JOHNSON O'CONNOR FERON & CARUCCI LLP

CERTIFIED PUBLIC ACCOUNTANTS

YEAR END LETTER

As 2011 draws to a close, there is still time to reduce your 2011 tax bill and plan ahead for 2012. Following are some items to consider for purposes of both your business and individual income tax planning.

BUSINESS TAX CONSIDERATIONS

Business Deductions

Section 179 Expensing Election: You may be able to make an election allowing you to currently deduct otherwise depreciable business property if you place the property in service by the end of the year. For 2011, you may elect to expense up to $500,000 of capital costs, including up to $250,000 of certain leasehold improvements and other qualified real property. In 2012, the dollar amount for §179 expensing is scheduled to decrease to $139,000, and the allowance for real property will be eliminated.

SUVs weighing between 6,000 and 14,000 pounds gross vehicle weight are limited to an expensing amount of $25,000.

Bonus Depreciation: Taxpayers may claim 100% bonus depreciation for assets placed in service in 2011. In 2012, the bonus depreciation amount is scheduled to be reduced to 50%.

NOL Carryback Period: If your business suffers net operating losses for 2011, you generally apply those losses against taxable income going back two tax years. Thus, for example, the loss could be used to reduce taxable income and thus generate tax refunds for tax years as far back as 2009. Certain "eligible losses" can be carried back three years.

Bad Debts: Accrual-basis taxpayers can accelerate deductions to 2011 by analyzing business accounts receivable and writing off those receivables that are totally or partially worthless.

Home Office Deduction: Expenses attributable to using the home office as a business office are deductible under §280A if the home office is used regularly and exclusively: (1) as a taxpayer's principal place of business for any trade or business; (2) as a place where patients, clients, or customers regularly meet or deal with the taxpayer in the normal course of business; or (3) in the case of a separate structure not attached to the residence, in connection with a trade or business.

Business Credits

Work Opportunity Credit: The work opportunity credit is an incentive provided to employers who hire individuals in groups whose members historically have had difficulty obtaining employment. The credit gives a business an expanded opportunity to employ new workers and to be eligible for a tax credit against the wages paid. Wages paid after 2011 are not eligible for the credit.

Small Employer Pension Plan Startup Cost Credit: For 2011, certain small business employers that did not have a pension plan for the preceding three years may claim a nonrefundable income tax credit for expenses of establishing and administering a new retirement plan for employees. The credit applies to 50% of qualified administrative and retirement-education expenses for each of the first three plan years. However, the maximum credit is $500 per year.

Employer-Provided Child Care Credit: For 2011, employers may claim a credit of up to $150,000 for supporting employee child care or child care resource and referral services. The credit is allowed for a percentage of "qualified child care expenditures," including for property to be used as part of a qualified child care facility, for operating costs of a qualified child care facility, and for resource and referral expenditures.

Credit for Employee Health Insurance Expenses of Small Employers: Eligible small employers are allowed a credit of 35% of certain expenditures to provide health insurance coverage for their employees. Generally, employers with 10 or fewer full-time equivalent employees (FTEs) and an average annual per-employee wage of $25,000 or less are eligible for the full credit which is phased out completely for employers with 25 or more FTEs or an average annual per-employee wage of $50,000 or more.

Differential Wage Pay Credit: If an employer meets certain qualification requirements, it can take a credit against its 2011 income tax liability in an amount equal to 20% of the sum of the "differential wage payments," up to $20,000, that the employer makes to an employee in active duty in the military.

Inventories

Subnormal Goods: You should check for subnormal goods in your inventory. Subnormal goods are goods that are unsalable at normal prices or unusable in the normal way due to damage, imperfections, shop wear, changes of style, odd or broken lots, or other similar causes, including second-hand goods taken in exchange. If your business has subnormal inventory as of the end of 2011, you can take a deduction for any write-downs associated with that inventory provided you offer it for sale within 30 days of your inventory date. The inventory does not have to be sold within the 30-day timeframe.

