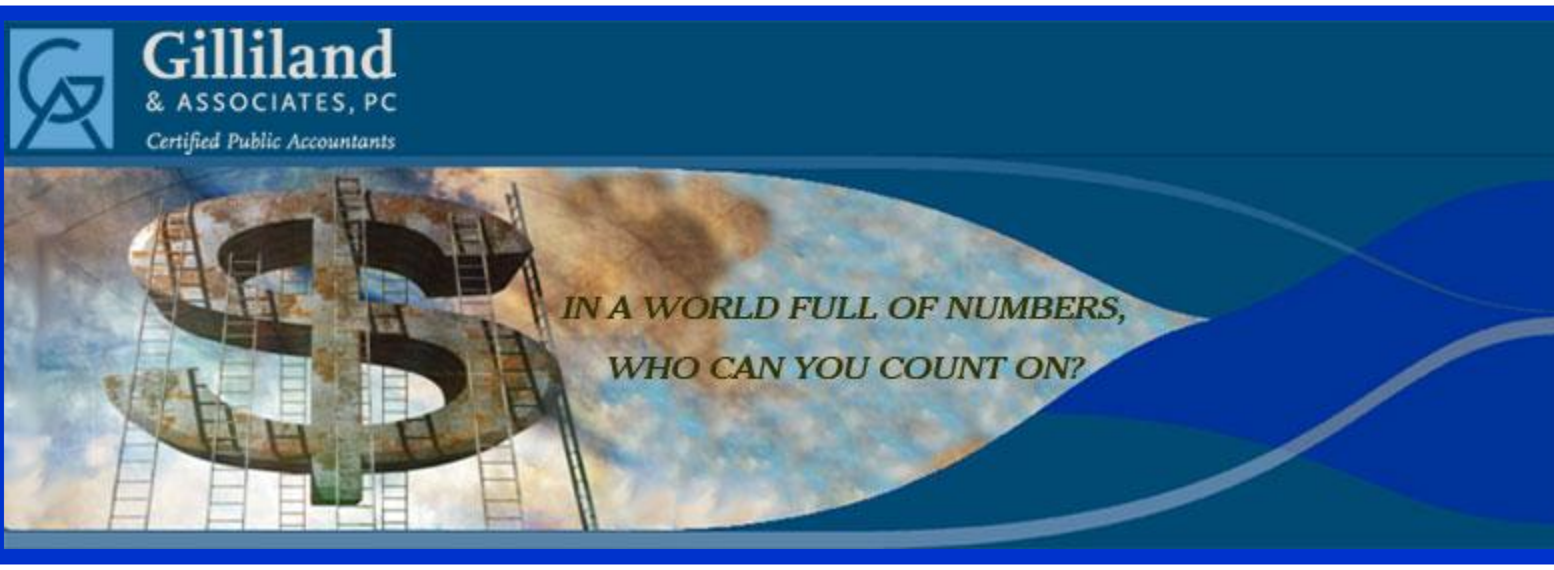

In This Issue

October 15 is the final filing deadline

"Bunching" deductions could cut your taxes

The annual gift tax exclusion- use it or lose it!

Pros and cons of dollar cost averaging

Tax Planning Guide

Download your free copy today!

Quick Links

Company Profile

OCTOBER 2012

October 15 is the final filing deadline

If you requested a six-month extension to file your 2011 income tax return, you face a major deadline on October 15. That's the final date for filing your 2011 return; the IRS does not give filing extensions beyond that date.

October 15 is also the deadline for undoing a 2011 conversion of a regular IRA to a Roth IRA. If you did a conversion to a Roth last year, you can switch it back to a regular IRA without penalty if you do so by October 15.

If you need details or filing assistance, contact our office.

"Bunching" deductions could cut your taxes

Getting the most benefit from tax deductions requires multi-year planning as well as consideration of the alternative minimum tax (AMT).

The multi-year part involves "bunching" your expenses. That's a strategy where you decide to accelerate or delay payments between different years for itemized deductions such as state income taxes, routine health care, and charitable contributions. You calculate the tax savings for each year and choose the most advantageous time to pay the expense and claim the deduction.

