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Tax planning is an ongoing process. Unlike the last couple of years, the beginning of 2011 has produced little in the way of major tax legislation, but that does not mean tax planning opportunities are hard to find. Toward the end of the year, the tendency is to focus on tax strategies that can be executed quickly because of the short period of time remaining. Let's take a moment now as the summer winds down to focus on strategies that may

take a little more time to implement, but have the potential to significantly change your 2011 tax bill.

Your AKT client service team is ready to help you navigate what is known thus far, as well as to help you plan for both what remains of 2011 and the years to come. Please reach out to any member of your client service team if you think any of these strategies may work for you or your business.

We produced this guide for our clients, as well as other like-minded individuals, concerned with their personal financial affairs. The material in this guide is not intended to be specific legal, tax, accounting or financial advice. Each individual's situation is unique and thus the considerations described within this guide will differ for every individual. This is not intended as substitution for specific advice and where specific advice is appropriate or necessary, we strongly recommend consulting a professional advisor.

Please note, under current IRS regulations, we must inform you that any tax advice in this communication is not intended or written by AKT to be used, and cannot be used, by a client or any other person or entity for the purpose of (1) avoiding penalties that may be imposed on any taxpayer or (2) promoting, marketing or recommending to another party any matters addressed herein.



INCOME, ESTATE AND GIFT TAX PLANNING 2011

PAYING YOUR ESTIMATED INCOME TAXES

Federal and state governments operate on a pay-as-you-go payment pattern. Now is a good time to check your progress toward getting your taxes paid.

Avoidable penalties apply if you do not pay in accordance with the rules throughout the year. If it looks as if you are going to be subject to an underpayment penalty, you may be able to reduce or eliminate the penalty by increasing your quarterly estimated tax payments.

If you are employed, having your employer withhold more from your pay can even eliminate penalties that accrued earlier in the year. There is a quirk in the penalty rules that treats withholding, even if it occurs late in the year, as if it had been taken evenly throughout the year.

On the flip side, why remit payment too soon, when you can invest those funds until April 15, 2012? As long as you will not be subject to an underpayment penalty, you should hold on to your cash as long as possible. If it appears that you have been paying too much tax, cut back on your withholding or lower your remaining quarterly estimated tax payments. Of course the alternative minimum tax changes everything.

If you have had a change this year that may warrant another look at your estimated tax payments, please let us know so we can help you plan for the coming payments.

FUNDING YOUR RETIREMENT PLANS

Contributing to a tax-qualified retirement plan can reduce your current tax obligations and help you save for your retirement in a tax-efficient manner. Qualified plans provide tax deferral (or tax avoidance in the case of Roth IRAs) on earnings until distributions are made. It is the plan, not the contribution, which allows for earnings to grow tax-deferred or tax-free and the sooner you make the contribution, the sooner your tax-deferred or tax-free earnings begin. If you already have a plan in place, consider funding it as soon as possible, rather than waiting until the last minute.

To qualify for a tax deduction in 2011, your retirement plan generally must be in place before the end of the year. However, simple plans must be opened by October 1 for calendar year ends. Exceptions are IRA and SEP (simplified employee pension) plans, which can be set up through April 15, 2012. Establishing a new retirement plan requires thoughtful decision-making. If you think a new retirement plan may be in order, we are happy to help walk you through what options are available to you and which of those best suit your needs.

Small employers (generally those with 100 or fewer employees) who set up a qualified retirement plan may be eligible for a tax credit up to \$500 per year for three years. The credit is limited to 50 percent of the qualified startup costs.

The following contribution limits apply for the 2011 tax year:

- ▶ Participants in a 401(k) plan can defer up to \$16,500 (\$22,000 for ages 50 or older).
- ▶ The IRA contribution limit is \$5,000 (\$6,000 for ages 50 and older).
- ▶ Simple IRA participants can defer up to \$11,500 (\$14,000 for age 50 and older).
- ▶ Self-employed individuals can contribute 20 percent of their self-employment income (up to \$49,000).

IRAS AND ROTH ACCOUNTS – Individuals with earned income, and alimony, are generally eligible to contribute to traditional IRAs. Claiming a deduction for your contribution is another matter. That depends on your income and whether you or your spouse are covered by an employer-sponsored retirement plan.

- ▶ If neither you nor your spouse is covered by an employer's plan, you may deduct your contribution to your traditional IRA.
- ▶ At higher income levels, modified adjusted gross income above \$66,000 for singles and \$110,000 for joint filers, no deduction is allowed if you (and your spouse) are covered by an employer's plan.
- ▶ If you are married and only one of you is covered by an employer's plan, the non-covered spouse may claim the deduction unless your joint modified adjusted gross income exceeds \$179,000.

Many people find the long-term benefits of contributing to a Roth IRA or a Roth 401(k) outweigh the short-term financial benefits of tax-deductible contributions. While Roth contributions are not tax-deductible, none of the income earned in the Roth account will have tax consequences unless

there are early distributions and penalties may apply. In addition, the Roth account is not subject to the required minimum distribution rules that apply when you reach age 70½.

Eligibility to contribute to a Roth IRA depends on the amount of your income. No contribution is allowed if your modified adjusted gross income for 2011 exceeds \$122,000 for singles and \$179,000 for joint filers. You can make a direct rollover from your traditional IRA or other qualified retirement plan into a Roth IRA. However, you must pay tax on the rollover amount. There is no longer an income limit associated with Roth rollovers.

DEFINED BENEFIT PLANS – If you own a business, you may be able to avail yourself of a defined benefit type of retirement plan. These plans often allow significantly higher retirement contributions than other types of plans.

