

4 **Are You Ready for E-Verify?**
7 Do's and Don'ts

6 **2011 Year-end Income Tax Planning for Individuals**
Learn about this year's tax savings strategies and tax code changes.

11 **Tax Tidbits**
Helpful bits of tax information for 2011.



Winter 2011



Beyond *the* Numbers

A Crow Shields Bailey PC News Publication

CLIENT SPOTLIGHT

Bagby & Russell Electric Company, Inc.

Our Mission

To lead our industry with time-honored traditions of honesty and integrity while caring for the client, our employees, their safety, and their families.

Using this mission as their guide, Bagby & Russell Electric Company, Inc. has been serving Mobile and the Gulf Coast area for nearly half a century. The Company's roots go back even further, originating in Birmingham in 1920 as Bagby Elevator and Electric Company. A Mobile location was opened in 1965 by manager Frank Russell who later reorganized the company, changed its name, and added his son Richard as an owner.



CEO Frank Russell and President Richard Russell

CEO Frank and President Richard Russell now run a company that is licensed in five Southeastern states, with work focused primarily along the Gulf Coast. The recent acquisition of a new 15,000 square-foot facility in Theodore has the Company well positioned to continue providing a wide variety of electrical installations for its customers.

Bagby & Russell's main business is industrial, commercial and institutional electrical work, as well as traffic signals and roadway lighting. Also, Advanced Electrical Technology (AET), a division of Bagby & Russell, provides state-of-the art structured wiring for integrated systems for business or home systems. These systems can include security with remote access controls, closed circuit TV with robotic cameras including pan, zoom, and tilt along with digital recording. Standby generator installation for business or home use is another service that Bagby & Russell offers.

Known as a fast-track, can-do electrical contractor, the company draws on an extensive pool of qualified manpower to handle its clients' needs. Its management team has an impressive 190-plus years of combined experience. With the Russell's organizational philosophy of building on existing talent and encouraging professional growth from within, many employees who began their careers as field technicians are now part of management.

Bagby & Russell has performed many high-profile electrical installations in our area, including the downtown Exploreum & Omnimax Theater, the Mobile Press Register's new facility, the new Government Annex building, the historic Saenger Theater renovation, the Alabama State Docks and the Mobile Container Terminal. The company has also done projects at local hospitals and industrial sites such as Kimberly Clark, Mitsubishi Polysilicon USA and Lenzing Fibers. Many schools along the Gulf Coast bear Bagby & Russell's signature as well as several movie theaters and shopping malls, including the 80-acre Destin Commons. Current projects include the expansion of the SSAB steel



See page 5 for an important client notice.

Newsletter Contributors

- Joey Bailey
- Kathryn Bradley
- Kenny Crow
- Deborah Fisher
- Alex Martin
- Morgan Prestwood
- John Shields

Continued on Page 2

Our Vision

Our firm's objective is to maximize our clients' wealth. We strive to be the premier accounting and consulting firm in our area by offering a complete range of quality services to our clients. We will employ only the best people and ensure outstanding training and long-term career opportunities.

Team Members

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Visit our website at: CSBcpa.com

Bagby & Russell Electric Company, Inc.: Continued from Page 1



mill just north of Mobile and many commercial buildings on the Mississippi Coast and around Mobile. Just look for the Bagby & Russell trucks!

Bagby & Russell has used Crow Shields Bailey, PC for several years now and is pleased with the expertise and professionalism of the CSB team. CSB is proud to have such a fine company as our client and we look forward to serving them in the future.

To learn more about Bagby & Russell, you can visit their website at www.bagrus.com or call 251-344-5987.

CSB is 25 Years Old

By J. Kenny Crow, Jr.



Kenny and John in the early years.

How time flies! It just doesn't seem very long ago that I was pacing the floor and pondering my approach to convince the next prospect to utilize our firm's services. I wasn't too busy back in those days, so I spent a lot of time staring at my prospect list, scratching out the day's calls and adding new leads as they developed.

It is a tremendous accomplishment to stand the test of time in managing a business. There are so many people responsible for our success, but it starts with our clients, especially the early ones that perhaps took more risks with a new CPA firm. Many of these clients have remained loyal and are still with our firm today.

The most valuable asset at CSB is our team. We have systematically accumulated a group of like-minded people who share a strong work ethic, high moral character and a genuine responsibility to serve our

Continued on Page 3



CSB is 25 Years Old : Continued from Page 2

clients. Our team members have great respect for each other and react quickly and efficiently to help out in times of need. Our shareholders get along well and always put the firm in front of any personal agenda.

We learned early on that if we were going to hire and retain the best and the brightest, we had to commit to growing the firm and providing our employees with plenty of opportunity for advancement. So we put a high priority on hiring and recruiting the best accounting students, not only from schools in Mobile but also Auburn and Alabama, where we go four times each year to meet with students and instructors. We also committed to an internship program which has been very successful.

CSB is now considered a top-tier firm in our area and we consistently get asked to propose on new business. We are extremely proud of this because it speaks highly of our reputation in the community. While we are not the oldest or the biggest CPA firm in Mobile, our goals will always include being the best.

Like any business that strives for success, we can't lose sight of what got us here. We hope that our commitment to growth through recruitment, training, technology and customer service will result in our firm being around for generations to come.

Team Member **news**



Melissa Moore, daughter of Diana Moore, flew to Zambia this summer with 16 other Auburn Wesley Foundation students to help build a SIFAT (Servants In Faith and Technology) training site that will be used by people from all over the continent of Africa.



