

HIGHLIGHTS OF THE CHANGES AFFECTING 2012

Itemized Deductions and Personal Exemption Phase-Outs –

There is no itemized deduction or exemption phase-outs in 2012 for higher-income taxpayers. However, the phase-outs are scheduled to return in 2013.

Child Tax Credit – For 2012, the child credit remains at \$1,000 per child. The credit begins to phase out for married taxpayers with AGIs of \$110,000 (\$55,000 if filing married separate) and \$75,000 for all others.

Earned Income Tax Credit (EITC) – The EITC is a refundable credit available to lower income taxpayers and taxpayers with qualifying children. For 2012, the maximum credit rises to \$5,891 for qualifying taxpayers with three or more qualifying children.

Dependent (Child) Care Credit – For 2012 the dependent care credit provides a tax credit ranging from 35% to 20% (the higher the income the lower the credit rate) on the first \$3,000 of qualifying care expenses for one child and \$6,000 for two or more. The expenses that can be counted toward the credit are limited to the taxpayer's earned income, and there are special rules for care that allows a parent to attend school.

Roth Conversions – If you converted your traditional IRA to a Roth IRA in 2010 and elected to include the income in your 2011 and 2012 tax returns, you will have to include 1/2 of the taxable converted amount in your 2012 income. This will increase your taxes for 2012, and you may need to adjust your withholding or estimated tax payments to compensate for the additional income in order to avoid underpayment penalties. In addition, 2012 conversions to Roth IRAs are allowed regardless of the amount of your adjusted gross income.

Zero Capital Gains Rate Available for Some in 2012 – For 2012, taxpayers enjoy a capital gains rate of 0% to the extent that their regular tax bracket is less than 25%. Otherwise, the maximum capital gains rate generally will be 15%. You may wish to consider strategies to take advantage of these lower capital gains rates, especially the zero percent one!

Federal Estate Tax – For 2012, the estate tax exemption is \$5.12 million per person and the lifetime gift tax exemption is \$5.12 million. The top tax rate is 35% for estate, gift and generation skipping taxes.

Residential Energy-Efficient Property Credit – Homeowners going green may qualify for a tax credit designed to spur investment in alternative energy equipment that equals 30% of the cost of qualifying property (such as solar electric systems, solar hot water heaters, geothermal heat pumps, wind turbines and fuel cell property). Generally, labor costs are included when calculating this credit. Also, no cap exists on the amount of credit available except in the case of fuel cell property. Homeowners should check the manufacturer's tax credit certification statement before purchasing or installing any of these improvements.

American Opportunity Education Credit – The American Opportunity Tax Credit is available in 2012, and applies to the first four years of post-secondary education. The credit is 100% of the first \$2,000 of



qualified expenses and 25% of the next \$2,000 of qualified expenses. Generally, credits only reduce one's tax liability to zero and any excess is lost. However, in some cases up to 40% of the American Opportunity Tax Credit is refundable, providing a real benefit for lower-income taxpayers.

Expired Tax Benefits – The following tax benefits expired at the end of 2011: teacher's \$250 above-the-line deduction for classroom expenses, the option to deduct sales tax in lieu of state income tax, and the \$500 credit for home energy-savings improvements.

Coverdell Educational Accounts – For 2012, the maximum contribution to a Coverdell education account is \$2,000, and during 2012 distributions from a Coverdell account can be used to pay elementary and secondary school expenses.

Homeowner Credit Repayment – New homeowner credits received in 2008 must be repaid in annual installments through 2025. If you received the credit in 2008, you must repay 6.6667% of the credit this year (the 3rd of a 15-year payback period).

Section 179 Expense Deduction – For 2012, taxpayers are able to expense (rather than depreciate) up to \$139,000 of the cost of certain business-related capital expenses. The \$139,000 maximum begins to decrease when the total cost of qualifying property placed in service during the year exceeds \$560,000.

