to a charity in one year of less than $250 (that cumulatively exceed $250 for the year) without a receipt, but the Internal Revenue Service has the authority to curb abuses such as with multiple checks issued on the same day. Also, a charity is required to give you a breakdown of the deductible portion of your contribution when goods or services are purchased in connection with a charitable event (dinners, tickets, etc.).

12. Donations of used cars
Remember that you are now only able to deduct an amount equal to what the charity sells the car for.

13. Donate appreciated securities
Consider using appreciated securities that you've owned at least a year to make your charitable contributions. You can deduct the fair market value of the securities and avoid paying the capital gains tax you would incur if you sold the securities. There are limits on the amount of charitable contributions that can be deducted in relation to your income.

Contributions in excess of the deductible amount can be carried to subsequent years. Note that gifts of appreciated assets sometimes affect the alternative minimum tax.

If you have losses in securities you want to donate, sell the securities to recognize the loss for your taxes and then donate the proceeds.

14. Pay off nondeductible interest with a home equity loan
You can benefit by paying off your credit card balances (which typically carry high interest charges and are non-deductible) with a home equity loan, the interest on which may be deductible. Interest is deductible on home equity loan balances up to $100,000.

15. Casualty losses
A casualty loss occurs when your property is damaged as a result of a disaster such as a storm, fire, car accident, theft or similar event. The general rule is that such a loss is deductible only after it has been reported to your insurance company. Then the unrecovered loss less $100 may be deducted to the extent that it exceeds 10% of your adjusted gross income. Losses occurring in declared disaster areas have additional rules but give us some flexibility to enhance the tax benefit.

16. Look into tax advantaged health care accounts or flexible spending accounts
Participation allows you to use pre-tax income for medical expenses that were not covered by insurance or for other eligible expenses. This includes co-pays.

17. If eligible, contribute to an IRA
If you are not an active participant in an employer-provided retirement plan and have wages or self-employment income, you are eligible to make a tax deductible contribution of up to $5,000 ($6,000 if you are age 50 older) per year to an Individual Retirement Account (IRA) up until the year that you turn 70½, subject to phase-outs based on your income. This money will earn

income tax-free and is taxable only when you withdraw funds from the account. If you withdraw the money before age 59½ there may be a penalty tax of 10%. You must begin withdrawing from

the account based on a formula at age 70½. You (and/or your spouse) must have wages or self-employment income at least equal to the amount you contribute. Payment must be made to the IRA no later than April 15, 2012 to be deductible on your 2011 return.

If you are covered by a retirement plan at work, you can take a full IRS deduction in 2011 if your modified adjusted gross income is less than $66,000 if you are single or $109,000 if you are married and filing jointly. Above these income levels, the ability to deduct an IRA contribution is reduced and eventually fully phased out.

If you have self-employment income, you should consider establishment of a SEP, SIMPLE or Keogh retirement plan before year-end. You can contribute significantly more than $5,000 to these plans and you may not have to make any contributions to the plans until the filing date (including extensions) of your personal tax return.

Retirement plan contribution limits for 2011 are as follows:

	401(k) Plans	IRA's	Keogh's/SEP's	SIMPLE Plans
Taxpayers under 50	$16,500	$5,000	$49,000	$11,500
Taxpayers over 49	22,000	6,000	49,000	14,000

18. Consider Roth IRA contributions or rollovers

See our comments earlier in this letter. A Roth IRA is one of the few items in the tax law that is too good to be true. Monies put in a Roth accumulate tax-free. No taxes must be paid on future earnings or withdrawals as long as distributions are made more than five years after the first contribution and after the individual has reached the age of 59½. An individual with earned income may make a nondeductible contribution to a Roth IRA of up to $5,000 plus a $1,000 "catch-up" contribution if you are at least 50 in 2011 (reduced by any amount contributed to a regular IRA). Unfortunately, married taxpayers with adjusted gross incomes ("AGI") over $179,000 (singles over $122,000) can't make a contribution to a Roth.

19. Start your child's savings with a tax-smart Roth IRA

If your child earns income from babysitting, an after-school job, a summer job or from helping out in your office, he or she is eligible for a Roth IRA. Although your teenager is probably not thinking about retirement, a Roth IRA is perfect for a child in a low tax bracket who has many years to let their account grow tax-free. You can contribute for your child as long as you don't exceed the annual gift tax limits. This is a great savings strategy. ☺

20. Consider your family's total tax bill. Shift income to your children. Consider making gifts to family members. Put your kids on the payroll!

Income taxes can be saved by shifting income-producing assets from parents or grandparents who are in a high income tax bracket to their children and grandchildren who are in lower tax brackets. Planning considerations include asset protection (accomplished through the use of trusts) and the "kiddie tax" for beneficiaries under age 24.

Therefore, any assets should not be sold until your child reaches these ages. For children under age 20 without earned income, the first $950 of income will not be taxed and the next $950 will be taxed at the child's lower tax rate. Any amount of income above $1,900 is taxed at the parents' rate. Therefore, instead of gifting to a child's custodial account, put cash into a 529 plan. Earnings in a

529 plan are never taxed if used to pay for college, graduate school or post high school vocational education.

