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Budget cuts and the expiration of Bush-era tax increases set for Jan. 1. But the difficult task of finding compromise before the deadline means year-end tax planning for businesses and individuals is unusually difficult in 2012.

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A recent Gallup survey found eight in 10 Americans consider it extremely or very important that Congress and President Obama agree on a plan to avoid the so-called fiscal cliff — automatic budget cuts and the expiration of Bush-era tax increases set for Jan. 1. But the difficult task of finding compromise before the deadline means

2013, there may be enhanced savings by making the acquisitions in 2012," DiSalvo says. Under current law scheduled to expire on Dec. 31, a company can take "bonus" depreciation of 50% of the cost for qualified property acquired and generally placed in service by year-end 2012.

A company is also allowed, under certain circumstances, to expense up to $139,000 of qualified property in 2012 – an amount that drops to $25,000 next year. In considering this limit, your clients should know that up to $25,000 of the cost for sport utility vehicles (weighing more than 6,000 pounds) can be expensed in 2012, with an additional 50% bonus depreciation allowed on the remainder.

It is unclear whether or the extent to which Congress will extend these extra benefits through 2013.

2. Consider dividend distributions/stock redemptions. There's a reason Dillard's Inc. (NYSE: DDS), Wal-Mart Stores Inc. (NSYE: WMT) and others are approving bigger dividends and paying them earlier. Generally, the highest individual income tax rate on qualified dividends is 15% for 2012. This rate is scheduled to rise to 39.6% for 2013 unless Congress otherwise extends the 15% rate or agrees to some rate in between, according to DiSalvo.

There will also be an additional 3.8% "Medicare" tax in 2013 on net investment income (which includes dividends) for high income individuals. This tax applies to the lesser of net investment income or modified adjusted gross income over $200,000 for a single taxpayer ($250,000 for married filing joint taxpayers). The Medicare tax will apply as enacted and should not be affected by whether the 15% dividend rate is extended or increased up to 39.6%.

In light of the above, it is possible the income tax rate on dividends for individuals could rise to 43.4% in 2013. Corporations with the capacity to distribute dividends should consider making a distribution in 2012 before the: (a) Medicare tax kicks in

the new 3.8% Medicare tax applies in 2013 to long-term capital gains for high income individuals. "Making a corporate stock redemption in 2012 as compared to 2013 could save at least the 3.8% Medicare tax and possibly an additional 5%, depending on the actions of Congress," DiSalvo says.

3. Put a veteran to work. The Work Opportunity Credit of up to $9,600 is still available for hiring an unemployed veteran, but in order to be eligible for the credit, your client must have the qualified veteran start work before 2013.

4. Accelerate expenses /defer income. Corporations expecting profit in 2012 may want to review their ability to accelerate expenses or defer revenue to the extent prudent and appropriate. Each corporation has its own set of facts and circumstances; therefore you should meet with your clients' management team before year-end to determine the optimal strategy for their company.

There is some flexibility for bonuses, particularly with respect to closely held corporations. However, in light of the distinct possibility that tax reform could raise individual income tax rates in 2013 it may be prudent for corporations to deduct a bonus in 2012 **and** for individuals to recognize the income in 2012. "This would generally require that a bonus be paid before year-end," DiSalvo says.

5. Review potential impacts tied to employer mandate for health insurance. Generally, under health care reform an employer can be taxed up to $2,000 per full time employee (with the first 30 exempt) if it carries insufficient or no health insurance for its employees. This tax does not start until 2014 and it only applies to "applicable large employers", which are those employers who have, on average, at least 50 full time equivalent employees during 2013.

Nevertheless, urge your clients to review their employment levels now and in early 2013. "There may be steps that can be taken throughout 2013 that could mitigate or, in limited circumstances even eliminate, the potential for tax in 2014," DiSalvo says.

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