Foreign Financial Connections – Over the years the Treasury Department has increased scrutiny over the ownership of foreign financial accounts and foreign trusts, foreign inheritances and bequests, and taxpayers with signature authority over foreign accounts as a means of curtailing money laundering, drug trafficking, and the avoidance of tax on off-shore accounts. There are numerous reports that taxpayers may be required to file related to foreign financial connections; the penalties for not filing range from severe to draconian.

Work Opportunity Credit for Hiring Veterans – Effective for veterans who begin work for an employer after Nov. 21, 2011 and before Jan. 1, 2013, the employer is entitled to a Work Opportunity Credit (with maximum credits ranging from \$2,400 to \$9,600) if the veteran is certified by a designated local agency as falling into one of the following four categories:

- The individual is a member of a family receiving assistance under a food stamp program for at least three months, all or part of which is during the 12-month period ending on the hiring date.
- The individual is entitled to compensation for a service-connected disability, and either
 - Has a hiring date that isn't more than one year after having been discharged or released from active duty in the U.S. Armed Forces, or
 - The individual has aggregate periods of unemployment during the 1-year period ending on the hiring date which equal or exceed six months.

\$1 LUMP SUM AT VARIOUS RATES

(Future Value of \$1, Compounded Annually)

Interest Rate	5th Year	10th Year	15th Year	20th Year	25th Year	30th Year
2%	1.104	1.219	1.346	1.486	1.641	1.811
4	1.217	1.480	1.801	2.191	2.666	3.243
6	1.338	1.791	2.397	3.207	4.292	5.743
8	1.469	2.159	3.172	4.661	6.848	10.063
10	1.611	2.594	4.177	6.727	10.835	17.449

Example: If you invest \$10,000 at an interest rate of 6%, at the end of 30 years you will have \$57,430 (\$10,000 multiplied by 5.743).

\$1 PER YEAR AT VARIOUS RATES

(Future Value, Compounded Annually)

Interest Rate	5th Year	10th Year	15th Year	20th Year	25th Year	30th Year
2%	5.310	11.17	17.64	24.78	32.67	41.38
4	5.416	12.006	20.024	29.778	41.646	56.085
6	5.637	13.181	23.276	36.786	54.865	79.058
8	5.867	14.487	27.152	45.762	73.106	113.283
10	6.105	15.937	31.772	57.275	98.347	164.494

Example: If you put \$1,000 at the end of each year in an investment paying 6% a year compounded annually, at the end of the 30th year, you will have \$79,058 saved (\$1,000 x 79.058).

LIFE EXPECTANCY*

Current Age	Remaining Years	Current Age	Remaining Years
25	57.0	55	28.6
30	52.2	60	24.2
35	47.3	65	20.0
40	42.5	70	16.0
45	37.7	75	12.5
50	33.1	80	9.5

Assume a planned retirement age of 60. Based on average statistics, you will need to accumulate retirement assets by age 60 to last for 24.2 yrs.

* Life expectancy rates based on the IRS Unisex Single Life Tables.

TAXABLE-EQUIVALENT YIELD OF MUNICIPAL BONDS BASED ON VARIOUS FEDERAL INCOME TAX BRACKETS

Tax Bracket	Tax-Free Yield								
	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%	5.5%	6.0%
10%	2.2	2.8	3.3	3.9	4.4	5.0	5.6	6.1	6.7
15	2.4	2.9	3.5	4.1	4.7	5.3	5.9	6.5	7.1
25	2.7	3.3	4.0	4.7	5.3	6.0	6.7	7.3	8.0
28	2.8	3.5	4.2	4.9	5.6	6.2	6.9	7.6	8.3
33	3.0	3.7	4.5	5.2	6.0	6.7	7.5	8.2	9.0
35	3.1	3.8	4.6	5.4	6.2	6.9	7.7	8.5	9.2

Example: A taxpayer in the 25% tax bracket would have to purchase a taxable investment yielding more than 5.3% to outperform a 4.0% tax-free investment.

