

December 2011

Wealth | of | Information

Your Goals. Our Expertise.

YOUR ANNUAL FINANCIAL TO-DO LIST

*Things you can do before and for the New Year.
Presented by Sierra Financial Advisors, LLC*

The end of the year is a good time to review your personal finances. What are your financial, business or life priorities for 2012? Try to specify the goals you want to accomplish. Think about the consistent investing, saving or budgeting methods you could use to realize them. Also, consider these year-end moves.

Think about adjusting or timing your income and tax deductions. If you earn a lot of money and have the option of postponing a portion of the taxable income you will make in 2011 until 2012, this decision can bring you some tax savings. You might also consider accelerating payment of deductible expenses if you are close to the line on itemized deductions – another way to potentially save some bucks.

Think about putting more in your 401(k) or 403(b). In 2011, you can contribute up to \$16,500 per year to these accounts with a \$5,500 catch-up contribution also allowed if you are age 50 or older. Has your 2011 contribution reached the annual limit? There is still time to put more into your employer-sponsored retirement plan. In 2012, you will be able to contribute \$17,000 into these accounts.¹

Can you max out your IRA contribution at the start of 2012? If you can do it, do it early – the sooner you make your contribution, the more interest those assets will earn. (If you haven't yet made your 2011 IRA contribution, you can still do so through April 17, 2012.)¹

The 2012 contribution limits on traditional and Roth IRAs remain unchanged from 2011. You can contribute up to \$5,000 to your IRA if you are age 49 or younger, and up to \$6,000 if you are age 50 and older.¹

Should you go Roth between now and the end of 2012? While you can no longer divide the income from a Roth IRA conversion across two years of federal tax returns, converting a traditional IRA into a Roth before 2013 may make sense for another reason: federal taxes might be higher in 2013. Congress extended the Bush-era tax cuts through the end of 2012; their sunset may not be delayed any further.²

Some MAGI phase-out limits affect Roth IRA contributions. For 2012, the phase-out limits kick in at \$173,000 for joint filers and \$110,000 for single filers.³ Should your MAGI exceed those limits, you still have a chance to contribute to a traditional IRA in 2012 and then roll those IRA assets over into a Roth.

Consult a tax or financial professional before you make any IRA moves. You will want see how it may affect your overall financial picture. The tax consequences of a Roth conversion can get sticky if you own multiple traditional IRAs.

If you are retired and older than 70½, don't forget an RMD. Retirees over age 70½ must take Required Minimum Distributions from traditional IRAs and 401(k)s by December 31, 2012. Remember that the IRS penalty for failing to take an RMD equals 50% of the RMD amount.⁴

If you have turned or will turn 70½ in 2011, you can postpone your first IRA RMD until April 1, 2012. The downside of that is that you will have to take two IRA RMDs next year, both taxable events – you will have to make your 2011 tax year withdrawal by April 1, 2012 and your 2012 tax year withdrawal by December 31, 2012.⁴

Plan your RMDs wisely. If you do so, you may end up limiting or avoiding possible taxes on your Social Security income. Some Social Security recipients don't know about the "provisional income" rule – if your modified AGI plus 50% of your Social Security benefits surpasses a certain level, then a portion of your Social Security benefits become taxable. For tax year 2011, Social Security benefits start to be taxed at provisional income levels of \$32,000 for joint filers and \$25,000 for single filers.⁵

Consider the tax impact of any 2011 transactions. Did you sell any real property this year – or do you plan to before the year ends? Did you start a business? Are you thinking about exercising a stock option? Could any large commissions or bonuses come your way before the end of the year? Did you sell an investment that was held outside of a tax-deferred account? Any of these moves might have a big impact on your taxes.

You may wish to make a charitable gift before New Year's Day. Make a charitable contribution this year and you can claim the deduction on your 2011 return.

You could make December the "13th month." Can you make a January mortgage payment in December, or make a lump sum payment on your mortgage balance? If you have a fixed-rate mortgage, a lump sum payment can reduce the home loan amount and the total interest paid on the loan by that much more. In a sense, paying down a debt is almost like getting a risk-free return.