Amanda Moore, with the Auburn Wesley Foundation went on a week long trip to Costa Rica. They raised money to ship a large container of books there and were able to go and hand them out to children at schools with little resources.



Jamison & Jonah Daughtery



Ava Frerman and Andrew Frerman



Madeline Frerman



Neil and Whitney Christopher welcomed their son Landry Bartlett on November 9. Baby Landry weighed 7 lbs 4 ozs and was 20.75 inches long. Photography by Legacy Studios.



Lauren and Landry Brothers

Are You Ready for E-Verify?

7 DO'S and DON'TS for Employers under the Alabama Immigration Act – Updated

By: Tommy Eden, Attorney • Capell & Howard, P.C.

On June 9, 2011, Alabama Governor Robert Bentley signed into law the Beason-Hammon Alabama Taxpayer and Citizen Protection Act (the Act 2011-535 “Act”) and on September 28, 2011 U.S. Federal District Judge Sharron Blackburn temporarily enjoined (stopped from going into effect) certain portions of the Act. On October 14, 2011 the 11th Circuit Court of Appeals enjoined two additional provisions. Almost all of the provisions affecting Alabama employers remain in place as of this publication and impose significant new employer-related compliance obligations. At the core of the Act is compliance with the Federal Form I-9 requirements under the Immigration Reform Control Act of 1986 and enrollment in the Federal E-Verify program. The following list is a *Do's and Don'ts summary of the employer obligations updated following the 11th Circuit Court of Appeals decision of October 14, 2011:*

1. DON'T knowingly employ, hire for employment, or continue to employ an unauthorized alien to perform work within the State of Alabama. Effective January 1, 2011, all Alabama business entities seeking to contract with the State of Alabama, or any political subdivision thereof (City, County, public authority, etc), or “transact business” with any of these same entities, should prepare now to verify the status of every new employee through the federal E-Verify procedures, secure documentation that they are in fact a business entity (most likely a record from the Alabama Secretary of State), fire unauthorized aliens and have an immigration compliance check-up conducted to allow the business to provide a good faith affidavit of immigration compliance [Sections 9, 15, 26 and 30 of the Act] to the political subdivisions it seeks to contract with or “transact business” with. Hopefully, a central filing by a business entity with the Alabama Secretary of State or Alabama Department of Homeland Security will allow for this to be an orderly process and no later than 90 days following the effective date of the Act all Alabama employers enrolled in E-Verify will have their name listed on a state website [Section 26 of the Act].

2. Do enroll in E-Verify. Effective April 1, 2012, every Alabama business entity or employer should be enrolled in E-Verify to verify the employment eligibility of every new hire in the State of Alabama. E-Verify provides a safe harbor so that

an employer who uses the E-Verify system “shall not be deemed to have violated [Section 15 of the Act] with respect to the employment of that employee.” A business entity or employer that uses E-Verify to verify the status of an employee in good faith “and acts in conformity with all applicable federal statutes and regulations is immune from liability under Alabama law for any action by an employee for wrongful discharge or retaliation based on a notification from the E-Verify program that the employee is an unauthorized alien.” Three violations involving employment of unauthorized aliens can result in permanent revocation of all licenses and permits to do business throughout the State of Alabama.

3. DO schedule Form I-9 Supervisor Training. The federal E-Verify system is only as accurate as the information collected on form I-9. Also, do put an E-Verify policy in your employee handbook and make sure that you are using the latest version of Form I-9.

4. DO have an outside Immigration Compliance Check-up done of your Form I-9s and Immigration Practices. E-Verify is an employer's only get out of jail card with Immigration Compliance and Enforcement (ICE) and the only safe harbor under the Alabama Immigration Act. Millions of dollars of ICE fines and prison sentences have been levied against employers that are out of compliance. Effective January 1, 2012 every business entity, employer and subcontractor that contracts with any public entity in the State of Alabama will have to prove by affidavit, under penalty of perjury, that they are enrolled in E-Verify and have a good faith belief that they are currently only employing those legally eligible to work in the United States. [Section 9 of the Act]. Two violations by an Alabama employer can result in permanent revocation of all licenses and permits to do business throughout the State of Alabama. Expect businesses to mandate by contract such affidavits as well.

5. DO properly terminate any employee if you become aware of their unlawful status. The employer could face severe business penalties involving probation, suspension and permanent revocation of Alabama business licenses and permits [Sections 9 and 15 of the Act].

Continued on Page 5

6. DON'T enter into contracts with unauthorized aliens.

The Act provides that no court shall enforce the terms of, or otherwise regard as valid, any contract between a party and an alien unlawfully present in the United States [Section 27 of the Act]. However, on October 25, 2011, Jefferson County Circuit Judge Scott Vowell found this provision violated Section 95 of Alabama Construction (prohibits impairing of contracts) in that he found the law, as applied to a contract which predated the Alabama Immigration Act, was unconstitutional.

7. DO have employees carry ID proving their lawful status in the U.S.

Significantly, the 11th Circuit left in place Section 18 of the Act (drivers of motor vehicles to have their drivers licenses in their possession at all times or subject to detention to verify citizenship); and Section 30 (must prove lawful status to enter into any "business transaction" with public entity, i.e. business license, license plate, drivers license renewal, non driver ID card, etc.). An unexpired Alabama Drivers License or Nondrivers Identification Card issued by the Alabama Division of Motor Vehicles is sufficient verification of lawful status. Placing in your job description that possession of a valid driver's license as an essential job qualification may be considered to ensure that your employees will not be detained while driving on company business.

