Six Tax-planning Moves for Midyear

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Now that your 2011 tax return has been wrapped up, or you have at least obtained a filing extension, you can enjoy some "time off" from taxes … right? Wrong. Tax planning is a year-round proposition. The tax moves you make—or don't make—throughout the year can have a substantial impact on your tax bill. Here are six areas to consider at midpoint.

1. Estimated taxes: Major changes that occur during the year—such as a marriage, divorce, and birth of a child, etc. — can affect your 2012 tax picture. If your tax payments thus far are too low, you will have to write out a substantial check when you file your return. Plus, you may owe an estimated tax penalty to boot. You can make up a tax shortfall through estimated tax payments or increased withholding from your paycheck for the rest of the year.

2. Wash sales: Under the "wash sale" rule, you cannot deduct a loss from the sale of a security if you acquire a substantially identical security within 30 days of the sale. To avoid this result, wait at least 31 days before you buy back the same security you sold at a loss. If you want to lock in your current position for a particular stock but still protect your loss, you might "double up" by buying the stock now and waiting at least 31 days to sell the original shares. If a stock loss is disallowed due to the wash sale rule, you can add the amount of your loss to your basis in the stock.

3. Dependency exemptions: As a general rule, you can claim a dependency exemption for a relative if you provide more than half of the relative's support and he or she does not have gross income exceeding the personal exemption amount ($3,800 for 2012). But the "gross income" test does not apply to a child who is younger than 19 or a full-time student younger than 24. If your child is graduating from college this year, make sure you pass the half-support test to ensure the exemption for 2012.

4. Retirement plans for the self-employed: If you are a self-employed individual, you can save for retirement through a tax-advantaged plan. For instance, you may establish a Savings Incentive Match Plan for Employees (SIMPLE) or a Simplified Employee Pension (SEP) with relative ease. Although there are technical differences, both plans allow you to contribute generous amounts. The deadline for SEP contributions is your tax return due date plus extensions, but you have until October 1 to set up and contribute to a SIMPLE for 2012.

5. Dependent care credits: You are entitled to a dependent care credit (sometimes called the "child care credit") for the cost of caring for your children younger than age 13 so you and your spouse (if you are married) can be gainfully employed. The credit for taxpayers with an AGI above $43,000 is 20% of the first $3,000 of qualified expenses for one child; $6,000 for two or more children. Note: The cost of sending a child to a summer day camp—including a specialty camp for a sport, computer training or some other study—qualifies for the credit. The cost of overnight camp, however, does not.

6. S corporation losses: An S corporation's losses are deductible by the corporation's shareholders up to the amount of the shareholder's basis in his or her corporate stock. If it looks like your S corporation will show a loss for the year, make sure that you have sufficient basis in your S corporation stock to take advantage of the loss deduction. You may increase your basis by adding capital to the company's coffers or lending money to the corporation.

Of course, the tax law is ever-evolving, but the ideas outlined in this general article appear relatively safe at this stage of the year. Meet with your Henry & Horne, LLP professional tax adviser to discuss the best strategies for your particular situation.

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