CHARITABLE CONTRIBUTIONS FROM IRAS

Until Dec. 31, 2011, those over age 70½ are able to make charitable contributions from their IRA – without the need to include the distribution in income – or claiming a charitable contribution deduction. Making these contributions directly is generally advantageous because this method will not raise your income for limits on itemized deductions such as medical and miscellaneous deductions.



INVESTING IN SMALL BUSINESS STOCK

If you purchase qualified small business stock after Sept. 27, 2010, and before Jan. 1, 2012, and hold it for more than five years, your entire gain is tax free. Qualified small business stock purchased before Sept. 28, 2010, may qualify for partial exclusion of gain. The company that issues the stock must meet technical qualification rules. In addition, you must be the original owner of the stock, acquiring the stock by purchase or as compensation

for services. Once the stock is qualified, you can transfer it by gift or inheritance, and the new owner may still obtain the tax exclusion.

If you are considering an investment in qualified small business stock, please contact your client service team to ensure the technical qualifications are met. You will want to complete the acquisition by Dec. 31, 2011 to take advantage of the current rules.

CASHING IN ON TAX CREDITS

ENERGY CREDIT – If you have home-improvement plans such as replacing your furnace, water heater, windows and doors or adding insulation, consider acquiring qualified replacements before Dec. 31, 2011, to take advantage of the energy credit, which could reduce your tax bill by as much as \$500. Note that energy credits you claimed in the past may reduce or eliminate your credit available for 2011.

ADOPTION CREDIT – The maximum adoption credit for 2011 is \$13,360 subject to income limitations, and it is refundable. This means that, if the credit exceeds your tax bill, you get cash back from the government. By 2012, the credit is expected to be lower and nonrefundable.

ESTABLISHING A HEALTH PLAN FOR YOUR EMPLOYEES

If you are not currently providing health coverage for your employees, a tax credit for small businesses may make the cost of purchasing this coverage more affordable. For tax years 2011 through 2013, the maximum credit is 35 percent of the premiums paid by the employer.

To earn the credit, the employer generally must contribute at least 50 percent of the total premium. The full credit is available for employers with 10 or fewer full-time equivalent employees (FTEs) and average annual wages less than \$25,000. Partial credits are available on a sliding scale to businesses with fewer than 25 FTEs and average annual wages less than \$50,000. Not all groups of employees qualify.



HIRING NEW EMPLOYEES

There are numerous federal and state hiring related credits including The Work Opportunity Tax Credit. This credit is available to employers who hire certified members of specified targeted groups. The credit can range up to 40 percent of the first \$6,000 of qualified wages paid during the first year of employment, for a maximum credit of \$2,400 per qualified employee. Under current law, the credit is available only for employees hired by Dec. 31, 2011.

WRITING OFF CAPITAL EXPENDITURES

Generous tax write-off rules apply to most tangible personal property acquired and placed in service during 2011. The expensing election limit under Section 179 is set at \$500,000 if the total amount of qualified asset purchases does not exceed \$2 million. The deduction is available for most business equipment, furniture and off-the-shelf computer software. There are limits to the Section 179 deduction, including the fact that it cannot cause a net loss. The 100 percent bonus depreciation election for qualified new assets is also available through the end of 2011, and has no such no-loss restriction.

PLANNING YOUR ESTATE AND GIFTS

Do not make the common mistake of thinking that Congress has settled the estate tax debate. It is true that effective Jan. 1, 2011, Congress raised the exclusion so that the tax applies only to estates valued at greater than \$5 million. And it is also true that Congress made the estate tax exclusion “portable.” So if the combined estates of you and your spouse do not exceed \$10 million, you may avoid the estate tax without the necessity of having a trust that includes language creating a “bypass trust” or other such provisions.

But the estate tax situation is far from settled. The new estate tax law was enacted as part of the same legislation that extended the so-called Bush-era tax cuts for two years. The new estate tax law has the same two-year expiration date. In other words, absent congressional intervention in the interim, on Jan. 1, 2013, federal estate, gift and generation-skipping taxes will revert to a lower exclusion amount (\$1 million) and higher rates (up to 55 percent) as would have occurred on Jan. 1, 2011.

The annual gift tax exclusion for 2011 remains at \$13,000 per person. Therefore, if you are married, you and your spouse can gift up to a combined \$26,000 per donee by using the giftsplitting rules without any federal gift

If you own a business and have children, consider putting them to work. You will be able to deduct their wages, as long as you make their pay commensurate with what you would pay to a nonfamily employee for the same services. For 2011, they can earn as much as \$5,800 or more if they contribute to an IRA and pay no income tax. But may be subject to F.I.C.A. tax.

tax ramifications. Gifting is a good way to reduce your taxable estate and may be an important element of your estate plan. In addition, the earlier in the year you gift income-earning assets such as cash, stock, etc., the lower your taxable income.

As noted above, effective Jan. 1, 2011, Congress enacted a number of changes in the law applying to estates and gifts. Unexpectedly, Congress reunified the estate and gift transfer tax exclusion amount. This means that, not only do you have a \$5 million exclusion for your taxable estate, that same exclusion can be used instead during your lifetime to make large gifts without gift tax consequences. Because this increased exclusion amount is scheduled to expire after 2012, it may be very prudent tax planning to go ahead and use the increased gift exclusion during your lifetime. Failure to do so may result in a permanently missed opportunity.

Many people executed their current will and estate plan without consideration of the increased exclusion amount and the portability feature of the new estate tax law. Please contact your AKT client service team for your estate and gift planning needs.