INDIVIDUAL INCOME TAX CONSIDERATIONS

IRA, Retirement Savings Rules for 2011

Tax-saving opportunities continue for retirement planning due to the availability of Roth IRAs and other retirement savings incentives.

Traditional IRAs: The annual deductible contribution limit for an IRA for 2011 is $5,000. For 2011, a $1,000 "catch-up" contribution is allowed for taxpayers age 50 or older by the close of the taxable year, making the total limit $6,000 for these individuals.

Roth IRA: This type of IRA permits nondeductible contributions of up to $5,000 a year. Generally, earnings grow tax-free, and distributions are tax-free. The maximum contribution is phased out in 2011 for persons with an AGI above certain amounts: $169,000 to $179,000 for married filing jointly, and $107,000 to $122,000 for single taxpayers (including heads of households); and between $0 and $10,000 for married filing separately who lived with the spouse during the year.

Roth IRA Conversion Rule: Funds in a traditional IRA and most retirement plans (for those otherwise eligible for a distribution) can be rolled over into a Roth IRA. Effective in 2011, the former $100,000 income limit for Roth IRA conversions no longer applies, and taxpayers will be able to make Roth IRA conversions without regard to their AGI. Such a rollover, however, is treated as a taxable event, and you will pay tax on the amount converted in the current year.

Retirement Plan Contribution Limits: The elective deferral limit for a 401(k) plan is $16,500 with a $5,500 catch-up contribution for a total of $22,000. For SIMPLE plans, the deferral limit is $11,500 with a catch-up contribution of $2,500 for a total of $14,000. Catch-up contributions are allowed if your retirement plan permits them and you will be 50 years old by December 31, 2011. The elective deferral limit for a 401(k) plan increases to $17,000 in 2012. All other amounts remain the same.

Required Minimum Distributions: For 2011, taxpayers who have reached the age of 70 ½ generally must begin taking required minimum distributions from IRAs and defined contribution retirement plans.

Deduction Planning

Deduction timing is also an important element of year-end tax planning. Deduction planning is complex, however, due to factors such as AGI levels and filing status. If you are a cash-method taxpayer, remember to keep the following in mind:

AGI Limits: For 2011, the phase-out of most itemized deductions based on adjusted gross income has been suspended. However, certain deductions may still be claimed only if they exceed a percentage of AGI: 7.5% for medical expenses, 2% for miscellaneous itemized deductions, and 10% for casualty losses.

Medical Expenses: Medical expenses, including amounts paid as health insurance premiums, are deductible only to the extent that they exceed 7.5% of AGI. Consider bunching medical expenses into years when your AGI is lower.

State Taxes: If you are scheduled to make a fourth quarter estimated tax payment or make an additional payment towards an expected 2011 state tax liability, consider doing so this month instead of waiting until January, to accelerate the deduction into 2011. However, this only applies to taxpayers who will not be subject to the alternative minimum tax. Taxpayers residing in states without an income tax may consider making large purchases subject to sales tax before the end of 2011, since the optional deduction for sales tax in lieu of state income tax will expire after this year.

Charitable Contributions: Consider making your cash or noncash charitable contributions by the end of the year. A mere pledge to make a donation is not deductible, unless it is paid or charged on a credit card by the end of the year.

For noncash donations of cars, boats and airplanes valued at more than $500, the amount available as a deduction will generally be limited to the sales proceeds the donee organization receives when it sells the property.

To avoid capital gains, you may want to consider giving appreciated property that you have held for more than 12 months to charity since you can deduct its fair market value.

Charitable contributions of money, regardless of the amount, will be denied a deduction unless the donor maintains a cancelled check, bank record, or receipt from the donee organization showing the name of the donee organization and the date and amount of the contribution.

