



12 TEMPTING TAX TIPS FOR 2012

In recent years, as Congress crafted new laws such as housing bills, health care reform or extended tax provisions such as the Bush-era tax cuts, lawmakers were careful to make sure that no major taxes took effect in 2012.

Why? Because it's a presidential election year. No candidate wants to explain to voters heading to the polls why they are facing added taxes. But there are still many tax considerations in the coming year. Here are 12 tax tips, reminders and planning tools for 2012.

TIP 1 | Remember Roth IRA conversion taxes

Anyone, regardless of income, can convert a traditional individual retirement account to a Roth IRA. But when that option first became available in 2010, a special feature that year allowed individuals who converted to a Roth IRA to spread the taxes due on converted amounts equally over the 2011 and 2012 tax years. That means your first Roth conversion tax bill will be included on your 2011 return filed in 2012. Make sure you have that cash on hand, and plan now for the 2012 conversion bill.

TIP 2 | Claim your American Opportunity

The American Opportunity Tax Credit was a centerpiece of the 2009 stimulus bill. The new education tax break expanded the existing Hope Credit, providing a credit of up to \$2,500 of the cost of qualified tuition and related expenses, and up to \$1,000 of the credit could come back to the taxpayer as a refund.

The American Opportunity Credit was originally supposed to end in 2010, but it was extended through 2012. However, this could be the credit's last year. Congress is looking for ways to cut the federal deficit, and allowing tax breaks to expire is an easy way to save some dollars. If you have eligible education expenses, be sure to claim the American Opportunity Credit while you can.

TIP 3 | Note health care info on W-2

When you get your 2011 W-2, you might notice some new information on the form. Box 12 is where employers will report the cost of your workplace's group health insurance coverage. This amount is both the amount the business pays as well as the premiums paid via payroll deductions by the workers.

Don't freak out. The amount, which will be designated by the code DD, is not taxable income. It's informational only, designed to help Uncle Sam confirm taxpayers have coverage. Under the health care reform law, the Affordable Care Act, the data will help to enforce the eventual individual coverage if it survives a Supreme Court hearing as well as the so-called Cadillac tax on more expensive workplace insurance plans.

However, if you don't see anything in Box 12, don't freak out about that either. The IRS ruled that reporting 2011 health care data is optional for employers.

TIP 4 | Pay attention to Form 1099-K

If you get a Form 1099-K in 2012, don't toss it. The new form records payments received in 2011 by credit card or through third-party networks such as PayPal. This added income reporting mechanism was created as part of the Housing Assistance Tax Act of 2008 and is finally taking effect for the 2011 tax year because of concerns that some small businesses do not report all of their income.

TIP 5 | Be ready for basis reporting

Beginning with the 2011 tax year, brokers must report an asset's basis, the value that is used to determine profit when you sell, to the IRS. That amount will show up on the 1099 forms you receive in 2012 for 2011 stock transactions. Additional basis reporting will be phased in, in 2012 and 2013. You might have heard of this new requirement when your investment managers asked which type of basis reporting you preferred they use. Generally, brokers must report the sale of securities on a first-in, first-out basis unless the customer specifically identifies which securities are to be sold.

TIP 6 | Accelerate income

Most tax experts will tell you to pay no tax before its time. However, impending income tax rate changes might make 2012 the exception to that traditional tax adage. The top ordinary income tax bracket in 2012 is 35 percent of annual taxable income. If Congress doesn't act, the highest tax rate will go to 39.6 percent in 2013. So, if you're in the top tax bracket, you might want to accelerate income into 2012 and pay taxes at the lower rate.

TIP 7 | Cash in winning stocks

Along with higher ordinary income tax rates, there's a possibility of higher tax rates on investment income. Through 2012, the top federal capital gains tax rate is 15 percent for most taxpayers, and no tax is due from investors in the 10 percent and 15 percent tax brackets. These lower rates apply to assets held for more than a year. If you believe capital gains taxes might go up, 2012 could be a good year to lock in profits on long-term investments.

TIP 8 | Plan for the added Medicare tax

Higher-income earners always have a few more tax considerations, and that's true in 2012. In 2013, a new 3.8 percent Medicare tax is slated for collection on profits from the sale of investment property.

This includes capital gains, dividends, interest payments and, for those who own rental property, net rental income. The tax will apply to individuals with a gross income of \$200,000 or more or married couples filing jointly with a combined gross income of \$250,000 or more. If you're in the targeted income brackets, talk with your tax and investment advisers about steps you can take this year to prepare for the new tax.

TIP 9 | Assess AMT danger

The alternative minimum tax, or AMT, is a continual tax trap for millions of middle-income taxpayers. This parallel tax system was created in 1969 to ensure wealthier taxpayers pay a minimum amount of

taxes, primarily by disallowing several common deductions that are claimed under the regular tax system. But because the AMT is not indexed for inflation, Congress must increase the income levels affected by the alternative tax. It's possible that tax reform in 2012 could eliminate the AMT, a longtime goal of many lawmakers. But just in case that doesn't happen and you fear you might end up paying the alternative tax, talk with your tax adviser about ways you can limit your AMT exposure.

TIP 10 Give gifts

Giving to charity can help reduce an annual tax bill, but if you have a large estate, gifts also are important estate tax tools. Thanks to the resurrection of the estate tax in 2011, the unified gift tax also returned. This means you can give away \$5 million during your lifetime without having to pay the 35 percent gift tax. There's also an annual amount to note in giving away your estate's assets while you're still around to get thanks. In 2012, you can give up to \$13,000 each to as many individuals as you wish without any tax costs to you or your gift recipients.

TIP 11 Evaluate estate tax implications

Speaking of the estate tax, the inevitable meeting of death and taxes will be a hot topic in 2012. If Congress takes no action, the current \$5 million estate exclusion will fall to \$1 million, and the tax on estates larger than that will be 55 percent on Jan. 1, 2013. If your estate will be larger than \$1 million, talk with an estate tax adviser in 2012 about options to reduce any possible larger federal tax bite.

TIP 12 Hire a tax professional

At the start of this tax filing season, the Internal Revenue Service announced with great fanfare that it will require registration, training and testing for the nation's estimated 900,000 to 1.2 million paid tax preparers--in the future.

But that's no help if you're looking to hire someone now, since in most states anyone can still hang out a shingle as a tax pro. Currently, if you want a regulated tax professional to deal with your 1040 or an IRS problem, you must hire a lawyer, a CPA or a tax pro with the obscure title of "Enrolled Agent" (EA). Usually, you can hire an EA for less than a CPA or lawyer.

EAs are a group of 43,000 tax pros who are already regulated by the IRS and have special privileges to represent taxpayers at the IRS. They've either passed a fairly rigorous IRS test on the tax code or have earned their EA status by virtue of having previously worked for the IRS for five years in a position applying and interpreting the tax code.

EAs are overseen by IRS' Office of Professional Responsibility and have to take annual continuing education in taxes. By contrast, CPAs are regulated by state authorities and have continuing education requirements, but not necessarily in tax. "It's a finely guarded secret that there is little tax in the CPA exam." When interviewing tax help--be they CPAs or EAs-- ask what they do to stay current, and how many courses they've taken in tax.

