

NGA/FMS Financial Management Conference

# Turn Pennies Into Dollars Top Ten Tax Planning Tips for 2011 and Beyond

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# 1) Accelerate Deductions and Defer Income

- On accrual basis:
  - Accrue year-end bonuses to key employees
    - Make sure to pay bonus before due date of tax return
  - Prepay certain insurance and licenses
    - May require an accounting method change



## 2) Remember 15-year write-off for qualified real property improvements

- Qualified leasehold improvement property
- Qualified retail property
- Qualified restaurant property
- Ends on December 31, 2011



# 3) Section 179 Deduction

- Ability to “expense” assets in the year of purchase
- New and used asset purchases
- Qualifying assets
  - Property subject to depreciation or amortization
  - Section 1245 property and Qualified Real Property
  - Acquired by purchase from an unrelated party
  - Used more than 50% in an active business
- Examples:
  - Shelving
  - Checkout kiosks
  - Cash registers
  - Coolers
  - Computers and other technology equipment



# Section 179 Deduction

- Applicable Rates and Dates:
  - Tax Year 2011
    - \$500,000 maximum election (\$250,000 for qualified real property costs)
    - \$2,000,000 annual aggregate asset purchases
  - Tax Year 2012
    - \$125,000 maximum election
    - \$500,000 annual aggregate asset purchases
  - Tax Year 2013
    - \$25,000 maximum election
    - \$200,000 annual aggregate asset purchases
- Limited by:
  - Taxable Income
  - Aggregate asset purchase (see above)
- Free to choose which assets to apply deduction to
- Carryover:
  - Unlimited years forward
  - Only if deduction is limited by taxable income
- Can be used with Bonus Depreciation



## 4) Take advantage of Bonus Depreciation for 2011 and 2012

- Qualified property
- 100% bonus for 2011
- 50% bonus for 2012
- Like-kind exchanges



# Bonus Depreciation

- Additional first-year depreciation deduction
- New assets only
- Qualifying assets
  - IRC §168 property with a MACRS life of 20 years or less
  - Computer software that is not amortizable over 15 years
  - Water utility property
  - Qualified leasehold improvement property
  - New Heavy SUV's
- Examples:
  - Shelving
  - Checkout kiosks
  - Cash registers
  - Coolers
  - Computers & other technology equipment



# Bonus Depreciation

## Applicable Rates and Dates:

- September 9, 2010 – December 31, 2011 = 100% Bonus
- January 1, 2012 – December 31, 2012 = 50% Bonus

## Not limited by:

- Income
- Aggregate annual asset purchases

## Electing Out:

- Attach election to tax return
- Must elect out of entire asset class

No carryover

Can be used with Section 179 Election



# Making the most of Bonus Depreciation & Section 179

<b>Facts:</b>			
Income before new asset depreciation)	400,000		
Total Asset Purchases (not used equip.)	500,000		
Combined Federal and State Tax Rate	40%		
<b>Elect Section 179:</b>			
Income Before Depreciation			400,000
MACRS Depreciation Deduction on Remaining Assets	25,000		
100% Bonus Depreciation Deduction	-		
Section 179 Expense	375,000		
Total First-Year Depreciation			400,000
Taxable Income (Loss)			-
Tax Due (Potential Refund)			-
<b>Elect Bonus Depreciation:</b>			
Income Before Depreciation			400,000
MACRS Depreciation Deduction on Remaining Assets	-		
100% Bonus Depreciation Deduction	500,000		
Section 179 Expense	-		
Total First-Year Depreciation			500,000
Taxable Income (Loss)			(100,000)
Tax Due (Potential Refund)			(40,000)

# 5) Remember business credits and deductions

- Temporary employee/self-employed payroll tax cut for 2011
- Other Credits
  - Work Opportunity Tax Credit extended
  - Rehabilitation Credit
  - Empowerment Zone Credit
  - New Markets Tax Credit