Are you marrying next year, or do you know someone who is? The top of 2012 is a good time to review (and possibly change) beneficiaries to your 401(k) or 403(b) account, your IRA, your insurance policy and other assets. You may want to change beneficiaries in your will. It is also wise to take a look at your insurance coverage. If your last name is changing, you will need a new Social Security card. Lastly, assess your debts and the merits of your existing financial plans.

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EXPIRING TAX INCENTIVES

Individuals and business taxpayers alike, are confronted with uncertainty in year-end tax planning. As 2011 draws to a close, it is a valuable time to review some of these tax incentives and how they may be able to help your business' bottom line or your year-end personal tax planning.

- An additional first-year depreciation deduction equal to 100 percent of the adjusted basis of property is available for qualified property (must be new original use property, with a 20 year or less depreciable life) acquired after September 8, 2010 and before January 1, 2012, and placed in service before January 1, 2012. This additional depreciation deduction, known as "100 percent bonus depreciation" is temporary (unless extended by Congress). If you have the extra funds and need new equipment you can take a 100 percent deduction in 2011, as well as, a 50 percent deduction for purchases made in 2012.

- Employers should remind employees that effective January 1, 2012, the employee-share of OASDI taxes (Social Security) is scheduled to revert to 6.2 percent (unless the 2011 payroll tax holiday is extended by Congress). Under the 2011 payroll tax holiday, employees paid OASDI taxes at a rate of 4.2 percent rather than 6.2 percent. A similar benefit was provided to self-employed individuals. The employer-share of OASDI taxes for 2011, however, remains at 6.2 percent.

- Business taxpayers are allowed to expense up to a certain dollar amount in annual investment expenditures for qualified property (used or new, with a 15 year or less depreciable life). The maximum amount that can be expensed is reduced by the amount by which the taxpayer's cost of qualified property exceeds a certain investment limit. For tax years beginning in 2010 and 2011, the Code Section 179 dollar limit is \$500,000 and the investment limit is \$2 million. The dollar limit is scheduled to fall to \$125,000 and the investment limit is scheduled to be reduced to \$500,000 after 2011.

- Unless extended by Congress, 2012 will be the last year reduced rates will be available on long-term capital gain and dividend income. The maximum tax rate on adjusted net long-term capital gains of non-corporate taxpayers will return to 20 percent, and to 10 percent for taxpayers in the 15-percent income tax bracket, for tax years beginning in 2013. The capital gain tax rates on qualified dividends received by individuals, trust, or estates will not apply to tax years beginning after December 31, 2012. Therefore, for tax years beginning in 2013, such dividends will be taxed at the applicable ordinary income tax rates.

- The Mortgage Forgiveness Debt Relief Act of 2007 created a new exclusion for discharged qualified principal residence indebtedness. The exclusion only applies to indebtedness that is discharged on or after January 1, 2007 and before January 1, 2013. Taxpayers contemplating a short sale or foreclosure on their principal residence should keep in mind that 2012 will be the last year this special exclusion will be available, unless it is later extended by Congress.

- 2011 will be the last year individual taxpayers may elect to deduct state and local general sales taxes in lieu of state and local income taxes as an itemized deduction. The deduction for state and local general sales taxes is scheduled to expire after December 31, 2011, unless extended by Congress. Taxpayers may want to accelerate big ticket purchases (limited to motor vehicles, aircraft or boats, and homes or major renovations) into 2011 to take advantage of the deduction.

- Homeowners who have been considering energy efficient home improvements should be aware that some of these tax credits are set to expire. Non-business energy property that meets the requirements for qualified energy efficiency improvements and residential energy property expenditures (furnaces, central air conditioners, water heaters, doors, etc.) will end for property placed in service after December 31, 2011 (unless extended by Congress). The total amount of the credit allowed for 2011 is 10% of the cost of the property up to \$500 (\$200 for windows). You also have to reduce the amount of the 2011 credit by any credits claimed from 2006-2010.