If you would like to schedule an Immigration Compliance Check-up of your Form I-9s and Immigration Practices, please contact deborahf@csbcpa.com. CSB will be performing these services in conjunction with Capell & Howard, P.C.

About the author: Tommy Eden is an attorney with Capell & Howard, P.C. and a member of the ABA Section of Labor and Employment Law, and presented throughout the State of Alabama on Immigration Workplace Compliance in 2011. Tommy can be contacted at tme@chlaw.com or 334-241-8030. A more detailed legal summary for employers of the Act, and other links and resources, is at www.immigrationalabamalaw.com

This Do's and Don'ts summary is for educational purposes only and does not constitute legal advice. "No representation is made that the quality of legal services to be performed is greater than the quality of legal services performed by other lawyers."



**ATTENTION
CSB Clients**

In order to ensure you don't miss important information, we are updating our client email addresses and could use your help. Please contact Jennifer Brothers at jenniferb@csbcpa.com with your name and current email address or call our office at (251) 343.1012.

Business Record Retention or "Who's on First"?

In the familiar Abbott and Costello routine, Costello questions Abbott about the names of the players on his baseball team. As we know, "Who" plays first base, "What" is on second and "I Don't Know" plays third.

Costello: Who is on first?

Abbott: Yes.

Costello: What?

Abbott: No, What's on second.

Costello: Forget about second. If I throw the ball to first, who is going to catch it?

Abbott: Naturally.

Costello: So Naturally plays first?

Abbott: Who is on first.

Costello: That's what I'm trying to find out! I don't know!

Abbott: He's on third.

Okay, the rules for record retention may not be quite that confusing. Nonetheless, we often get questions about it, such as *who* am I saving these records for, *what* records do I keep, and for *what* period of time should I save them?

To provide the answers, we asked two of our bright young accountants, Alex and Hope, to put together a **Record Retention Checklist**. They did just that and posted it to our website at www.csbcpa.com under the "Links" section.

If the checklist doesn't give you all the answers, you now know *who* you need to call at our office to get answers, and *what* to ask. Because our goal at CSB, *naturally*, is to make sure you never get stuck on *third*.

2011 Year-end Income Tax Planning For Individuals

As the end of 2011 approaches, there are many actions to consider that could reduce your 2011 taxes. Year-end planning is particularly challenging this year given the growing national debate over comprehensive tax reform, the rapid pace of recent tax law changes, and the extensive list of current tax breaks that are scheduled to **expire at the end of 2011**. Regardless of these looming uncertainties, there are many “time-tested” year-end tax savings techniques that you should consider **for 2011**.

We are sending you this letter to remind you of the *traditional* year-end tax planning strategies that help lower your taxable income and postpone the payment of your taxes to later years. In this letter we also help you navigate the many *new* tax planning opportunities available to individuals under recent law changes. **Planning Alert!** Since many tax breaks are currently scheduled to **expire after 2011** (and others *after 2012*), it is extremely important that you act timely to obtain maximum benefits! **Tax Tip.** Even though the weak economy has caused a drop in the income of many individuals, this decrease in income may actually produce additional tax benefits. If your income is down for 2011 as compared to recent years, you may be eligible for deductions and credits that you did not get in previous years because your income exceeded the phase-out thresholds. So, *please pay close attention to the income thresholds* for the various deductions and credits discussed in this letter, which we *highlight prominently* in each section.

To help you locate items of interest, we have divided planning ideas into the following topics:

- Significant Tax Breaks Expiring After 2011
- Consider Future Tax Rates Before Deferring Income
- Postponing Taxable Income
- Should You Convert Your “Traditional” IRA To A “Roth” IRA?
- Taking Advantage Of Deductions
- Year-End Tax Planning For Investors
- Miscellaneous Year-End Tax Planning Opportunities

Caution! Tax planning strategies suggested in this letter may subject you to an unexpected alternative minimum tax (AMT). For example, many deductions are not allowed for AMT purposes, such as: personal exemptions, the standard deduction, state and local income taxes, and real estate taxes. Also, AMT can be triggered by taking large capital gains, having high levels of dividend income, or exercising incentive stock options. Therefore, **we suggest that you call our firm before implementing any tax planning technique discussed in this letter.** You cannot properly evaluate a particular planning strategy without calculating your overall tax liability (including the AMT and any state income tax) with and without that strategy. **Please Note!** This letter contains ideas for Federal income tax planning only. **State income tax issues are not addressed.**

***Please see the “links” section of our website at CSBcpa.com for a more detailed version of this letter, plus one for businesses, and a letter on new tax legislation.

Significant Tax Breaks Expiring After 2011

A host of current tax breaks for individual taxpayers are scheduled to expire at the **end of 2011**, unless Congress takes action to extend these provisions. **Caution!** Although Congress has traditionally extended a majority of expiring tax breaks in the past, there is no guarantee that Congress will do so in the future. **Tax Tip.** Regardless of how Congress ultimately addresses these expiring tax breaks, there are real tax savings available if you take advantage of these provisions **before the end of 2011**. The following are some of the more popular tax breaks that we have enjoyed over the past several years, but are **currently scheduled to expire after 2011**: **1)** school teachers’ deduction (up to \$250) for certain school supplies; **2)** election to deduct state and local sales tax; **3)** deduction (up to \$4,000) for qualified higher education expenses; **4)** higher deduction and carryover limits for charitable contributions of “conservation easements”; **5)** deduction for home mortgage “insurance premiums”; **6)** “District of Columbia” first-time homebuyer’s credit; **7)** tax-free transfers from IRAs to charities for those at least age 70½; **8)** temporary exclusion of 100% of gain on the sale of certain small business stock; **9)** 2% Social Security tax holiday; **10)** “refundable” adoption credit; **11)** increased AMT exemptions; and **12)** credit for energy-efficient improvements to your principal residence. (**Caution!** This 30% credit of up to \$1,500 cumulative for 2009 and 2010 dropped to a maximum life-time credit of \$500 for installations during 2011). **Planning Alert!** If you would like to take advantage of any of these provisions, but you need more information, please call our office so we can help you take the necessary steps to lock in these deductions before it is too late. The following provides more details on several of these expiring items that warrant special attention as we approach the end of 2011:

