Legacy M&A ADVISORS LLC

M & A UPDATE®

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Ending the Tax Year the Right Way

Bart A. Basi, CPA/Attorney at Law
The Center for Financial, Legal & Tax Planning, Inc.

Introduction

It is that time of year again! Time to put up the holiday displays, be merry, spend money, and get ready for tax season! A lot of people don't want to think about it, but (if you plan properly) the happiest time of the year is just around the corner. The actions you take in these final months of 2011 can have a big effect on your taxes. This article will identify some key strategies that should be implemented prior to the end of the year to effectively limit your tax liability.

Deferring Income

As with any other tax year, the more taxable income your company makes in 2011, the more taxes you and your company will pay. Therefore, it is logical to defer any ordinary income you can until next year. This is especially true if you or your business will be in a lower tax bracket this year as a result of your tax planning.

For business tax planning, send out monthly billing later in the month of December. Because it takes, on average, 25 days to receive payment, any payments received after January 1, 2012 are credited and recognized as income in 2012, provided your business is on the cash method of accounting.

For individuals, if you are to receive a bonus, defer it until next year. (BE CAREFUL – if you have a retirement plan that is based on a percentage of your gross pay for the year, you do not want to reduce your retirement contribution because of your deferred bonus.) Finally, you may decide to defer income using more traditional means, by participating in a deferred compensation plan, buying tax deferred treasury securities, or some specific certificates of deposit that allow for deferral of interest income.

Accelerating Deductions

We all hate paying bills, but now is the best time to pay them. Even if you wait to pay a given bill on December 31, you can still deduct the payment in 2011. For business tax planning, buy supplies in December and stock up for the next few months. In addition, the IRS will allow you to deduct the expense if you have charged the item and not yet paid for it as long as you are on the accrual method of reporting. For example, use your company credit card to purchase supplies for January, deduct the expense now, and pay the bill in January.

Individuals, remember to recognize any

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A CASE STUDY

A Court of Appeals ruled that reliance on an accountant's advice was not enough to avoid the negligence penalty. In the case, the taxpayers contracted with an accountant to aid them in the sale of a business. The accountant recommended that the reporting of the sale be shown in the following year in order to avoid paying tax in the current year. The taxpayer argued that since the advice was from a professional accountant, the negligence penalty should be disallowed. The court disagreed and found the penalty to be proper.

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Cover Story

capital losses that you may have before year end. You are allowed to offset capital gains each year with any losses you incurred, and if the loss isn't fully utilized this year, it can be carried forward to offset future gains to the extent of $3,000 per year. Pay your investment expenses early, including any mortgage interest, real estate taxes, and any state and local taxes.

Beefing up Section 179 Deductions

As part of the Small Business Act of 2010, businesses can expense up to $500,000 of equipment purchases under Section 179 of the Internal Revenue Code. This enhanced deduction ends December 31, 2011. In 2012, the maximum Section 179 deduction will be limited to slightly above $125,000, depending on the inflationary adjustment. Investing now allows you to utilize a valuable enhanced deduction.

Bonus Depreciation

Bonus Depreciation is still valid for 2011! The bonus amount of the depreciation is now 100% for original use qualifying property. On January 2012, the bonus depreciation is limited to 50% of the qualifying, original use property.

Charitable Contributions

Businesses and individuals can make and deduct charitable contributions. Individuals have large deductible limits, generally around 50%. C corporations are generally limited to 10% of profits. Make an early contribution to your favorite charity. This contribution can include personal property such as clothing and furniture, but remember to keep receipts for future proof of your generosity. Additionally, if the charitable deduction (of noncash items) for the year totals $5000 or more (including C corporations) a qualified appraisal must be made and attached to the tax return. Utilizing your credit card can be advantageous here as well, as more charities are accepting credit card donations.

Look for Tax Credits

Tax credits are one of the most beneficial tax planning tools available to many individuals today. They are a dollar for dollar credit applied to your taxes due. Some examples for individuals include the Child Tax Credit, Hope Scholarship Credit, and Lifetime Learning Credit. Also, remember to use up any money set aside in a flexible spending account health plan (otherwise known as a "Cafeteria Plan"). The money left in these funds does not typically carry over to the following year.

Conclusion

By utilizing these year-end tax strategies, you can reduce your tax liability for the year. Lowering taxable income by deferring income, accelerating deductions, giving to charity, and utilizing tax credits, results in lower tax liability. These methods work not only this year, but also year-to-year.

Keep in mind that you have until December 31 to take advantage of 2011's gift exemption of $13,000. If you need assistance, contact the professionals at The Center.

Dr. Bart A. Basi is an attorney, CPA, and the Senior Advisor of The Center for Financial, Legal & Tax Planning, Inc, a full service company specializing in financial, legal & tax matters. Basi is a nationally recognized author, lecturer, and advisor on how to structure deals to minimize taxes. Tax structure makes the difference between getting the deal done and watching the deal fall apart. Many of you may be familiar with Basi and the topics he covers in the Financial, Legal & Tax Advisory which may be read in various industry-specific trade publications.

