

MICHAEL DAVID DANIELS, A LAW CORPORATION

To Our Clients and Friends:

Happy Holidays! As we approach year-end, it's a good time to focus on moves you can make to save taxes-both on your 2011 return and in future years. Here are some ideas that you may want to consider before the end of the year. Contact us if you have questions about which ideas may be appropriate for you or want to discuss other tax-saving strategies.

For 2011, the standard deduction is \$11,600 for married taxpayers filing joint returns, \$5,800 for single taxpayers and \$8,500 for taxpayers filing as head of household. These amounts will probably be about the same for 2012. If your total itemized deductions are normally close to these amounts, you may be able to get more benefit from your itemized deductions by bunching them into every other year. Then, your itemized deductions will be high in one year and low in the next. Hopefully, in the "high" years, the itemized deductions will exceed your standard deduction. In the "low" years, you will take the standard deduction. Then, you will get some benefit from your itemized deductions every other year, instead of just taking the standard deduction each year. Charitable donations are a good candidate for bunching.

You can also charge the contribution to a credit card right before year-end. You get the deduction in the year charged, not when payment is made on the card. You can also accelerate payments of your real estate taxes or state income taxes otherwise due in early 2012. However, watch out for the alternative minimum tax (AMT), as these taxes are not deductible for AMT purposes.

If you have appreciated stock that you've held more than a year and plan to make charitable contributions this year, keep your cash and donate the stock (or mutual fund shares) instead. You'll avoid paying tax on the appreciation, but will still be able to deduct the donated property's full value. However, if the stock is now worth less than when you acquired it, sell the stock, take the loss and give the cash to the charity. If you give the stock to the charity, your charitable deduction will equal the stock's current depressed value, and no capital loss will be available.

If you're age 70½ or older, you can arrange to transfer up to \$100,000 of other Wise taxable IRA money to a charity. Although you don't get to claim a charitable deduction on your Form 1040, the transfer is federal-income-tax-free to you. This equates to a 100% write-off of the amount transferred to the charity, and you don't have to itemize your deductions to get it. Also, the amount transferred applies to your required minimum distribution. Be careful-to qualify for this tax break, the funds must be transferred directly from your IRA to the charity. Also, it's important that you receive nothing in return for the donation.

Because of the roller-coaster stock market this year, you may have investments that are worth less than what you paid for them. If so, you may want to cut some of your losses and sell them before year-end to reduce your 2011 taxes. Capital losses are normally deductible to the extent of any capital gains realized for the year, plus an additional \$3,000 (\$1,500 for married individuals filing a separate return).

20700 Ventura Boulevard, Suite 227 Woodland Hills, California 91364 Telephone 818-227-5648 Facsimile 818-227-9648

Michaelddaniels.com

CERTIFIED SPECIALIST IN TAXATION LAW, BOARD OF LEGAL SPECIALIZATION, STATE BAR OF CALIFORNIA
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If you have a 401 (k) plan at work, it's about time to tell your company how much you want to set aside on a tax-free basis for next year. Contribute as much as you can stand, especially if your employer makes matching contributions. You give up "free money" when you fail to contribute enough to get the full employer match.

If it looks like you are going to owe income taxes for 2011, consider bumping up the federal income taxes withheld from your paychecks now through the end of the year. When you file your return, you will still have to pay any taxes due less the amount paid in. However, penalties will be minimized, since withholding is considered to occur evenly throughout the year.

Finally, watch out for the AMT in all of your planning because what may be a great move for regular tax purposes may create or increase an AMT problem. We can help determine if AMT is going to be an issue for you.

These are just a few suggestions to get you thinking. Please call us if you'd like to know more about them or want to discuss other ideas.

Should you have any questions please call the office at (818)-227-5648.

Kind regards,

Michael Daniels

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