

Are You Subject to the AMT?

The **alternative minimum tax (AMT)** attempts to ensure that taxpayers who benefit from numerous tax advantages pay at least a minimum amount of tax. The AMT is a separate tax formula that eliminates certain tax credits and deductions, thus increasing tax liability for an individual who would otherwise pay less. If your taxable income for regular tax purposes, plus any adjustments and preference items, is more than the AMT exemption amount, you must calculate tax using both the AMT and regular tax formulas and pay the higher of the two amounts.

As a result, if you have multiple exemptions from dependents and deductions from such areas as interest-paying accounts, second mortgages, and state and local taxes, you may be subject to the AMT. If you are, it is important to take steps *now* to reduce exposure at the present and in the future.

Long-Term Estate Planning

If transferring wealth to loved ones is a long-term goal, it is important to plan the appropriate tax strategies for your personal situation. Starting early and staying current can help you prepare for the future of your loved ones. Estate planning involves many strategies, generally designed to preserve assets, minimize estate taxes, and distribute property to your heirs according to your wishes.

Bear in mind that not everyone has to pay estate taxes. Your entire estate can pass to your spouse free of estate tax. For transfers to other beneficiaries, estate taxes are based on the total value of your estate. Anticipating your potential tax liabilities can help you plan appropriately.

Every individual may exclude a certain amount of property from estate taxes, and in 2011, that amount is \$5 million. Furthermore, you may give

away up to \$5 million during your lifetime tax free, but doing so will reduce the amount you are able to transfer tax free at death. This gift tax exemption applies to gifts that do not qualify for the **annual exclusion**.

The Gift of Giving

As an estate planning strategy, gifting seeks to remove appreciating assets from an individual's estate. Not all gifts are subject to gift tax. Each individual can give up to \$13,000 (the annual exclusion amount in 2011) to as many donees as he or she likes, without incurring any gift tax. Married couples, filing jointly, may give up to \$26,000. Gifts to one person in excess of the annual exclusion amount are taxable gifts that will count against your lifetime gift tax exemption.

The benefits of gifting depend on your personal situation, but substantial gifts generally accomplish two objectives: 1) they reduce the amount of your taxable estate, and 2) they shift the future burden of income taxes to the donee. These practical realities are in addition to the personal satisfaction that accompanies a gift that may benefit a loved one.

Stay Current

Many aspects of your financial situation — savings, education, real estate, retirement funding, and estate planning — are affected by tax laws, and as the rules change, your strategies may require changes as well. Staying current can help ensure your short- and long-term plans keep pace with legislative changes, as well as developments in your own personal financial circumstances.

Tax regulations can be complex. A qualified tax professional can help you develop and *implement* a tax strategy that complements your financial goals.



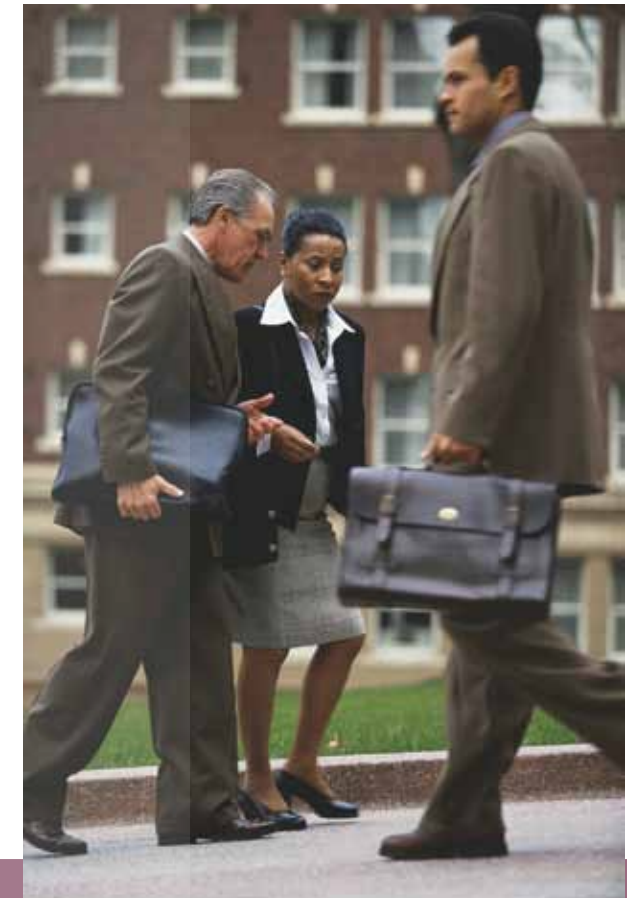
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A Tax Guide

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saving on your taxes starts with planning, and the sooner you begin, the better. By aligning your tax strategies with your financial strategies, the money you save can help you prepare for your future. Minimizing your taxes and maximizing your saving opportunities involves planning for *both* the short and long term.

Like your financial strategies, your tax strategies operate in two time frames — now and later. “Now” covers the 12 months of the current tax year. In the short term, a misstep of a month in selling an appreciated stock and paying the higher short-term capital gains tax versus the lower long-term rate could result in a significantly higher tax bill.