Two Percent Social Security Tax Holiday For “2011 Only.” For **2011 only**, there is a **2%** reduction in Social Security taxes for both employees and self-employed individuals. Therefore, **if you are an employee**, your take-home pay for 2011 is generally being increased by 2% of each dollar of compensation that you earn. However, since Social Security taxes apply only to the first \$106,800 of compensation in 2011, your maximum savings will generally be \$2,136 (i.e., \$106,800 x 2%). Likewise, if you are self-employed, your Social Security taxes are reduced by 2% of your self-employment income for 2011 (up to \$106,800). Therefore, if your self-employment income is \$106,800 or more, your self-employment taxes will be reduced by \$2,136. **Tax Tip!** Accelerating 2012 compensation or self-employed income **into 2011** will save you 2% on your Social Security tax to the extent the income acceleration does not cause you to exceed the \$106,800 earned income cap.

Continued on Page 7

Tax-Free IRA Payments To Charities If You Are At Least 70½. For the past several years, we have had a popular (but *temporary*) rule that allows taxpayers, who have reached age 70½, to have their IRA trustee contribute up to \$100,000 from their IRAs directly to a qualified charity, and exclude the distribution from income. **Planning Alert!** To qualify, the check from your IRA must be made out “directly” to your designated charity. Since this tax break is currently scheduled to **expire after 2011**, you should make arrangements for the transfer with your IRA trustee *well before the end of 2011* if you want to take advantage of this provision.

The Qualified Tuition Deduction. If you pay for *qualified* higher education tuition and fees for yourself, your spouse, or your dependents, you may qualify for an education expense deduction. This maximum \$4,000 deduction is available whether or not you itemize. You are allowed the maximum \$4,000 deduction only if your adjusted gross income (“AGI”) does not exceed \$130,000 on a joint return (\$65,000 if single). If your AGI is between \$130,000 and \$160,000 (\$65,000 and \$80,000 if you’re single) your maximum deduction drops to \$2,000. **Caution!** If your AGI exceeds \$160,000 (if joint) or \$80,000 (if single) by even \$1, the entire deduction is lost. **Planning Alert!** This deduction is **currently scheduled to expire after 2011**. Even though Congress has extended this provision in prior years when it was scheduled to expire, there is no guarantee that it will do so again. **Tax Tip.** If you expect to take this deduction and your income is close to the \$130,000 or \$160,000 limits (\$65,000 or \$80,000 if you’re single), we should discuss your situation and see if we can take steps to keep your income below those thresholds for 2011.

Consider Future Tax Rates Before Deferring Income

Classic year-end tax planning typically includes strategies that lower your current taxable income and postpone the payment of taxes to later years. A traditional technique to accomplish both of these goals is to defer the current recognition of taxable income to later years. However, as you consider any tax strategy that would defer taxable income beyond 2011, please keep in mind that individual tax rates are scheduled to increase **after 2012**.

Currently Scheduled Tax Rate Increases. Over the past several months, President Obama has proposed several tax increases on higher-income taxpayers as part of his deficit reduction proposals. Because of the political uncertainty of these proposals, it is impossible to predict with any certainty what the tax rates will be in the future. However, the existing individual income tax rates for all income levels are currently scheduled to remain in place *through 2012*. Consequently, the current 10% through 35% tax brackets for ordinary income, and the maximum 15% tax rate for long-term capital gains and qualified dividends (zero percent if the dividends or capital gains would otherwise fall in the 10% or 15% tax brackets) **continue through 2012**. **Caution!** Starting *in 2013*, absent Congressional action, the top individual income tax rates will generally increase to: **1) 39.6% for ordinary income; 2) 39.6% for qualified dividends; and 3) 20% for long-term capital gains.** **Planning Alert!** In addition,

starting *in 2013*, the *Health Care Act* imposes a new Medicare Surtax of 3.8% on the *investment income* (e.g., interest, dividends, capital gains) of higher-income individuals, and a Medicare Surtax of .9% on the *earned income* (e.g., W-2 income, self-employment income) of higher-income individuals.

Postponing Taxable Income

Since currently scheduled tax rate increases do not occur **until 2013**, it continues to be a good idea to defer income into 2012 if you believe that your marginal tax rate for 2012 will be equal to or less than your 2011 marginal tax rate. Also, deferring income into 2012 could increase various credits and deductions for 2011 that would otherwise be phased out as your adjusted gross income increases. **Tax Tip.** This classic tax planning strategy may be particularly valuable for 2011 if it also keeps your 2011 income below the phase-out thresholds for the many tax breaks that are currently scheduled to expire after 2011 (e.g., refundable adoption credit, \$4,000 qualified higher education expense deduction, deduction for home mortgage “insurance premiums”). If, after considering your anticipated 2012 tax rates, you believe that deferring taxable income into 2012 will save you taxes, consider the following strategies:

Self-Employed Business Income. If you are self-employed and use the cash method of accounting, consider delaying year-end billings to defer income until 2012. **Planning Alert!** If you have already received the check in 2011, deferring the deposit does not defer the income. Also, you may not want to defer billing if you believe this will increase your risk of not getting paid.