DISCLAIMER

The information provided is an abbreviated summary of tax and financial information for the 2012 tax year and only includes law changes through December 2011. Pending or future tax legislation and regulations could alter contents of this brochure. The accuracy and completeness of this information is not guaranteed. Specific questions relating to your specific tax or financial situation should be directed to your tax and financial advisor.

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2012 Pocket Tax Guide



Residential & Commercial | Tax & Financial Analysis | Investments

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EXEMPTIONS & STANDARD DEDUCTIONS

Personal & Dependent Exemption: **\$3,800**

Standard Deduction:

<i>Joint, SS</i>	<i>MS</i>	<i>Single</i>	<i>Head of Household</i>
\$11,900	\$5,950	\$5,950	\$8,700

An additional standard deduction of \$1,150 is allowed for each married elderly (age 65 and over) or blind individual. If elderly and blind, the additional standard deduction is \$2,300. Single individuals (elderly or blind) are allowed an additional standard deduction of \$1,450.

REDUCTION OF ITEMIZED DEDUCTIONS

The phase out of itemized deductions for high-income taxpayers is fully eliminated for tax years 2010 through 2012.

SOCIAL SECURITY (OASDI), MEDICARE & SELF-EMPLOYMENT TAXES

	<i>Social Security</i>		
	<i>OASDI*</i>	<i>Medicare</i>	<i>Total</i>
Employee	6.20%	1.45%	7.65%
Self-Employed**	12.40%	2.90%	15.30%

Wage Base for Soc. Sec. & Self-Employment Tax (2012): \$110,100

Wage Base for Medicare Hospital Insurance – no limit

**Old age, survivor and disability insurance portion of social security tax.*

***Self-employed individuals are allowed to take an income tax deduction for 50% of the self-employment tax.*

SOCIAL SECURITY BENEFITS

EARNINGS TEST – SS benefits of an individual who is under the full retirement age (66) are reduced when earnings from working exceed: \$ 14,640

MAXIMUM RETIREMENT BENEFIT – The maximum retirement benefit for workers retiring in 2011 at age 66 (full retirement age): \$2,513 per month

TAXATION THRESHOLDS – A certain % of an individual's SS benefits are taxed when his or her provisional income* exceeds certain threshold amounts:

	<i>Up to 50% Taxed</i>	<i>Up to 85% Taxed</i>
Married/Joint	\$32,000 - \$44,000	Over \$44,000
Single	\$25,000 - \$34,000	Over \$34,000

**Provisional income generally includes adjusted gross income plus nontaxable interest plus one-half of social security benefits.*

CAPITAL GAINS

Special rates (capital gain rates) apply to gains attributable to sale of capital assets held for more than a year.

CAPITAL GAIN RATES:

- To the extent a taxpayer's marginal rate is 15% or less: Zero
- To the extent a taxpayer's marginal rate is 25% or greater: 15%

EXCLUDED FROM THE ZERO AND 15% RATES:

- Gain attributable to real property depreciation: 25% Max
- Gain attributable to collectibles & qualified small business stock: 28% Max

MAXIMUM ANNUAL NET LOSS DEDUCTION: \$3,000 (\$1,500 MFS filers)

NETTING SHORT-TERM (ST) AND LONG-TERM (LT) GAINS & LOSSES:

ST gains and losses are netted as are LT gains and losses. Then the two are netted together, with the result being either a net ST or LT gain or loss. Taxpayers, when possible, can achieve a better overall tax benefit by offsetting short-term capital gains with long-term capital losses, thus offsetting higher-taxed profits with lower-taxed losses.

LONG-TERM CARE INSURANCE DEDUCTIONS

The maximum amounts of long-term care premiums that are deductible are based on age and for 2012 are:

40 or Less	40 to 50	51-60	61-70	71 & Older
\$350	\$660	\$1,310	\$3,500	\$4,370

KIDDIE TAX

Congress created the "Kiddie Tax" to stop parents from moving investments into their child's name to take advantage of the child's lower tax rates. The Kiddie Tax effectively taxes the investment income of children under age 19 and full time

students under age 24 in excess of \$1,900 at the parent's top marginal rate.