A special provision gives taxpayers the ability to distribute tax-free to charity required minimum distribution amounts of up to $100,000 from an IRA maintained for an individual who has reached age 70 1/2. Ordinarily, such distributions would be taxable to the individual, who might not be able to offset the income fully because of the percentage limitations on charitable contribution deductions. This provision expires at the end of 2011, so you may want to take advantage of it this year.

Education and Child Tax Benefits

Credit for Adoption Expenses: For 2011, the adoption credit limitation is $13,360 of aggregate expenditures for each child, except that the credit for an adoption of a child with special needs is deemed to be $13,360 regardless of the amount of expenses. The credit ratably phases out for taxpayers whose income is between $185,210 and $225,210. For 2011, the credit is refundable. For 2012, the credit is scheduled to become nonrefundable.

Education Credits: For 2011, the American Opportunity Tax Credit results in a maximum credit of $2,500 for qualified tuition and fees paid on behalf of taxpayers or dependents and phases out at modified AGI levels between $160,000 and $180,000 for joint filers, and between $80,000 and $90,000 for other taxpayers. One way to take advantage of the credit for 2011 is to prepay the spring 2012's tuition and/or books.

The Lifetime Learning Credit maximum in 2011 is $2,000 based on 20% of qualified tuition and fees up to $10,000. A student need not be enrolled on a minimum half-time basis so long as the classes are part of a postsecondary degree program or attended to acquire or improve job skills. For 2011, the Lifetime Learning Credit is phased out at modified AGI levels between $102,000 and $122,000 for joint filers and between $51,000 and $61,000 for single taxpayers.

Student Loan Interest: You may be eligible for an above-the-line deduction for student loan interest paid on any "qualified education loan." The maximum deduction is $2,500. The deduction for 2011 is phased out at a modified AGI level between $120,000 and $150,000 for joint filers and between $60,000 and $75,000 for individual taxpayers.

Kiddie Tax: For 2011, the kiddie tax threshold amount is $1,900 and applies to: (1) all children under 18; (2) 18-year old children who have unearned income in excess of the threshold amount, do not file a joint return and whose earned income does not exceed more than half of their support; and (3) children between the ages of 19 and 23 who meet the requirements for 18 year old children but who are also full-time students.

Energy Incentives

Residential Energy Efficient Property Credit: Until 2016, tax incentives are available to taxpayers who install certain energy efficient property, such as photovoltaic panels, solar water heating property, fuel cell property, small wind energy property and geothermal heat pumps. A credit is available for the expenditures incurred for such property up to a specific percentage, except that a cap applies for fuel cell property. The property purchased cannot be used to heat swimming pools or hot tubs.

Nonbusiness Energy Property Credit: The credit is scheduled to expire at the end of 2011. Property qualifying for the nonbusiness energy property credit includes energy-efficient windows and exterior doors, insulation, metal roofs, advanced main air circulating fans, natural gas, propane, or oil furnace or hot water boilers, and other energy efficient building property. For 2011, the credit is 10% of the cost of the improvements up to a maximum credit of $500 of which only $200 can be applied to windows. The property must be installed by the end of 2011 to qualify, and the $500 maximum credit must be reduced by any credit claimed on the 2006 through 2010 tax returns.

Investment Planning

Capital Gains: For 2011 and 2012, capital gains on property held for more than one year are taxed at a maximum rate of 15% (0% if an individual is in the 10% or 15% marginal tax bracket). Capital gains on property held one year or less are taxed at an individual's ordinary income tax rate.

Dividends: Qualifying dividends received in 2011 and 2012 are subject to rates similar to the capital gains rates. Therefore, qualifying dividends are taxed at a maximum rate of 15%. Qualifying dividends include dividends received from domestic and certain foreign corporations.

Please consult with us if you intend to implement any tax savings strategies or if you have any questions. While we are getting very close to the end of the year, there is still time to implement these strategies to minimize your 2011 tax liability.

Sincerely,

Johnson O'Connor Feron & Carucci LLP