IRA Owners Who Attain Age 70½ During 2011. If you reached age 70½ at any time during 2011, although you may take your first required distribution from a traditional IRA before the end of 2011, you are allowed to take the first payment as late as **April 1, 2012**, without penalty. **Planning Alert!** If you wait until 2012 to take your first payment, you will still be required to take your second required minimum distribution no later than December 31, 2012, which will cause you to take two payments in 2012. This “bunching” of the first two annual payments into one tax year (2012) could cause your income to be taxed in a higher tax bracket and, therefore, result in more overall tax than if you received the first required payment in 2011. **Tax Tip.** If you reached age 70½ in 2011, and you own an IRA or other qualified retirement account, please call us and we will help you navigate these rules to your best advantage.

Rollovers By Surviving Spouses. If an individual *over age 70½* died during 2011 and the beneficiary of the decedent’s IRA or qualified plan is the surviving spouse, and the *surviving spouse is over 59½*, the *surviving spouse* should consider rolling the decedent’s qualified plan or IRA amount into his or her name **on or before December 31, 2011**. If the decedent’s retirement account is rolled into an IRA in the surviving spouse’s name **before 2012**, then **1)** provided the surviving spouse has not reached age 70½, no distributions are required in 2012, and **2)** if the surviving spouse is at least 70½, the required minimum distribution in 2012 will be determined using the Uniform

Lifetime Distribution Table that results in a smaller annual required payout. **Therefore, converting the account into the surviving spouse's name on or before December 31, 2011, could substantially reduce the amount of the required minimum distribution for 2012 where the decedent was at least 70½. Planning Alert!** These rules are complicated and can create tax traps for the ill advised. Please call our office before you take any actions so we can advise you on how these rules apply to your particular situation.

Should You Convert Your "Traditional IRA" To A "Roth IRA?"

Although postponing taxable income can frequently save you overall taxes, some tax saving strategies may actually result in accelerating taxable income. A common example of this involves your decision to convert your traditional IRA into a Roth IRA. When you convert a traditional IRA to a Roth IRA, you generally must pay tax on the amount converted as if you withdrew the funds from the traditional IRA.

Should You Convert In 2011? Whether to convert (rollover) your traditional IRA to a Roth IRA (Roth conversion) continues to be a hot topic, and there are many variables that impact this decision. Probably the most significant is your current tax rates as compared to the rates in effect when the funds are withdrawn from the IRA. Therefore, uncertainty as to future tax rates creates a significant amount of uncertainty as to whether a Roth conversion is right for you. **Tax Tip.** If the recession has caused a significant, but temporary, decline in your income for 2011, you may be a good candidate for converting all or a portion of your regular IRA to a Roth. This is particularly true if: **1)** your temporary drop in 2011 income places you in a much lower tax bracket than you expect when the funds are withdrawn from the IRA, **2)** you believe that the value of your IRA is currently at or near an all time low, **3)** you expect your IRA to appreciate in the relatively near future, and **4)** you have funds outside the IRA to pay the income taxes caused by the conversion. **Planning Alert!** If you want the conversion to be **effective for 2011**, you must transfer the amount from the regular IRA to the Roth IRA **no later than December 31, 2011** (you do not have until the due date of your 2011 tax return). **Caution!** Don't attempt a Roth conversion or implement a Roth conversion strategy **without calling us first**. There is a host of factors you should evaluate before deciding to convert your traditional IRA to a Roth.

Taking Advantage Of Deductions

Accelerating "Above-The-Line" Deductions Into 2011. As a cash method taxpayer, you can generally accelerate a 2012 deduction into 2011 by "paying" it in 2011. Accelerating an **"above-the-line"** deduction (e.g., IRA or Health Savings Account (HSA) deduction, health insurance premiums for self-employed individuals, qualified student loan interest, qualified tuition deduction, qualified moving expenses, deductible alimony) into 2011 may allow you to reduce your "adjusted gross income" (AGI) below the thresholds needed to qualify for many other tax benefits (e.g., child credit, education credits, adoption credit, ability to contribute to a deductible IRA, etc.). However,

"itemized" deductions (i.e., below-the-line deductions) do **not** reduce your "adjusted gross income" and, therefore, will not affect your 2011 deductions and credits that are reduced as your income increases. *Itemized deductions* generally include charitable contributions, state and local income and property taxes, medical expenses, unreimbursed employee travel expenses, and home mortgage interest. **Tax Tip.** "Payment" typically occurs in 2011 if a check is delivered to the post office, if your electronic payment is debited to your account, or if an item is charged on a *third-party credit card* (e.g., Visa, Mastercard, Discover, American Express) in 2011. **Be careful**, if you post-date the check to 2012 or if your check is rejected, no payment has been made in 2011. **Planning Alert!** The IRS says that prepayments of expenses applicable to periods beyond 12 months after the payment will not be deductible in 2011.

