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HOT OFF THE PRESS

TAX PLANNING CONSIDERATIONS

Thanks to the extension of the so-called Bush tax cuts through 2012, the current federal income tax environment remains favorable. We will have to see what Congress' super committee comes up with, if anything. Now is the time to take advantage because we don't know what tax rates will be in 2013 and beyond. While 2013 may seem a long way out; it will be here before you know it. This letter presents some tax planning ideas to consider. Some of the ideas may apply to you, some to family members, and others to your business. Here goes.

Leverage Standard Deduction by Bunching Deductible Expenditures

Are your 2011 itemized deductions likely to be just under, or just over, the standard deduction amount? If so, consider the strategy of bunching together expenditures for itemized deduction items every other year, while claiming the standard deduction in the intervening years. The 2011 standard deduction for married joint filers is \$11,600; the magic number for single filers is \$5,800; it's \$8,500 for heads of households. Examples of deductible items that can be bunched together every other year to lower your federal income taxes include charitable contributions and state income and property tax payments.

Consider Deferring Income

It may also pay to defer some taxable income from this year into next year, especially if you expect to be in a lower tax bracket in 2012. For example, if you are in business for yourself and a cash-method taxpayer, you can postpone taxable income by waiting until late in the year to send out some client invoices. That way, you won't receive payment for them until early 2012. You can also postpone taxable income by accelerating some deductible business expenditures into this year. Both moves will defer taxable income from this year until next year. Deferring income may also be helpful if you're affected by unfavorable phase-out rules that reduce or eliminate various tax breaks (child tax credit, education tax credits, and so forth). By deferring income every other year, you may be able to take more advantage of these breaks every other year.

Time Investment Gains and Losses and Consider Being Bold About It

As you evaluate investments held in your taxable brokerage firm accounts, consider the impact of selling appreciated securities this year. The maximum federal income tax rate on long-term capital gains realized from 2011 sales of securities held for over a year is only 15%. Therefore, it often makes sense to hold appreciated securities for at least a year and a day before selling.

Biting the bullet and selling some loser securities (currently worth less than you paid for them) before year-end can also be a good idea. The resulting capital losses will offset capital gains from other sales this year, including short-term gains from securities owned for one year or less, which would otherwise be taxed at higher ordinary income tax rates. You may have significant short-term gains if you bought into the stock market before this year's uptick. The bottom line is that you don't have to worry about paying a higher tax rate on short-term gains if you have enough capital losses to shelter those short-term gains.

If capital losses for this year exceed capital gains, you will have a net capital loss for 2011. You can use that net capital loss to shelter up to \$3,000 of this year's high-taxed ordinary income from salaries, bonuses, self-employment, and so forth (\$1,500 if you're married and file separately). Any excess net capital loss is carried forward to next year.

Take Advantage of Generous But Temporary Business Tax Breaks

Several favorable business tax provisions have a limited shelf life that may dictate taking action between now and year-end. They include the following.

Bigger Section 179 Deduction. Your business may be able to take advantage of the temporary increase in the Section 179 deduction. Under the Section 179 deduction, an eligible business can often claim first-year depreciation write-offs for the entire cost of new and used equipment and software additions. For tax years beginning in 2011, the maximum Section 179 deduction is \$500,000 (same as for tax years beginning in 2010). For tax years beginning in 2012, however, the maximum deduction is scheduled to drop back to \$125,000.

Note: Watch out if your business is already expected to have a tax loss for the year (or close), before considering any Section 179 deduction, as you cannot claim a Section 179 write-off that would create or increase an overall business tax loss. Please contact us if you think this might be an issue for your operation.

Section 179 Deduction for Real Estate. Real property improvement costs are generally ineligible for the Section 179 deduction privilege. However, an exception applies to tax years beginning in 2011 (and 2010). Under this exception, your business can immediately deduct up to \$250,000 of qualified improvement costs for the following types of real property under the Section 179 deduction privilege:

- * Interiors of leased nonresidential buildings.
- * Restaurant buildings.
- * Interiors of retail buildings.

The \$250,000 Section 179 allowance for real estate improvements is part of the overall \$500,000 allowance. This temporary real estate break will not be available for tax years beginning after 2011 unless Congress extends it.

100% First-year Bonus Depreciation. Above and beyond the bumped-up Section 179 deduction, your business can also claim first-year bonus depreciation equal to 100% of the cost of most new (not used) equipment and software placed in service by December 31st of this year. For a new passenger auto or light truck that's used for business and is subject to the luxury auto depreciation limitations, the 100% bonus depreciation break increases the maximum first-year depreciation deduction by \$8,000, for vehicles placed in service this year. The 100% bonus depreciation break will expire at year-end unless Congress extends it. Contact us if you want more details about this generous, but temporary, break.

