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**Year-End Tax Tips for Individuals From**

**The National Society of Accountants**

ALEXANDRIA, VA, November 12, 2012 — So where do you stand with this year’s taxes?

Everyone’s situation is different, but your year may have included unemployment, contract work, job hunting, a new job, tuition expenses, or maybe even dipping into an IRA or 401(k) to make ends meet. It could make for a weird tax return next April 15.

But know too that your 2012 turmoil might collide head-on with a perfect storm of new tax increases and rule changes. You can help yourself, however, by planning right now for Tax Day.

The National Society of Accountants (NSA) offers this checklist of tax changes and strategies, courtesy of CCH (a Wolters Kluwer business).

**Uncertainty Means You Should Act Now**

This year began with uncertainty over federal tax policy and now, as the year’s end looms, uncertainty is going to continue. Consider the following:

* On January 1, 2013, income tax rates could jump 3 percent across the board, with the highest rate going from 35 to 39.6 percent. The current 10 percent rate will expire and marriage penalty relief will vanish, or “sunset.”
* The current tax-favorable capital gains and dividends tax rates (15 percent for taxpayers in the 25 percent bracket rate and above and zero percent for all other taxpayers) are also scheduled to expire. Higher income taxpayers will also be subject to revived limitations on itemized deductions and their personal exemptions.
* The child tax credit will be cut in half, and millions of taxpayers would be liable for the alternative minimum tax (AMT) because of expiration of the AMT "patch.” Countless other incentives could either disappear or be substantially cut after 2012.

It looks, however, like that the fate of all expiring tax provisions will be decided by the lame-duck Congress. Uncertainty does make doing nothing tempting. But planning for possible tax scenarios can spell a win-win no matter what happens.

**Steps You Can Take Now**

**Income tax withholding.** Income tax withholding on payrolls will immediately reflect the increased rates. Adjust your income tax withholding now, reviewing if you are having too much or too little federal income tax withheld from your pay. Recognize as much income in 2012, when tax rates are lower, rather than shift income to 2013. “Run the numbers" for regular tax liability and AMT liability, and possibly explore if certain deductions should be more evenly divided between 2012 and 2013, and which deductions may qualify, or will not be as valuable, for AMT purposes.

**Harvesting losses.** Tax-loss “harvesting” strategies offset current gains or accumulate losses to offset future gains – which may be taxed at a higher rate. You should identify whether an investment qualifies for either a short- or a long-term capital gains status, because you must first balance short-term gains with short-term losses and long-term ones with long-term losses. Remember also that the "wash sale rule" generally prohibits you from claiming a tax-deductible loss on a security if you repurchase the same or a substantially identical asset within 30 days of the sale.

**Education expenses.** Taxpayers with higher educational expenses may want to consider the scheduled expiration of the American Opportunity Tax Credit (AOTC) after 2012. The AOTC, an enhanced version of the HOPE education credit, reaches the sum of 100 percent of the first $2,000 of qualified expenses and 25 percent of the next $2,000 of qualified expenses, subject to income limits. If possible, pre-paying 2013 educational expenses before 2012 ends could make the expenses eligible for the AOTC before it expires. Another popular education tax incentive, the Lifetime Learning Credit, is not scheduled to expire after 2012.

**Job-search expenses.** Some expenses related to a job search may be tax deductible, with one key limitation: the expenses must be spent on a job search in your current occupation. Examples of job-search expenses are unreimbursed employment and outplacement agency fees you pay while looking for a job, as well as some travel expenses to look for a new job. The amount of job search expenses that you can claim on your tax return is limited: You can claim the amount of expenses only to the extent that they, together with other "miscellaneous" deductions, exceed two percent of your adjusted gross income.

**Gifts.** Gift-giving can be one of your best year-end tax-strategy tools. The annual gift tax exclusion per recipient for which no gift tax is due is $13,000 for 2012 (married couples may make combined tax-free gifts of $26,000 to each recipient). Use of the lifetime gift tax exclusion amount ($5.12 million for 2012) should also be considered. Without Congressional action, the exclusion amount drops to $1 million in 2013.

**Charitable giving.** Ditto charitable giving as a year-end strategy. The "Pease limitation," scheduled to be revived after 2012, generally requires higher-income individuals to reduce their tax deductions by certain amounts, including their charitable deduction. A special rule for contributing IRA assets to a charity by individuals age 70.5 and older expired after 2011 but could be renewed for 2012.

**New Medicare Taxes.**

The Patient Protection and Affordable Care Act (PPACA) imposes an additional 0.9 percent Medicare tax on wages and self-employment income and a 3.8 percent Medicare contribution tax.

The 3.8 percent Medicare contribution tax will apply after 2012 to single individuals with a modified adjusted gross income (MAGI) exceeding $200,000 and married taxpayers with a MAGI exceeding $250,000.

For individuals liable for the tax, the amount of tax owed will be equal to 3.8 percent multiplied by the lesser of (1) net investment income or (2) the amount by which their MAGI exceeds the $200,000/$250,000 thresholds. If your MAGI fell short of the $200,000/$250,000 thresholds, you won’t be hit with the 3.8 percent tax.

If you are concerned about the Medicare surtax, you may want to realign investments and other income, or possibly sell certain assets, in 2012, and track imminent IRS guidance on the matter.

**FSAs, Medical Expenses and Insurance**

Many employers with health flexible spending arrangements (health FSAs) limit salary reduction contributions to $2,500-$5,000. But effective in 2013, the PPACA requires health FSAs under a cafeteria plan to limit contributions through salary reductions to $2,500. After 2013, the $2,500 limitation is scheduled to be adjusted for inflation.

Individuals with unused health FSA dollars should consider spending them before year’s end (or a 2.5 month grace period, if applicable) to dodge the dreaded "use-it-or-lose-it" rule. And keep in mind that health FSA dollars can’t be used for over-the-counter medications (except insulin) after 2011. (Check your plan thoroughly to see what constitutes a legit FSA expenditure.)

The threshold to claim an itemized deduction for unreimbursed medical expenses increases from 7.5 percent of adjusted gross income (AGI) to 10 percent of AGI after 2012 (the PPACA provides a temporary exception for individuals or their spouses who are 65 and older; this exception ends after 2016).

Many medical expenses can’t – and shouldn’t – be timed for tax deductions, but batching expenses such as elective surgery wherever possible into 2012, when the threshold is 7.5 percent, may make it more likely that the expenses will exceed that threshold and ease your tax burden.

(If you were unemployed for all or part of 2012 but did freelance or contract work, also know that self-employed taxpayers who didn’t declare a loss in their business can take a deduction for health insurance expenses incurred for yourself, your spouse, and your dependents. Medical Loss Ratio Rebates from insurers may also be taxable.)

“Uncertainty in the tax code is always unsettling,” says NSA Executive Vice President John Ams. “That’s why professional tax preparers and accountants stay on top of all these changes to help taxpayers receive the maximum deductions and tax credits.”

He noted that a recent biennial NSA survey found that the average tax preparation fee for an itemized Form 1040 with Schedule A and a state tax return was $233 for the 2011 tax season – only a 1.7 percent increase over 2009.

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For more information and to locate an accountant in your area, visit [www.nsacct.org](http://www.nsacct.org). For more information about CCH, visit www.tax.cchgroup.com.

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