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## YEAR-END TAX PLANNING TIPS BY SANDRA SMITH, CELA

With the holidays upon us, it's time to do some planning that can help reduce your tax bill this year.

Contributing to your retirement plan is a fast and easy way to cut your taxes, while building your nest egg. The federal limit for 401(k) contributions this year is \$16,500 if you are under 50 years of age, or \$22,000 if you are 50 years of age or older. The limits will increase for 2012; the limit will be \$17,000 if you are under 50 years of age, or \$22,500 if you are 50 years of age or older. You should check with your employer to see if your employer has different contribution limits. If your employer matches contributions, then you should try to contribute at least enough to receive the matching funds. Contributions must be made on or before December 31, 2011.

A traditional or Roth IRA is another way to save for retirement and possibly reduce your taxes this year. The maximum contribution to an IRA for 2011 is \$5,000 for those under 50 years of age, and \$6,000 for those 50 years of age or older; the same limits will be in place for 2012. Your contributions to a traditional IRA may be deductible, depending on whether you are covered by a retirement plan at work and your adjusted gross income. Your adjusted gross income may permit you to contribute to a Roth IRA. For married couples filing jointly, Roth IRA eligibility phases out at modified adjusted gross incomes (AGI) from a range of \$169,000 to \$179,000. For single filers the Roth IRA eligibility phases out at modified AGIs from \$107,000 to \$122,000. These phase out ranges will change slightly in 2012. If you do not qualify for a Roth IRA because your income is too high, then you may want to open or contribute to a nondeductible traditional IRA now, and convert it to a Roth IRA, because there are currently no income limits for conversions to Roth IRAs. You will need to pay taxes on all or most of the funds converted, but your Roth IRA will continue to grow tax-free, and withdrawals may be tax-free if you follow the Roth IRA rules. You have

until April 15, 2012, to open and contribute to a traditional or Roth IRA, and you have until December 31, 2011, for Roth IRA conversions.

For the self-employed, Simple IRA contributions for 2011 are \$11,500 for those under 50 years of age, or \$14,000 for those 50 years of age or older. These limits remain the same in 2012.

Charitable giving has always been a source of deductions on your tax return. You must keep good records that show the value of the items you donate to charity. If you donate a vehicle, then the value of the deduction will depend on what the charity receives when it sells the vehicle. Taxpayers who are 70 ½ years of age or older may give away as much as \$100,000 this year from their IRAs directly to qualified charities. Such a contribution counts toward the required minimum distribution for the year, and it is called a “qualified charitable distribution.” Taxpayers get an exclusion from their gross incomes for these qualified charitable distributions, although taxpayers may not take a charitable deduction for the contribution to charity. This tax break currently will end after December 31, 2011.

There are several more traditional ways to reduce your taxes this year. If you are fortunate enough to have gains on investment income, then now is the time to offset some of those gains with losses on the investments you have considered selling. If you have no gains to offset, then you may use up to \$3,000 of loss to reduce taxes on ordinary income, and carry forward the extra loss into future tax years. With respect to your home, you may want to make your January mortgage payment in December and deduct the interest in 2011. You may also be able to pay taxes, such as property taxes, that aren't ordinarily due until 2012.

Before you use tax-saving strategies, be sure you consider the effect of the alternative minimum tax (AMT). The amount of income exempted from the AMT is \$74,450 for married joint filers and \$48,450 for single filers. If you have not yet been affected by the AMT, then this could be the year that it catches up with you if you are not careful. Some accountants say strategies such as using home equity to cover credit card debt could push you into the higher tax calculations of the AMT. Your accountant or you should run a quick calculation before moving forward with some of the tax-saving strategies.

The attorneys at Oast & Hook can assist clients with their estate, financial, insurance, long-term care, veterans' benefits, and special needs planning issues.

*Sandra Smith is an elder law attorney with Oast & Hook, and she practices in the areas of estate planning, estate and trust administration, special needs planning, asset protection planning, long-term care planning, and Veterans' benefits. Ms. Smith is certified as an Elder Law Attorney (CELA) by The National Elder Law Foundation (NELF).*

#### **Ask Allie**

O&H: Allie, we've heard about a dog who lived a long life in Japan. Please tell us about him.

Allie: Sure! Pusuke was a male crossbreed who lived in Sakura, Japan. Late in 2010, he was recognized by the Guinness Book of World Records as the oldest living dog. His mom, Yumiko Shinohara, said he had a good appetite and had kept up with his two strolls a day until early on December 5, 2011. Pusuke passed away later that afternoon at the ripe old age of 26 years and 9 months (approximately 125 in dog years). His mom said she was grateful for the many good memories Pusuke provided through the years. What a great story! For those readers who may be interested, the current Guinness record holder as the oldest living cat is Pinky, age 22, who was born on October 31, 1989, and lives in Hoyt, Kansas. I have a long way to go to reach that record age, so I guess I have time to take a nap . . . See you next week!

### Announcement

The attorneys and staff of Oast & Hook recently took part in the Norfolk and Portsmouth Bar Association's 8th Annual Harvest for the Homeless. The Harvest for the Homeless is a three week drive in which members of the Norfolk and Portsmouth Bar Association collect items from their closets to donate to local homeless shelters. The Harvest was bountiful as Oast & Hook collected approximately 25 bags of blankets, warm clothing, and toiletries and donated these items to the Oasis Social Ministry in Portsmouth, Virginia.

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