Accelerating "Itemized" Deductions Into 2011. If your itemized deductions fail to exceed your standard deduction in most years, you are not receiving maximum benefit for your itemized deductions. You could possibly reduce your taxes over the long term by bunching the payment of your itemized deductions in alternate tax years. This may produce tax savings by allowing you to itemize deductions in the years when your expenses are bunched, and use the standard deduction in other years. **Tax Tip.** The easiest deductions to shift from 2012 to 2011 are *charitable contributions, state and local taxes*, and your January, 2012 home *mortgage interest payment*. For 2011, the standard deduction is \$11,600 on a joint return and \$5,800 for single individuals. If you are blind or age 65, you get an additional standard deduction of \$1,150 if you're married (\$1,450 if single). **Watch Out For AMT!** Certain itemized deductions are not allowed in computing your alternative minimum tax (AMT), such as state and local taxes (including state income taxes) and unreimbursed employee business expenses. Before you accelerate 2012 itemized deductions into 2011, to be safe, we should first do a "with and without" computation so we can determine the AMT impact of this strategy.

Charitable Contributions. A charitable contribution deduction is allowed for 2011 if the check is mailed **on or before December 31, 2011**, or the contribution is made by a credit card charge in 2011. However, if you merely give a note or a pledge to a charity, no deduction is allowed until you pay off the note or pledge. **Tax Tip.** If you are considering a significant 2011 contribution to a public charity funded by an investment you own, it will generally save you taxes if you contribute appreciated *long-term capital gain property*, rather than selling the property and contributing the cash proceeds to charity. By contributing capital gain property held more than one year (e.g., appreciated stock, real estate, etc.), a deduction is generally allowed for the full value of the property, but no tax is due on the appreciation. **Tax Alert!** Deductions for charitable contributions are allowed only if you have proper documentation for the contribution (i.e., generally a receipt containing the information required by the IRS). In addition, for contributions of property in excess of \$5,000 IRS requires a qualified appraisal.

Maximizing Home Mortgage Interest Deduction. You can increase your home mortgage interest deduction by paying your January, 2012

payment **on or before December 31, 2011**. Typically, the January mortgage payment includes interest that was accrued in December and, therefore, is deductible if paid in December. **Planning Alert!** Make sure that you send in your January, 2012 mortgage payment early enough in December for your lender to actually receive it before year-end. That way, your lender will be sure to reflect that last payment on your 2011 Form 1098, and we can avoid a matching problem on your 2011 return.

State And Local Taxes. Consider paying your state and local income taxes (fourth quarter estimate and balance due for 2011) and any property taxes for 2011 **prior to January 1, 2012. Planning Alert!** State and local income and property taxes are not deductible for AMT purposes. Consequently, you should not employ this tactic without carefully calculating the alternative minimum tax impact. Also, “overpayment” of your 2011 state and local income taxes is generally not advisable particularly if a refund in 2012 from a 2011 overpayment will be taxed at a higher rate than the 2011 deduction rate. **Please consult us before you overpay state or local income taxes!**

Year-end Tax Planning For Investors

Planning With Capital Gains And Losses. Generally, the current maximum long-term capital gains rate of 15% **is scheduled to continue through 2012**. Also **through 2012**, lower-income taxpayers who have long-term capital gains that would otherwise be included in the 15% or lower ordinary income tax bracket, are taxed at a zero percent rate. **Tax Tip.** Timing your year-end sales of stocks, bonds, or other securities may save you taxes. **After fully evaluating the economic factors**, the following are time-tested, year-end tax planning ideas for sales of capital assets. **Planning Alert!** Always consider the economics of a sale or exchange **first!**

• **Timing Your Capital Gains And Losses.** If you have already recognized capital gains in 2011, you should consider selling securities that have declined in value **prior to January 1, 2012**. These losses will be deductible on your 2011 return to the extent of your recognized capital gains, plus \$3,000. **Tax Tip.** These losses may have the added benefit of reducing your income to a level that will qualify you for other tax breaks, such as the: \$2,500 American

Opportunity Tuition Tax Credit, \$1,000 child credit, \$13,360 adoption credit, etc. **Planning Alert!** If within 30 days before or after the sale of loss securities, you acquire the same securities, the loss will not be allowed currently because of the “wash sale” rules (although the disallowed loss will increase the basis of the acquired stock). **Tax Tip.** There is *no* wash sale rule for *gains*. Thus, if you decide to sell stock at a gain in order to take advantage of a zero capital gains rate, or to absorb capital losses, you may acquire the same securities within 30 days without impacting the recognition of the gain.

• **Making The Most Of Capital Losses.** Many investors still have substantial loss carry forwards coming into 2011. If your stock sales to date have created a *net* capital loss exceeding \$3,000, consider selling enough appreciated securities **before the end of 2011** to decrease your net capital loss to \$3,000. Stocks that you think have reached their peak would be good candidates. All else being equal, you should sell the short-term gain (held 12 months or less) securities first. This will allow your *net* capital loss (in excess of \$3,000) to offset your short-term capital gain, while preserving your favorable long-term capital gain treatment for later years.

Exercising Incentive Stock Options (ISOs) Could Trigger AMT. Exercising an incentive stock option (ISO) in 2011 can generate a 2011 alternative minimum tax (AMT) if the difference between the stock’s value and the exercise price is substantial. **Tax Tip.** If you exercised an ISO **in 2011** and the stock you acquired has declined in value since the date of exercise, it may be possible to eliminate or reduce your 2011 AMT tax liability if you sell the stock **on or before December 31, 2011**. Please check with us if you have exercised incentive stock options during 2011 and the price of the stock has fallen since the date of exercise.