Kiddie Tax Standard Deduction – is the Larger of A or B below:

- The child's earned income plus \$300, but not to exceed \$5,950.
- \$950

TRADITIONAL IRA – MAX DEDUCTION & LIMITS

Maximum Contribution & Deduction for 2012: **\$5,000 (\$6,000 if age 50 & older)**⁽¹⁾

The deduction is ratably phased out for higher income individuals who actively participate in an employer-sponsored plan and/or whose spouse is an active plan participant. The following are the phase-out ranges based on Modified AGI:

Singe (active)	\$ 58,000 – \$ 67,999
Married (only spouse is active)	\$173,000 – \$182,999
Married (both spouses active)	\$ 92,000 – \$111,999
Married Separate	\$ 0 – \$9,999

Contributions must be made by the due date of the tax return, NOT including extensions. Contributions are NOT allowed upon reaching age 70.5 (however contributions to SEP IRAs are allowed after age 70.5).

ROTH IRA – MAX DEDUCTION & LIMITS

Maximum Contribution for 2012: **\$5,000 (\$6,000 if age 50 & older)**⁽¹⁾

There is no tax deduction for contributions to a Roth IRA, there is no tax on qualified distributions, and the accounts benefit from tax-free accumulation. The contributions are ratably phased out for higher income individuals. The following are the phase-out ranges based on Modified AGI:

Married	\$173,000 – \$182,999
Married Separate	\$ 0 – \$9,999
Others	\$ 110,000 – \$124,999

Contributions must be made by the due date of the tax return, NOT including extensions. Contributions ARE allowed after age 70.5.

**(1) The \$5,000 and \$6,000 limits apply to the combined Traditional and Roth IRA contributions of the individual for the year.*

RETIREMENT PLANS – CONTRIBUTION LIMITS

SE Defined Contribution Plans: Lesser of 25%⁽¹⁾ of compensation or \$50,000.

SEP Plans: Lesser of 25%⁽¹⁾ of compensation or \$50,000.

401(k) and 403(b) Plans Elective Deferrals: \$17,000 (\$22,500 age 50+) ⁽²⁾ ⁽³⁾

Simple Plans Elective Contributions: \$11,500 (\$14,000 age 50 and over) ⁽³⁾

Defined Benefit Plans: : Max annual benefit: \$200,000

Highly Compensated Employee Status Threshold: \$115,000 ⁽⁴⁾

Key Employee Status Threshold: \$165,000

(1) Effectively 20% of net self-employment income.

(2) The annual contribution to all of an employee's retirement accounts, including elective deferrals, employee contributions, employer matching, discretionary contributions and forfeiture allocations cannot exceed the lesser of 100% of compensation or \$50,000.

(3) Maximum compensation that can be considered in determining employer and employee contributions (employer matching contribution for Simple Plans) is \$250,000 (\$115,000 for highly compensated employees).

(4) Includes 5% owners and at employer's election 20% of the top paid employees.

SAVING FOR EDUCATION

National Average Annual College Costs (2010-11 period)

	(Tuition \$ Fees)	(With Room & Board)
Public 4-yr Institutions	\$ 7,600	\$16,200
Public Out of State	\$19,600	\$28,200
Non-Profit Colleges	\$27,300	\$37,000

Note: College costs are increasing annually at a rate of 5% to 8%

Three tax plans are provided to save funds for a child's education. Contributions to them are NOT tax deductible. The tax benefit is the account earnings that accrue tax deferred are free from tax if used for qualified education expenses.

Coverdell Account – The annual contribution limit is \$2,000 per student and the limit is ratably reduced to zero for Joint filers with MAGI between \$190K and \$220K (\$95K and \$110K for others). Funds can be used for Kindergarten and above.