Anyone is permitted to make gifts of up to $13,000 *per year* to an unlimited number of people without having to pay gift taxes. Married couples can make combined gifts of up to $26,000. A married couple wishing to make gifts to two married children and four grandchildren can make gifts of up to $208,000 per year ($26,000 to each child, grandchild and child's spouse) without paying any gift taxes. This is a simple way to reduce the size of one's future taxable estate. There are a number of other ways to reduce your taxable estate. Please contact us for further insight.

Planning Tip: Income can also be shifted upwards. For example, a high-earning professional can make the gift to his/her elderly parents who are in a lower tax bracket. The additional income can be used to help pay for medical and/or assisted living expenses. After the parents die, the assets can go to the original donor's children (if the "kiddie tax" does not apply) for additional income shifting.
Be aware that direct payments of tuition and medical expense for another individual are not subject to gift tax. There is an unlimited exclusion of amounts paid directly to educational organizations for tuition and to health care providers for medical expenses.

If you own your own business, you can hire your kids and fully deduct their pay. And, if your business is unincorporated and your children are under the age of 18, you won't owe any payroll taxes on their wages.

21. Let Uncle Sam pay part of your kid's college tuition bill

Don't pay your children's college tuition bill by selling appreciated securities you own. Rather give your children the shares of appreciated stock or mutual fund and have them sell the shares to pay for school. Assuming they have limited income, neither of you may have to pay any capital gains tax at all. That's letting your Uncle Sam pay part of the tuition bill!

This is one of my favorites and makes so much sense if grandma or grandpa have sizeable estates and are facing a large estate tax bill. They should be paying your child's college tuition! Payments made directly to the school are not counted towards the $13,000 annual gift limit. This is a great way to reduce estate taxes!

College Tuition Credit. If you have kids in college listen up. The American Opportunity Tax Credit expanded and renamed the old Hope Credit. The new credit can be claimed for qualified undergraduate education expenses paid for an eligible student.

Unlike the Hope credit, which was only available for qualified tuition and fees for just the first two years college, the new credit includes related expenses such as books and other required course materials. Additionally, the credit can be claimed for those qualified expenses paid for any of the first four years of post-secondary education.

The credit is equal to 100% of the first $2,000 spent and 25% of the next $2,000 per student each year. The maximum $2,500 credit is possible for a taxpayer who pays $4,000 or more in qualifying expenses. The credit is available to individual taxpayers who make less than $80,000 or $160,000 for married couples. Above those levels, sorry, it's phased out.

The Lifetime Learning Credit of up to $2,000 (20% of tuition of up to $10,000) applies to graduate classes as well as undergraduate. It is also subject to phase out at higher income levels.

Some other late-year moves to save 2011 taxes:

- If self-employed, hold off sending bills to your customers until January.
- Apply now for a social security number for any children born in 2011 as you'll need to put the number on your tax return (complete IRS Form SS-5).
- Increase your basis in S corporations or partnerships to make deduction of 2010 operating losses possible.
- If adopting a child in 2011, take advantage of the tax credit for up to $13,360 of qualified expenses, subject to phase outs.
- Use credit cards to prepay deductible expenses.
- Increase withholdings to eliminate or reduce estimated tax penalties.
- If a business, acquire and place equipment into service before the end of the year and take advantage of instant deductions up to $500,000.
- Keep in mind deductible mileage rates: for unreimbursed business travel – 51 cents per mile; for medical and moving – 19 cents per mile; for charitable activities – 14 cents per mile. A log of such travel should be maintained in order to take a mileage deduction.

Although we've done our best to keep our annual letter as short as possible, it is again considerably lengthier than then we would have liked and it is far from complete. We wish we could summarize in just a couple of pages, but the tax law keeps changing. We hope it proves to be more than just good bedtime reading. Our tax laws are lengthy and getting more complicated. There is no way we can cover everything in this year-end letter.

If you would like to discuss any topic concerning your specific situation, please give us a call. As always we are available to help you with any tax, accounting, bookkeeping, investment, insurance or estate planning needs. But don't wait until mid-December! If you are not a client of our office and wish to consider implementing any of these strategies, or just want to talk about your particular situation, please call us for a free consultation.

Sincerely,

Paul S. Herman, CPA

Circular 230 Disclosure: Any U.S. federal tax advice included in this communication (including any attachments) was not intended or written to be used, and cannot be used, for the purpose of (i) avoiding U.S. federal tax-related penalties or (ii) promoting, marketing or recommending to another party any tax-related matter addressed herein. Any suggestions contained herein are general, and do not take into account an individual's specific circumstance or applicable governing law, which may vary from jurisdiction to jurisdiction and be subject to change. Recipients who are not clients of this office should consult their applicable professional advisors prior to acting on the information set forth herein.

The CPA. Never Underestimate The Value.SM