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INGRAM INSIGHTS
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2011 Tax Season Considerations

You don't want to pay more in taxes than you have to. That means taking advantage of every deduction and credit that you're entitled to, and recognizing potential opportunities to save. It also means staying on top of deadlines, and avoiding mistakes that could prove costly down the road. So, here are some things to keep in mind this filing season.

The due date for 2011 federal income tax returns is April 17, 2012. If you're not going to be able to file your federal income tax return by the due date, file for an extension using IRS Form 4868, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return. Filing this extension gives you an additional six months (to October 15, 2012) to file your return. Don't make the mistake of assuming that the extension gives you additional time to pay any taxes due, though. If you do not pay any taxes you owe by April 17, 2012, you'll owe interest on the tax due, and you may owe penalties as well. Special rules apply if you're living outside the country or serving in the military outside the country on April 17, 2012.

There's still time to contribute to an IRA

You generally have until the due date of your federal income tax return to make contributions to either a Roth IRA or a traditional IRA for the 2011 tax year. That means there's still time to set aside up to $5,000 ($6,000 if you're age 50 or older) in one of these retirement savings vehicles. With a traditional IRA, if you're not covered by a 401(k) or other employer-sponsored retirement plan, you can generally deduct the full amount of your contribution. (If you're covered by an employer-sponsored retirement plan, whether or not you can deduct some or all of your traditional IRA contribution depends on your filing status and income.)

If you qualify to make contributions to a Roth IRA, the contributions you make aren't deductible, so there's no 2011 tax benefit. Nevertheless, a Roth IRA may be worth considering, because qualified Roth distributions will be completely free from federal income tax.

Roth conversion regret?

Did you convert a traditional IRA to a Roth IRA in 2011, only to see the account drop in value as a result of ongoing market volatility? Wish you could go back in time so that you wouldn't have to pay tax on the value of the IRA assets that was lost in the downturn? Turns out, you can.

For example, assume you converted a fully taxable traditional IRA worth $100,000 to a Roth IRA in 2011, but that Roth IRA is now worth only $60,000. If you don't undo the conversion you'll pay federal income tax on $100,000, even though the current value of those assets is only $60,000. If you undo the conversion, you'll be treated for tax purposes as if the conversion never happened, and you'll wind up with a traditional IRA worth $60,000—and no resulting tax bill. You generally have until the due date of your 2011 return, including extensions, to recharacterize your 2011 Roth conversion.

If you do recharacterize your 2011 conversion, you're allowed to convert those dollars (and any earnings) to a Roth IRA again ("reconvert") but you'll have to wait 30 days, starting with the day you transferred the Roth dollars back to a traditional IRA. If you reconvert in 2012, then all taxes due as a result of the reconversion will be included on your 2012 return.

Expiring provisions

A number of key provisions have expired, including increased "bonus" depreciation and IRC Section 179 expense limits. 2011 will be the last year that individuals who itemize deductions will be able to elect to deduct state and local general sales tax in lieu of state and local income tax. And both the above-the-line deduction for qualified higher education expenses and out-of-pocket classroom expenses paid by education professionals will not be available starting with the 2012 tax year.

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