Sec 529 Plan – The total contribution per student is only limited by the projected cost of the student's planned education. The donor's annual contribution is generally predicated on donor's gift tax issues. Generally each donor can contribute up to the annual gift tax exception (\$13,000 in 2012) per year without gift tax implications. In addition the exemption amount for the next four years (total \$65,000 in 2012) can be contributed at one time (generally in the earlier years to benefit from increased earnings). Funds can be used for post-secondary education only.

Savings Bonds – A taxpayer who pays qualified higher education expenses with redemption proceeds from Series EE or I Bonds issued after 1989 may be able to exclude the bonds' income. To qualify they must have been purchased when the individual was at least age 24 and redeemed at the time of the education expense for the taxpayer, spouse, or dependent. The income exclusion phases out for joint filers with a MAGI between \$109,250 and \$139,250 (\$72,850 and \$87,850 for others).

STANDARD MILEAGE DEDUCTIONS

Note: The amounts shown are the \$/mile in effect at the end of 2011. It is anticipated the 2012 rates will be approximately the same when published.

<i>Business</i>	<i>Charitable</i>	<i>Medical & Moving</i>
\$0.555	\$0.14	\$0.235

PER DIEM RATES*

	<i>High-Cost Locality</i>	<i>Low-Cost Locality</i>
Meals and incidental expenses (M & IE)	\$ 65	\$ 52
Lodging and M & IE	\$ 242	\$ 163

**Reflects rates in effect since 10/01/2011, using the simplified method of determination.*

BUSINESS ASSET EXPENSING

Each year, an amount of the cost of certain eligible personal property purchased during the year and used in the active conduct of a trade or business can be expensed. For 2012, the maximum that can be expensed is \$139,000.*

**The limit is reduced when more than \$560,000 of qualifying property is placed into service.*

INCOME TAX RATES – CORPORATIONS

<i>Taxable Income</i>	<i>But Not Over</i>	<i>% on Pay + Excess</i>	<i>Of The Amount Over</i>
\$ 0	\$ 50,000	0	0
50,000	75,000	7,500	50,000
75,000	100,000	13,750	75,000
100,000	335,000	22,250	100,000
335,000	10,000,000	113,900	335,000
10,000,000	15,000,000	3,400,000	10,000,000
15,000,000	18,333,333	5,150,000	15,000,000
18,333,333		6,416,667	18,333,333

TRUST & ESTATE INCOME TAX RATES

<i>Taxable Income</i>	<i>But Not Over</i>	<i>Pay</i>	<i>Plus</i>	<i>Of the Amount Over</i>
-0-	\$2,400	-0-	15%	-0-
\$2,400	\$5,600	\$360.00	25%	\$2,400
\$5,600	\$8,500	\$1,160.00	28%	\$5,600
\$8,500	\$11,650	\$1,972.00	33%	\$8,500
\$11,650		\$3,011.50	35%	\$11,650

UNIFIED ESTATE & GIFT TAX SCHEDULE

The estate tax was retroactively reinstated for 2010 through 2012. Presumably, Congress will come up with a permanent solution for years after 2012.

Year	Estate Tax		Gift Tax	
	Exemption (Millions \$)	Top Tax Rate	Exemption (Millions \$)	Top Tax Rate
2010	5.0	35%	1.0	35%
2011	5.0	35%	5.0	35%
2012	5.12	35%	5.12	35%

2012 ANNUAL GIFT TAX EXCLUSION **\$13,000**

Each individual is allowed an annual gift tax exclusion of \$13,000 per donee for 2012, with no limit to the number of donees. These gifts are not deductible to the giver nor are they taxable to the donee. Gifts in excess of the exclusion must be reported on a gift tax return. Gifts in excess of the exclusion are taxable but are offset with the Unified Estate and Gift Tax Credit until that credit is used up. Any amounts used to offset the gift tax will reduce the amount of credit available for the giver's estate tax.

