

## Looking for 2011 Tax Relief? There's Still Time

Written by Ginny Grimsley  
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### Tips for Saving on Your Income Tax

If you're just beginning to think about your 2011 income tax return, you've got a late start – but it's still not too late to cash in on some savings.

“A lot of the deductions associated with the economic stimulus package will disappear in 2012, so if you want to take advantage of them, you've got only until Dec. 31,” says Jessica James, CPA and author of Justice for None ([www.AuthorJessicaJames.com](http://www.AuthorJessicaJames.com)), an insider look at IRS tactics in a tax fraud investigation and trial.

But, she says, there's still plenty of time for some other measures to ease your share of the tax burden. Now is also a good time to resolve to start earlier in 2012 to minimize that year's tax bill. Here are some tips for both 2011 and 2012 savings:

- **Contribute to retirement accounts.** If you haven't already put money into your traditional or ROTH IRA account for 2011, you've got until April 17 to do it. If you have a Keogh or SEP (Simplified Employee Pension Individual Retirement Arrangement for businesses), and you get a filing extension to Oct. 15, you've got until then to make your 2011 deposits. The maximum IRA contribution for 2011 is \$5,000, or \$6,000 if you're 50 or older by the end of the year. For self-employed people, the maximum for SEPs and Keoghs for 2011 is \$49,000.
- **Don't fear the home office deduction.** In the past, many tax filers didn't claim a home office deduction because it was seen as an IRS red flag. But the requirements and forms have been clarified so people can do that properly – and not make mistakes that can lead to an audit. Also, the rules have been expanded so more people can claim the deduction. If you use a

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home office exclusively for business, even if you don't meet your clients there, you're eligible. For instance, a handyman who does his work other people's houses can claim the deduction if he does his paperwork at his home office. Another change is that, in the past, if you claimed 10 percent of your home as an office, that amount would not be included in the \$250,000 tax-free profit from the home's sale that's allowed for an individual by the IRS. Be sure to make your claim reasonable, or it will get questioned; a \$25,000 home office deduction for a business with \$50,000 annual gross revenue is not reasonable.

- Maximize your Flexible Spending Account. The Health Care Act will limit the maximum you can put into these pre-tax medical expense accounts in 2013. So 2012 is the last year to use an FSA to pay for orthodontics and other large medical expenses using pre-tax earnings. A medical expense flexible spending account, or FSA, allows you to use before-tax earnings to pay for medical or health care expenses not covered by your health insurance. Assuming a 25 percent tax rate, you avoid \$25 in taxes for every \$100 you spend from your FSA.

- Need to sell an investment? Next year may be the time. The Tax Relief Act maintains the tax rate cap on capital gains and dividends at 15 percent through 2012. In 2013, the cap for capital gains will increase to 20 percent and for dividends, 39.6 percent. The Health Care Act also created a 3.8 percent Medicare tax on investment income, effective in 2013. Given those scheduled increases, plan to take advantage of the rates next year.

James is an author pseudonym used because she fears her novel may provoke IRS retaliation. It's a fictionalized account of her experience as a minor player swept up in an IRS probe that included anyone associated with the primary target, a corporation. She says that, though she was innocent of any wrongdoing, she was coerced into accepting a plea deal by the IRS, which was bent on amassing adjudications of guilt to justify the investigation's expense. She pled guilty to a count of falsifying a tax return and continues to work as a CPA.

### About Jessica James

Jessica James is a CPA and the author of a novel, *Justice for None*, about her experiences as a minor target in a major federal tax fraud case. After her ordeal, she decided to write about it as a warning to others who think they can take on the government and win.