Miscellaneous Year-end Tax Planning Opportunities

As you develop your 2011 tax year-end planning strategies, don’t overlook the following tax savings opportunities:

“American Opportunity Education Tax Credit” (Formerly “Hope Credit”). **For 2009 through 2012**, you may qualify for the



Tax Time Reminder

With the end of 2011 approaching, it’s time to get a jump on collecting your tax information to maximize your year-end tax planning. For your convenience, CSB will mail tax organizers around the first of January to help with organizing important information.

Have your income or expenses significantly changed?
Please call our office right away to maximize year-end tax planning.

Want to gauge your 2011 tax situation and prepare a tax savings strategy?
Make an appointment with us today!

Mobile Office
(251) 343.1012 • Toll Free (800) 347.8583

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“American Opportunity Tax Credit” for qualifying college tuition and course materials for yourself, your spouse, and your dependent children. The maximum credit for each student is \$2,500 (100% of the 1st \$2,000 of qualifying education expenses plus 25% of the next \$2,000 of qualifying expenses), and is allowed for up to *four* years (i.e., generally, freshman through senior years). The credit phases out as your modified adjusted gross income increases **from \$160,000 to \$180,000 for those filing joint returns** and **from \$80,000 to \$90,000 for single filers. Planning Alert!** To get the full \$2,500 credit for 2011, you must pay qualifying expenses of at least \$4,000 for the student **by December 31, 2011**. For example, if you paid tuition and books of \$2,500 for the fall, 2011 semester for a college freshman, you would need to pay tuition of at least \$1,500 for the spring, 2012 semester by **December 31, 2011**, to get the full credit of \$2,500 for 2011.

The Lifetime Learning Credit. The *Lifetime Learning tax credit* equals 20% of the first \$10,000 of qualified higher education tuition and fees. The credit phases out ratably as your modified adjusted gross income increases from **\$102,000 to \$122,000** on a joint return (**\$51,000 to \$61,000** on a single return). The Lifetime Learning credit is for an unlimited number of years and can be used for graduate or professional degrees (as well as undergraduate education). However, the Lifetime Learning credit **limitation of \$2,000 is per tax return, not per student. Planning Alert!** If your income is **more than \$122,000 (\$61,000 on a single return)**, you do not qualify for the Lifetime Learning credit. However, the IRS says the student (e.g., your child) may claim the credit on his or her return, provided you elect not to claim that child as a dependent on your tax return (even if the child otherwise qualifies as your dependent). Since the Lifetime Learning credit is a *non-refundable* credit, your child must have sufficient income tax liability to utilize the credit on his or her return.

Maximize Tax-Favored Medical Benefits For Children Under Age 27. Effective March 30, 2010, an employer-provided health plan may provide tax-free reimbursements to an employee’s child **who is under age 27 at the end of the tax year**. This exclusion applies even if the taxpayer cannot claim the child as a dependent for tax purposes. Previously, an employer could only reimburse “tax free” the medical expenses of an employee, the employee’s spouse, and the employee’s dependents. **Tax Tip.** If your employer’s health insurance plan is currently covering your child who will turn age 27 in 2012, accelerating discretionary medical expenses for that child from **2012 to 2011** will allow your employer’s 2011 reimbursements to be tax-free.

In addition, if you are self-employed, you may take an “above-the-line” deduction (i.e., unrestricted by the limitations on “itemized deductions”) for health insurance premiums that you pay for your child who is **under age 27 at the end of the year**, even if the child is not your “dependent” for tax purposes.

Planning With The “Kiddie Tax.” A child who is *not filing a joint return with a spouse* will have his or her unearned income (e.g., interest, dividends, and capital gains) in excess of the *threshold amount* (\$1,900 for 2011), taxed at the *parents’ tax rate* if: 1) The child **has**

not attained age 18 by the *close of the tax year*; **OR 2)** The child **is age 18** by the *close of the tax year* **AND** the child’s **earned income does not exceed one-half the child’s support**; **OR 3)** The child **is age 19 through 23** by the *close of the tax year* **AND** the child is a full-time student **AND** the child’s earned income does not exceed one-half the child’s support. **Planning Alert!** College students who are subject to this so-called *kiddie tax* will not be able to sell their appreciated capital gain property (for example to cover tuition), and pay tax at their lower tax rates to the extent their interest, dividends and capital gains exceed \$1,900. **Tax Tip.** Since a child’s *earned income* is not taxed at the parents’ tax rates, parents may save taxes by employing a child in the parent’s business and paying the child *reasonable* compensation. The child’s earnings won’t be subject to tax at the parent’s rates under the kiddie tax rules and the earnings should be deductible by the business. Also, if the child is over age 17 and the earnings exceed one-half of his or her support, the child would also avoid the kiddie tax exposure for any unearned income.

Consider Utilizing The \$13,000 Annual Gift Tax Exclusion. For individuals dying in **2011 or 2012**, there is generally a **35%** estate tax to the extent the estate’s value plus any taxable gifts made during the decedent’s life exceed **\$5 million** (the “estate and gift unified exclusion amount”). This current \$5 million *exclusion amount* is scheduled to **drop to \$1 million** for gifts made and for estates of individuals dying **after 2012**, and the top estate and gift tax rate is scheduled to **increase to 55%**. **Tax Tip.** You can reduce your estate without using any of the unified exclusion amount and without making taxable gifts by making annual gifts up to the annual gift tax exclusion amount of \$13,000 per donee. Your spouse can do the same, bringing the total gifts that can be made free of gift tax and without using any of the unified exclusion amount to \$26,000 per donee. **Planning Alert!** If you make your 2011 gift by check, the IRS says that the donee must actually “deposit” the check **by December 31, 2011** in order to utilize the 2011 \$13,000 annual gift tax exclusion. Therefore if gifts are made near the end of the year, you should consider making the gifts using a cashier’s check which should constitute a gift when the check is delivered.