2012 INCOME TAX RATE SCHEDULE – INDIVIDUALS MARRIED TAXPAYERS* – Joint/Surviving Spouse (SS)

<i>Taxable Income</i>	<i>Over</i>	<i>But Not Over</i>	<i>Pay</i>	<i>Plus</i>	<i>Of the Amount Over</i>
	-0-	\$17,400	-0-	10%	-0-
	\$17,400	\$70,700	\$1,740.00	15%	\$17,400
	\$70,700	\$142,700	\$9,735.00	25%	\$70,700
	\$142,700	\$217,450	\$27,735.00	28%	\$142,700
	\$217,450	\$388,350	\$48,665.00	33%	\$217,450
	\$388,350		\$105,062.00	35%	\$388,350

* Married separate (MS) use 1/2 of the joint dollar amounts.

SINGLE TAXPAYERS

<i>Taxable Income</i>	<i>Over</i>	<i>But Not Over</i>	<i>Pay</i>	<i>Plus</i>	<i>Of the Amount Over</i>
	-0-	\$8,700	-0-	10%	-0-
	\$8,700	\$35,350	\$870.00	15%	\$8,700
	\$35,350	\$85,650	\$4,867.50	25%	\$35,350
	\$85,650	\$178,650	\$17,442.50	28%	\$85,650
	\$178,650	\$388,350	\$43,482.50	33%	\$178,650
	\$388,350		\$112,683.50	35%	\$388,350

HEAD OF HOUSEHOLD

<i>Taxable Income</i>	<i>Over</i>	<i>But Not Over</i>	<i>Pay</i>	<i>Plus</i>	<i>Of the Amount Over</i>
	-0-	\$12,400	-0-	10%	-0-
	\$12,400	\$47,350	\$1,240.00	15%	\$12,400
	\$47,350	\$122,300	\$6,482.50	25%	\$47,350
	\$122,300	\$198,050	\$25,220.00	28%	\$122,300
	\$198,050	\$388,350	\$46,430.00	33%	\$198,050
	\$388,350		\$109,229.00	35%	\$388,350

ALTERNATIVE MINIMUM TAX (AMT)

Tax Rate 26% of AMT income to..... \$175,000*

28% of AMT income over.....\$175,000*

**\$87,500 for married taxpayers filing separately*

<i>Filing Status</i>	<i>Exemption Amount</i> <small>(Reduced as AMT income exceeds phase-out base.)</small>	<i>Phase-Out Threshold</i>	<i>Full Phase-Out</i>
Joint Return	\$74,450 ⁽¹⁾ (45,000)	\$150,000	\$447,800 ⁽¹⁾ (330,000)
Single and HH	\$48,450 ⁽¹⁾ (33,750)	\$112,500	\$306,300 ⁽¹⁾ (247,500)
Married Separate	\$37,225 ⁽¹⁾ (22,500)	\$75,000	\$223,900 ⁽¹⁾ (165,000)

(1) The amounts shown are estimated amounts assuming Congress will extend the higher exemption rates for 2012. If they do not, the rates will revert to the lower 2000 rates shown in parenthesis.

ESTIMATED TAX PAYMENTS

To avoid possible underpayment penalties, taxpayer is required to deposit by withholding or estimated tax payments an amount equal to the lesser of:

- 90% of current year tax liability, OR**
- One of the following amounts:**
 - If the taxpayer's AGI exceeds \$150,000*, 110% of the prior year's tax liability.**
 - Otherwise, 100% of the prior year's tax liability.**

**\$75,000 for taxpayers filing married separate.*

2012 TAX CALENDAR

January 17	4th Quarter 2011 Estimate Due
April 17	2011 1040 or Extension Due
April 17	1st Quarter 2012 Estimate Due
June 15	2nd Quarter 2012 Estimate Due
June 30	FBAR Form Due
July 31	Pension Plan (Form 5500) Returns Due (calendar yr plans)
September 17	3rd Quarter 2012 Estimate Due
October 15	2011 1040 Extension Returns Due