Don't Overlook Estate Planning

For 2011 and 2012, the unified federal gift and estate tax exemption is a relatively generous \$5 million. However, the exemption will drop back to only \$1 million in 2013 unless Congress takes action. In addition, the maximum federal estate tax rate for 2011 and 2012 is 35%. For 2013 and beyond, it is scheduled to rise from the current 35% to a painfully high 55%. Therefore, planning to avoid or minimize the federal estate tax should still be part of your overall financial game plan. Even if you already have a good plan, it may need updating to

reflect the current \$5 million exemption. Contact us for more information on the best ways to minimize estate taxes for someone in your situation.

Conclusion

As we said at the beginning, we intended to give you just a few ideas to get you thinking about tax planning moves for the rest of this year. Please don't hesitate to contact us if you want more details or would like to schedule a tax planning strategy session.

OHIO BIENNIAL BUDGET-GOOD NEWS!

Ohio Estate Tax

On June 30, 2011, Governor Kasich signed a bill eliminating the Ohio Estate Tax, as of December 31, 2012. The Ohio Estate Tax, which is a tax independent of the federal estate tax, has a maximum rate of 7 percent and an exemption amount of \$338,333 - one of the lowest exemptions of any state. 80% of the tax owed is returned to the local government where the decedent was a resident, 20% passes to the state.

Investohio Program

As part of the budget bill, a non-refundable personal income tax credit program was established. It is for persons investing in a small business enterprise with an operating presence in Ohio. A "small business enterprise" is one having assets of less than \$50 million, or annual sales less than \$10 million.

Eligible investments must be made on or after July 1, 2011, must be used to acquire a direct or indirect equity interest in the enterprise, and must be held for at least 2 years if made before July 1, 2013, and 5 years if made after that date.

The maximum an individual may invest in any fiscal biennium is \$10 million, and the credit is 10% of the amount invested. During any fiscal biennium, small business investment certificates cannot be issued by the Department of Development that would cause the credits claimed for any biennium to exceed \$100,000,000. Any unused credit may be carried forward seven taxable years. Further details on implementation of the credit are to be issued by the Ohio Department of Taxation in the fall. We will keep you apprised of these developments.

Tax Amnesty Program

Also included in the budget bill was the authorization of a tax amnesty program. The program applies to various state and local taxes including sales and use taxes, corporate franchise tax, commercial activity tax (CAT), estate tax, motor fuel taxes, cigarette taxes, school district income taxes, and tangible personal property taxes. Tax liabilities related to these tax types had to have been delinquent as of May 1, 2011 to qualify for the amnesty program.

During the program, if a taxpayer pays the full amount of outstanding tax liability owed and half of the accrued interest, all associated penalties and the remaining interest charges will be abated. The tax amnesty program is slated to start on May 1, 2012, and conclude on June 15, 2012. Further details on implementation of the program are to be issued by the Ohio Department of Taxation before year end.

I.R.S. STANDARD MILEAGE RATE

To reflect the increase in gas prices, the IRS raised the standard mileage rates for the last six months of the year. The rate is increased to 55.5 cents per mile for business miles driven from 7/1/11 to 12/31/11, a 4.5-cent increase from the rate in effect for the first six months of 2011. The rate for computing deductible medical or moving expenses will also increase by 4.5 cents per mile to 23.5 cents per mile, up from 19 cents per mile for the first six months of 2011. The rate for providing services for a charity is set by statute and remains at 14 cents per mile.

YOU CAN WIN A FREE MEAL

In our previous newsletter, we offered a \$25 gift certificate to Mitchell's Restaurants to the winner of our drawing. To be entered, you only needed to forward to us your email address. We want to thank all of you who participated. The winner, in a blind drawing, is Steven Baumgarten.

NEWS AND NOTES . . .

The purpose of this column is to keep you informed of happenings within the office, and with our friends. If you have any items you would like to contribute, email the editor.

After 22,630 long days (62 years), we are sorry; he is not, to announce the retirement of **Irv Berger**. He started his career working with his father-in-law in the family CPA firm, Louis A. Blue & Associates. Before the death of Mr. Blue, Irv's son **Alan** became the third generation to join the firm, which ultimately became Berger, Apple & Associates, Ltd. After working with us at Singer, Berger, Press & Co. the last two years, we will all truly miss him as he spends more time on the golf course and in Florida. I am sure we will see him in the office from time-to-time as he makes sure that we continue to offer high quality services to his clients. We wish him the best of everything!

. . . Irv's grandson, **Josh**, the son of Alan and **Bonni** Berger, has taken a position with the State of Ohio Treasurer's Office in the Department of Human Resources . . . We are proud to announce the addition to our firm of staff accountant **Margaret Poderzay** . . . We especially want to congratulate **Christine Bretz** upon her marriage to **Paul Qua**. We wish them a long and happy marriage!

Congratulations to **Kimberly Martinez-Giering**, President and Owner of KLN Logistics Corp. upon her recognition by "Crain's Cleveland Business" as one of the **Women of Note**. The Company, a division of AIT Worldwide Logistics, customizes logistics for its clients. Thanks to Kimberly's efforts, it has produced steady growth since her involvement in 2005.

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