Final Comments

Please contact us if you are interested in a tax topic that we did not discuss. Tax law is constantly changing due to new legislation, cases, regulations, and IRS rulings. Our firm closely monitors these changes. In addition, please call us before implementing any planning ideas discussed in this letter, or if you need additional information. Note! The information contained in this letter represents a general overview of tax developments and should not be relied upon without an independent, professional analysis of how any of these provisions may apply to a specific situation.

Circular 230 Disclaimer: Any tax advice contained in the body of this material was not intended or written to be used, and cannot be used, by the recipient for the purpose of 1) avoiding penalties that may be imposed under the Internal Revenue Code or applicable state or local tax law provisions, or 2) promoting, marketing, or recommending to another party any transaction or matter addressed herein.

Tax Tidbits

Social Security

The amount of wages subject to FICA tax at 6.2%* (12.4%* if self-employed) for 2012 is \$110,100. The FICA-Medicare Tax of 1.45% (2.9% if self employed) continues to apply to all wages and self-employment income.

*Note: The 2011 FICA rate was reduced to 4.2% for employees and 10.4% for self-employed. A reduced rate may be enacted for 2012.

Social Security Earnings Limit

There is a limit on how much you can earn and not affect your Social Security benefits, if you are under normal full retirement age. That limit for 2012 is \$14,640. Earn more than this and your benefits are cut \$1 for every \$2 earned above the limit. The limit for 2011 was \$14,160.

Standard Mileage Rates (Cents Per Mile)

	Jan-Jun 2011	Jun-Dec 2011
Business	51	55.5
Charitable	14	14
Medical	19	23.5
Moving	19	23.5

Retirement Plan Limits

	2012	2011
IRA	\$5,000	\$5,000
IRA, age 50 or more catch-up	1,000	1,000
401(k) 403(b) employee	17,000	16,500
401(k) 403(b) age 50 or more catch-up	5,500	5,500
Simple 408(p)(2)(E)	11,500	11,500
Simple 408(p)(2)(E) age 50 or more catch-up	2,500	2,500
Defined Contribution Limit	50,000	49,000

Estate & Gift Tax Lifetime Exemption

2010	\$5,000,000	(Or No Estate Tax if Elected)
2011	\$5,000,000	(35% rate for amount over \$5,000,000)
2012	\$5,120,000	(35% rate for amount over \$5,120,000)

Gift Tax Annual Exclusion

The gift tax annual exclusion for 2012 will remain at \$13,000 per donee, the same as 2011; \$26,000 per donee for married couples that elect split gifting.

IRS Approved Per Diem Rates

As of 10/01/11 the "high" & "low" cost per diem allowances are: **Low** cost of \$52 for meals and incidentals, \$111 for lodging, with a total of \$163. **High** cost of \$65 for meals & incidentals, \$177 for lodging, with a total of \$242.

Standard Deductions

	2011
Married Filing Joint	\$11,600
Surviving Spouse	11,600
Head of Household	8,500
Single	5,800
Married Filing Separately	5,800
Dependent	950
Add if Blind/+65	1,150 – 1,450

Tax Tables

2011 Married Filing Joint And Surviving Spouses

Taxable Income

Over	But Not Over	Tax Is +	% on Excess	Of The Amount Over
\$0	\$17,000	\$0	10%	\$0
17,000	69,000	1,700.00	15%	17,000
69,000	139,350	9,500.00	25%	69,000
139,350	212,300	27,087.50	28%	139,350
212,300	379,150	47,513.50	33%	212,300
379,150	—————	102,574.00	35%	379,150

2011 Single

Taxable Income

Over	But Not Over	Tax Is +	% on Excess	Of The Amount Over
\$0	\$8,500	\$0	10%	\$0
8,500	34,500	\$850.00	15%	8,500
34,500	83,600	4,750.00	25%	34,500
83,600	174,400	17,025.00	28%	83,600
174,400	379,150	42,449.00	33%	174,400
379,150	—————	110,016.50	35%	379,150

Capital Gains & Qualified Dividend Rates

For the 10% and 15% ordinary income brackets, the federal tax rate on long-term capital gains and qualified dividends is 0. For all other brackets, the maximum federal rate is 15%. These rates are scheduled to expire after 12/31/2012.



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Holiday Message

Dear Friends,

The Season has sneaked up on us this year. As the Christmas spirit encompasses us, we want to take time out to wish all of you a glorious holiday and best wishes for a successful new year.

We are all so blessed to live in a country that allows us the freedom to worship our Heavenly Father and to act independently to achieve our worldly dreams. We thank all of our servicemen and women for the great sacrifice they make to preserve our freedoms. Our military stands in harm's way on a daily basis and spends time away from their loved ones in order to keep us safe.

Our businesses continue to be challenged as we maneuver through difficult economic times. We pray for better days ahead and hope that the lessons we are learning now will reap benefits to us all in the future. The past reminds us that better days will come, so let us persevere until they do.

We hope that God blesses your family with good health and happiness over the Christmas Season. We appreciate the opportunity to be a part of your extended family and look forward to seeing you soon.

J. Kenny Crow, Jr.