REMINDERS

- Individual QuickBooks Classes - Do you need a one on one approach to fit your specific needs? KBCA is now offering individual QuickBooks training classes at a reduced rate of \$50 per hour. Please call Nicole Heald at 775-885-8847 to schedule your training today.

- The IRS is no longer mailing end of year forms and packets, but can be obtained online at www.irs.gov.

- Annual Form 940 and Quarterly Forms 941 (Annual 941 Agricultural) are due January 31st.

- Annual Forms 1099 & W-2's are to be issued to the recipients no later than January 31st and are due to the IRS by February 28th if filing in paper form and March 31st if filing electronically (KBCA is an authorized E-Filer). As always KBCA is here for assistance in processing these forms, should you need any further guidance please feel free to contact us at 775-885-8847.

Planning and Implementing Personal and Business Solutions.



(YOUR ANNUAL FINANCIAL TO-DO LIST - continued from front)

Are you returning from active duty? If so, go ahead and check the status of your credit, and the state of any tax and legal proceedings that might have been preempted by your orders. Review the status of your employee health insurance, and revoke any power of attorney you may have granted to another person.

Don't delay – get it done. Call Katie Coombs at (775) 885-8847 to schedule a financial review.

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Citations.

- 1 <http://kiplinger.com/columns/ask/archive/2012-retirement-account-contribution-limits.html> [10/24/11]
- 2 post-gazette.com/pg/11032/1121982-28.stm [2/1/11]
- 3 <http://kiplinger.com/columns/ask/archive/2012-retirement-account-contribution-limits.html> [10/24/11]
- 4 montoyaregistry.com/Financial-Market.aspx?financial-market=required-ira-distributions&category=1 [9/15/11]
- 5 dentbaker.com/LinkClick.aspx?fileticket=5gZQwSHvjwQ%3d&tabid=36 [9/6/11]

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(EXPIRING TAX INCENTIVES - continued from front)


- Premiums paid or accrued for mortgage insurance obtained in connection with acquisition indebtedness with respect to a qualified residence can be treated as qualified residence interest and deducted. However, unless extended by Congress, this deduction is also set to expire after 2011.


Please contact your advisor with KBCA, LLC at 775-885-8847 if you have questions or want more information about expiring tax incentives.


 Please join KBCA, LLC on Facebook.


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A NEW CONVENIENT SERVICE FOR OUR CLIENTS

As many of you already know, Sierra Financial Advisors, LLC offers premier insurance advisory expertise and comprehensive insurance solutions for all types of insurance planning situations. We are pleased to announce another effective way in meeting our client's needs in comparing term life insurance policies with our new website .

As your life insurance needs will change throughout your life,  can help you determine what type of insurance you need and how much your family will require to survive in the event of your premature death.

 allows a no-hassle method for comparing the provided quotes to find the lowest premium available from reputable insurance companies from the privacy of your own home. All submitted requests and inquiries are individually reviewed by Katie DiLillo Coombs of Sierra Financial Advisors, LLC prior to the selection of your term life insurance to ensure the appropriate policy is chosen.

As always, Katie is available to meet with you or answer any questions you may have over the phone. Please take a moment to visit our website  or call to schedule an appointment to ensure all your life insurance needs are being addressed.

Insurance Services are offered by SelectYourTerm.com
SelectYourTerm.com and 1st Global Capital Corp. are unaffiliated entities

ANNOUNCEMENTS

- Mark Your Calendar

Our previous Shred Day was such a success, that we will be having another one in April 2012, so please mark your calendar. Bring any and all documents to our office and a shred truck will be on-site for your use. Having your confidential documents shredded is a great way to protect yourself from identity theft while being environmentally conscious at the same time. Coffee and donuts will be served in our lobby for your enjoyment.

Thursday, April 26th from 9:00 am to 11:00 am
3860 GS Richards Blvd
Carson City, NV 89703

- Please stay tuned for an exciting revamping of the websites for KBCA, LLC and SFA, LLC.