The AMT adds another step to the calculation because it eliminates certain deductions. For instance, state and local income taxes are not deductible when figuring AMT liability.

What if you usually claim the standard deduction? You'll still want to take a look at your total itemized deductions in case you're close enough to the tipping point to consider accelerating some expenses into 2012. In addition, there are circumstances where itemizing makes sense even when the total is lower than your standard deduction. Your exposure to the AMT can come into play here, too, since the standard deduction is not allowed in the AMT calculation.

For 2012, the regular standard deduction when you're married filing jointly is $11,900 ($5,950 for singles). The last few months of the year is a good time to review your situation and consider opportunities for bunching deductions. Planning could help you salvage itemized deductions that would otherwise be lost. Contact our office for more information about this tax-cutting strategy.

The annual gift tax exclusion – use it or lose it!

Did you know that this year you can give gifts of up to $13,000 to as many individuals as you want without being liable for gift tax? Normally, any gift you make counts towards your lifetime exemption from gift and estate taxes. That's so you don't just give away your estate shortly before death to avoid estate taxes.

But each year you can make an unlimited number of gifts free of tax, provided they're below a certain amount. The limit for 2012 is $13,000 per gift. A husband and wife each have their own separate limit, so they can jointly give up to $26,000 to any one person.

You can put the gift exclusion to good use in several situations. For example, you could use a multi-year gift program to decrease the size of your estate and reduce estate taxes. A married couple giving to each of their three children could reduce their estate by a total of $78,000 every year, for example.

You could also use the gift exclusion in an income-shifting strategy. You could make gifts of income-generating assets to a child who is in a lower tax bracket. If done carefully to avoid the "kiddie tax," the result can be a lower overall tax bill for the family unit.

Two types of gifts are exempt from the $13,000 limit. You can make unlimited gifts for tuition expenses or medical expenses on behalf of any person, provided you make the payments directly to the educational institution or health care provider.

Contact our office for advice on how the 2012 gift tax exclusion could work for you.

Pros and cons of dollar cost averaging

Experienced investors don't need to be convinced about the inherent volatility of the stock market. Prices seem to soar and plummet regularly. One possible investment strategy for smoothing out the inevitable ups and downs is called "dollar cost averaging." But this long-standing investment method has as many detractors as proponents.

The basic concept is relatively simple. Essentially, you invest a fixed amount of money in shares of the same stock at regular intervals – usually, on a monthly basis – regardless of the stock's performance. (The same principle can be applied to investments in mutual funds.) And you continue to invest the same way for an extended period of time.

As a result, you may be able to acquire shares of stock at a lower average cost per share than the average market price per share during the same time period. This strategy removes the guesswork of trying to "time" the market.

For example, let's say you decide to invest $100 monthly in Technology Inc. stock. If the stock sells at $20 a share in the first month, you'll receive five shares. Now assume that the price of the stock drops to $10 a share, so you acquire ten shares in the second month. In the third month, the price of the stock rebounds to $25 a share, giving you four shares.

After three months, you've acquired 19 shares of Technology Inc. stock for $300. Your "average cost per share" is $15.79 ($300 divided by 19). But the stock's average price per share during the same time was $18.33 ($20 + $10 + $25 divided by 3). This averaging effect makes the per-share cost of your investment lower than the average market price per share for the same time period.

On the other hand, there's no guarantee that dollar cost averaging will work. It doesn't eliminate the risk of a loss in a declining market or that the average cost per share will move slowly. In fact, if you choose a stock that continues to slide downward, your paper losses could pile up.

Dollar cost averaging requires dedication. Advocates say you must stick with this approach in both good times and bad. That means you can't stop investing if the market goes into a tailspin. Yet there may come a time when you figure you have to cut your losses.

Dollar-cost averaging is a disciplined investment strategy, but it doesn't eliminate the need to review your investments periodically to make sure that they still meet your expectations and your risk tolerance.

For securities-related emails contact Dan at dngg@ssnrep.com for tax or accounting related emails contact Dan at dngg@gillilandcpa.com.

7700 Leesburg Pike, #402B Falls Church, VA 22043 | 703-448-9121 | f- 703-893-6485
http://www.gillilandcpa.com/ | marketing@gillilandcpa.com