Points of Interest

- **The actions you take in these final months of 2011 can have a big effect on your taxes.**
- **In 2012, the maximum Section 179 deduction will be limited to slightly above $125,000, depending on the inflationary adjustment.**
- **On January 2012, the bonus depreciation is limited to 50% of the qualifying, original use property.**

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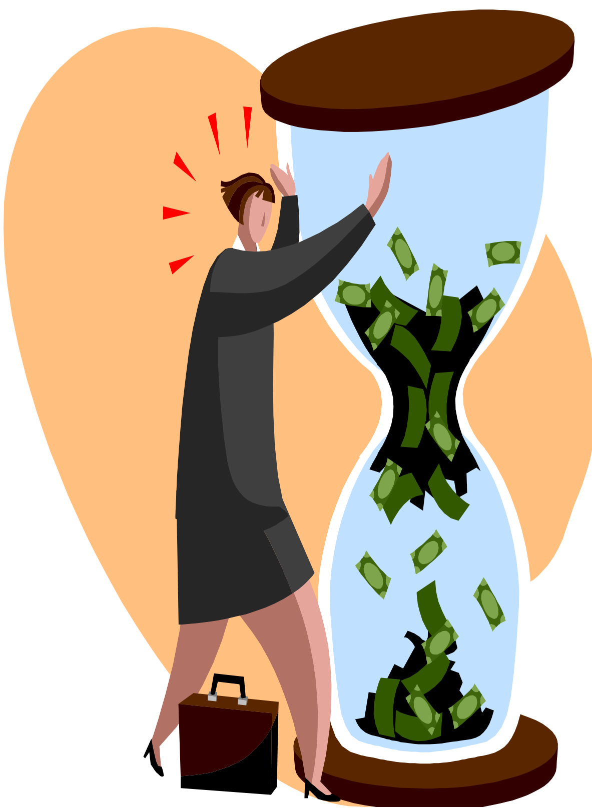
A CASE STUDY CONTINUED:

Editor's Comment: There was little or no disputing that the business interest was conveyed in 1994. As such, the sale should have been reported in the year of 1994 by the taxpayer. Denying the obvious on a tax return, but claiming professional advice does not excuse you from the tax or the corresponding penalties. Proper tax planning in this situation (delaying the closing, changing the structure, etc.) could have worked in reducing the tax or at least delaying its pay date. Whenever you sell a business, you must have competent professionals on your team. The Center routinely helps structure business sales and plans tax strategies for the best possible results. If you are selling your business, be sure to contact the professionals at The Center to obtain the best tax results.



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Tampa Ranked In Top Twenty US Cities For M&A Activity

According to an article which recently appeared in the Tampa Bay Business Journal, Tampa is ranked among the Top Twenty US Cities for M&A activity.

Based on a report published by Mergermarket, Ltd, through the first nine months of 2011 Tampa companies were involved in 13 "inbound" deals, with a total value of $392 million, meaning that 13 companies based in Tampa were acquired by other companies. Based on the deal count, Tampa was No. 20 on the list of cities with the most inbound deals.

This is good news to prospective sellers, as it confirms what those of us who live and work here have known all long, namely that Tampa and the Greater Tampa Bay Area is a highly desirable market.

Coupled with the automatic expiration of the Bush capital gains tax cuts at the end of next year, 2012 is shaping up to be a very attractive and very active market if you're thinking of selling your business.

As the generation of Baby Boomers approaches retirement, it has been estimated that over the next twenty years retiring business owners with be seeking to successfully exit their businesses, with an aggregate value in the trillions of dollars.

Without the assistance of an experienced M&A advisor and a comprehensive transition plan & process to maximize the value of their business and ultimately their own personal wealth, many of these business owners will typically:

- Exit their companies as a result of pressure from outside circumstances, not as a result of their own desires
- Exit their companies on a timetable that's forced on them, instead of one that meets their needs
- Undervalue their companies and leave hard earned wealth on the table
- Pay too much in taxes
- Lose control of the process by being reactive rather than proactive
- Fail to realize their business and personal goals
- Suffer unnecessary personal stress

If you know of a business owner who's thinking of selling or buying a business and who might benefit from a free, confidential, consultation with us, have them contact me directly, and in strictest confidence, at 813.299.7862, or via e-mail at mertel@legacymandaadvisorsgroup.com

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Frequently Asked Questions…

Q: I have yet to contribute to my IRA. When is the last day I can contribute funds to my IRA for the 2011 year?

A: Generally, funds contributed to an IRA must be contributed before the individual tax filing date for that particular year. For 2011 tax year, April 16, 2012 is the deadline to file and make IRA contributions for 2011.

Q: I will end up owing taxes for the 2011 tax year. What can I do in order to reconcile the situation with the IRS?

A: There are a few avenues that can be taken. First, you can pay the bill in full. If the liability is too large you may file an installment agreement with the IRS to pay the debt over time.

Q: What will the estate exemption be for 2012?

A: It is indexed for inflation and should generally be 5,120,000.