# 6) Planning for net operating losses

- If 2011 is going to be a loss year
  - Review 2009 and 2010 tax returns for carryback opportunities
    - Opportunity for “Quick Carryback Claim”
      - Individuals – File Form 1045
      - Corporations – File Form 1139
  - If opportunity exists for carryback, consider additional deductions to increase current year loss



# 7) 2010 Tax Relief Act - A Temporary Gift from Washington



# 7) 2010 Tax Relief Act

## - A Temporary Gift from Washington

	Single	Married Filing Jointly	Head of Household
10%	\$8,500	\$17,000	\$12,150
15%	\$34,500	\$69,000	\$46,250
25%	\$83,600	\$139,350	\$119,400
28%	\$174,400	\$212,300	\$193,350
33%	\$379,150	\$379,150	\$379,150
35%	> \$379,150	> \$379,150	> \$379,150

# Reduced Individual Tax Rates and IRA Conversions

## Income tax planning for 2011-2012

- Reduced individual income tax rates
  - Affects flow-through income from LLCs, Partnerships and S Corporations



# IRA Conversions

- Revisit your Roth IRA Conversion
  - Converted to a Roth IRA in 2010
    - IRA has lost value since conversion
    - Tax has been paid on the lost value since it was due with the 2010
  - You can recharacterize the Roth conversion back to a regular IRA
    - Must act on, or before, October 17, 2011

## **8) Planning with reduced capital gains and qualified dividends**

- Sale of business
- C corporation earnings and profits
- Repeal of collapsible corporation rules extended two years

# 9) Revise estate plans for now and beyond

- Non-tax reasons for estate planning
- Consider state death taxes in planning
- Portability of unused exemptions between spouses vs. Credit Shelter Trusts
- Build in Flexibility



# 9) Make the most of gift tax planning in 2011 and 2012

- \$5 million exemption planning
- Grantor Trusts
- Take advantage of interest rates
- State death tax benefits
- Leveraged Gifts
  - Time to transfer the business to the next generation



# Gifting Example

	Unified Credit	Tax Rate	
2011 & 2012	\$ 5,000,000	35%	
2013 on	\$ 1,000,000	55%	
Current Value	\$ 6,000,000		
Future Value	\$ 9,000,000		
Gift to Family in 2011	\$ -		
			To Family
Net remaining	\$ 6,000,000		\$ -
Plus Appreciation	\$ 3,000,000		\$ -
Taxable Estate	\$ 9,000,000		\$ -
Less Unified Credit	\$ (1,000,000)		
	\$ 8,000,000		
Tax Rate		55%	
Total Estate Tax	\$ 4,400,000		
Estate net of tax	\$ 4,600,000		
Gift Appreciated	\$ -		
Net to Family	\$ 4,600,000		

# Gifting Example

	Unified Credit	Tax Rate	
2011 & 2012	\$ 5,000,000	35%	
2013 on	\$ 1,000,000	55%	
Current Value	\$ 6,000,000		
Future Value	\$ 9,000,000		
Gift to Family in 2011	\$ (5,000,000)		
			To Family
Net remaining	\$ 1,000,000		\$ 5,000,000
Plus Appreciation	\$ 500,000		\$ 2,500,000
Taxable Estate	\$ 1,500,000		<u>\$ 7,500,000</u>
Less Unified Credit	\$ -		
	\$ 1,500,000		
Tax Rate		55%	
Total Estate Tax	<u>\$ 825,000</u>		
Estate net of tax	\$ 675,000		
Gift Appreciated	<u>\$ 7,500,000</u>		
Net to Family	<u>\$ 8,175,000</u>		
Difference	<u>\$ 3,575,000.00</u>		

# 10) 2012 and Beyond

- American Jobs Act of 2011
  - Extend 100% bonus depreciation to 12/31/12
  - Cut employer portion of social security tax
    - From 6.2% to 3.1% on first \$5 million of wages
  - New payroll tax credit for increasing wages
  - New credits for hiring veterans
  - New credit for hiring workers that have been unemployed for over six months

# Questions?



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