“Later” covers long-term planning opportunities, some of which may help you reduce your tax bill in the short term and reach your future goals. For example, if you contribute to a qualified employer-sponsored retirement plan, such as a **401(k)**, your contributions are made with pre-tax dollars, and earnings have the potential to grow on a tax-deferred basis. If you would like to pay for your child’s college education, a **Coverdell Education Savings Account (ESA)** allows your contributions to grow tax deferred, and withdrawals for qualified expenses are tax free.

Your ability to reduce your tax burden will likely change over time as your personal circumstances and tax laws change. As you begin preparing your taxes, think about the life changes you have experienced in the past year.

- Have you married or divorced in the past year? Either of these life changes may affect your filing status (single, married filing jointly, married filing separately, or head of household), which determines your marginal tax rate (the rate at which your last dollar of income is taxed).
- Have you had a baby, adopted a child, or assumed caregiving responsibilities? If so, the number of

exemptions you claim, or dependents you support, may change.

- Have you changed jobs, started a home business, or rented out your second home? There are more than a dozen types of income that you must report, as applicable to your situation.
- Have you made payments on a mortgage, incurred medical expenses, or donated to charity? If so, you may qualify for deductions, which in turn reduce your taxable income.

In recent years, historic tax reform has provided significant savings for individuals, families, and investors. Putting to rest concerns that 2011 would begin without legislative action on tax rates, on December 17, 2010, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 was signed into law. The \$858-billion package included a two-year extension of reduced tax rates on individual income and dividends/capital gains, extensions of a number of tax breaks for small businesses, a two-year AMT patch, estate tax relief through 2012, and a one-year reduction in payroll taxes. It is important to keep in mind that many of these provisions are temporary, and tax laws change often. To help ensure that your overall plan keeps pace with changes in your life and legislative reform, consult your qualified tax professional.

Maximize Credits, Deductions, and Exemptions

As you manage your taxes, with *both* the near and distant future in mind, one important, constant goal may be to reduce your **adjusted gross income (AGI)**, which equals your gross income (salary, certain investment earnings, etc.) less your allowable deductions and exemptions. Maximizing your deductions and exemptions, as well as taking advantage of any tax credits available to you, can help you save money on your next tax bill.

First things first: How is a tax **credit** different from a tax **deduction**? A tax credit reduces your tax, dollar for dollar — that is, a \$1,000 tax credit actually saves you \$1,000 in taxes. By comparison, a tax deduction reduces your *taxable income*, but it is only worth the percentage equal to your marginal tax bracket. For instance, if you are in the 25% marginal tax bracket, a \$1,000 deduction saves you \$250 in taxes (.25 x \$1,000), which is \$750 less than the savings with a \$1,000 tax credit. The higher your tax bracket, the more a deduction is worth, but a credit is always worth more than a dollar equivalent deduction.

Tax credits reduce your tax bill, but in many instances, certain restrictions, such as income limits, apply. If you have dependent children, you may be eligible to claim a \$1,000 **child tax credit** for each child under the age of 17. Other family-related credits include the **adoption credit** and the **dependent care tax credit**. If you are funding a child’s education, or your own, you may be eligible for the **Hope Scholarship Credit** (American Opportunity Tax Credit) and/or the **Lifetime Learning Credit**. In 2011, the Hope Scholarship Credit provides a \$2,500 tax credit for college education expenses, including the cost of course materials. The Lifetime Learning Credit, which applies to both undergraduate and graduate education costs, could be worth up to \$2,000.

All taxpayers may either claim a **standard deduction** or **itemize deductions** for personal expenses such as charitable contributions or home mortgage interest. In general, a taxpayer claims an itemized deduction when the total of qualified deductible expenses exceeds the standard deduction. The standard deduction in 2011 equals \$5,800 for single filers and \$11,600 for joint filers.

How is a deduction different from an **exemption**? Personal and dependent exemptions are reductions in gross income in addition to the standard

deduction or itemized deductions. Every taxpayer may claim a personal exemption (\$3,700 in 2011) for him or herself, unless being claimed as a dependent on another taxpayer’s return. A married couple filing a joint return can claim two personal exemptions, one for each spouse. Even if one spouse has no income, that spouse is not considered the “dependent” of the other spouse for tax purposes.

Retaining as much of your gross income as possible is an ongoing objective, not something that happens only at tax time. Above-the-line deductions, if you qualify, reduce your adjusted gross income. They are so named because they are taken on your tax form just above the line where you enter your AGI. Possible deductions include contributions to qualified retirement accounts, higher education expenses, student loan interest, alimony, early withdrawal penalties, and moving expenses.

Long-Term Capital Gains and Dividend Reform

Planning your tax strategies ahead of time can have a major impact on your investment tax liabilities, particularly since long-term capital gains and dividend tax relief has been extended through 2012. For investors in the top four income tax brackets, the long-term capital gains rate has been reduced from 20% to 15%. Qualified corporate dividends will also be taxed at 15% through 2012. Prior law taxed dividends at the investor’s marginal rate, which today could be as high as 35%. For investors in the 10% and 15% brackets, a 0% tax rate applies to both long-term capital gains and qualified dividends through 2012. These provisions will expire in 2013, when prior law will again take effect. For planning purposes, it is important to note that no changes have been made to the taxation of short-term capital gains, which continue to be taxed at the investor’s marginal rate.