Toscano & Ardito, PC.,CPAs
Specializing in Business, Financial & Tax Planning

2009 Year-End Tax Planning

For most of us, the end of the year means planning for the holidays and holiday gatherings. Income taxes are probably among the last things on your mind. Still, it is the right time to be thinking about them, because there is still time left to take actions that will save taxes. Once December 31st has come and gone, your tax liability will be set in stone. Taking a little time to plan now could possibly help you afford just a little more holiday cheer.

Some year-end tax tips never seem to go out of style; others are appropriate because of changes to the tax law that may not last. So before you get too busy with holiday arrangements, here are some reminders of the issues that keep recurring, as well as a rundown of the recent changes that can affect your tax bill. Not all actions will apply in your particular situation, but you may benefit from many of them. We can narrow down the specific actions that you can take once we meet with you to tailor a particular plan.

In the meantime, please review the following list and contact us at your earliest convenience so that we can advise you on which tax-saving moves make the most sense for you:

- Increase the amount you set aside for next year in your employer's health flexible spending account if you set aside too little for this year. Don't forget you can set aside amounts to get tax-free reimbursements for over-the-counter drugs, such as aspirin and antacids.
- If you have any capital gains, capital gain distributions from mutual funds, or you have stocks or other capital assets that are appropriate for sale, it may be advisable for us to meet to discuss how you can best coordinate timing your gains and losses to minimize tax on your gains and maximize the tax benefit from your losses. The opposite is true as well. In the past two years many clients have incurred substantial capital losses. It may be beneficial to harvest certain capital gains that will be shelter by these losses.
- If you are planning a gift to a charity, consider gifting appreciated stock. If you gift appreciated stock you do not pay capital gains on the appreciation, and you get a deduction for the stock at the appreciated value. This creates a greater tax break.
- Maximizing your 401k contribution will reduce taxable income for the year.
- If you own an interest in a partnership or S corporation you may need to increase your basis in the entity so you can deduct a loss from it for this year. Losses are only allowed to the extent that owner has basis in the entity.
- Consider using a credit card to prepay expenses that can generate deductions for this year, or consider making your January 1st mortgage or real estate tax payment at the end of December.
- If you are thinking of buying a hybrid vehicle eligible for a tax credit, purchase it before year-end after confirming that the particular model still qualifies for the credit.
- Business clients also should consider making expenditures that qualify for the $250,000 Section 179 property expensing option. **This increased limit has not yet been extended for 2010.**

- You may be able to save taxes this year and next year by applying a bunching strategy to "miscellaneous" itemized deductions, medical expenses and other itemized deductions.
- The tuition and fees deduction has been extended through 2009.
- Those facing a penalty for underpayment of estimated tax may be able to eliminate or reduce it by increasing their withholding.
- Self-employed individuals should consider setting up a self-employed retirement plan.
- You can save gift and estate taxes by making gifts sheltered by the annual gift tax exclusion before the end of the year. You can give $13,000 in 2009 to an unlimited number of individuals but you can't carry over unused exclusions from one year to the next.
- The portion of long term capital gain and qualified dividend income that would have been taxed at the 5% rate in 2007 will now be taxable at 0% through 2010.
- If you're thinking of donating a used auto to charity, you may want to inquire whether the charity plans to sell the car or use it in its charitable activities; the latter may yield a bigger deduction for you.
- Donations of used clothing and household items must be in good or better condition to be deductible. We suggest keeping a list and a photo (to establish the items condition) of the donated items. You can still deduct individual items that appraise for more than $500 even if they are not in good condition. However, this will require you to get a qualified written appraisal, which must be attached to your return.
- All cash donations must be substantiated by a bank record – either a cancelled check or a copy of a cancelled check. This means no more claiming weekly cash donations to church. And remember that you must get a receipt from the charity for any monetary donation that exceeds $250.
- The IRS extended provisions allowing for the direct contribution to a charity from an IRA of up to $100,000 through the end of 2009.
- If you are age 70 ½ or older the required minimum distribution for IRA's has been waived for 2009.
- The IRS continues to increase audits. The odds of getting audited by the IRS are approximately 1 in 100. For personal returns with income between $200,000 and $1,000,000 the chances increase to 2%, for business returns it increases to 2.9%. For personal returns with more than $1,000,000 in income the chances of being audited are 9.3%. This brings us to the very important next point;
- Record retention: Keep copies of returns indefinitely and the supporting documents for six years. Records relating to real estate, including improvements, and payroll, if for a business return, should be kept indefinitely as well.

New for 2009 and beyond:

- Taxpayers are now allowed a separate deduction for the sales tax paid on motor vehicles purchased between February 16, 2009 and January 1, 2010. The deduction is phased out when income reaches $260,000 for joint and $135,000 for single.
- Making Work Pay Credit. A credit equal to 6.2% of earned income, up to a maximum of $400 for single and $800 for joint filers, will be given for 2009 and 2010. The credit is refundable and phases out between $150,000 and $190,000 for joint and $75,000 and $ $95,000 for single filers.
- First-Time Homebuyers Credit. Equal to the lesser of 10% of the home's purchase price or $8,000. The credit is refundable and does not need to be repaid. Recently the credit was extended until May 1, 2010 and has a provision for taxpayers who have lived in their current home for more than five years. These taxpayers can qualify for a $6,500 credit.

- American Opportunity Tax Credit, college tax credit. This replaces the Hope and Lifetime Learning credits. The maximum credit for qualified education expenses is $2,500. The income phase outs are increased - $180,000 for joint and $90,000 for single.
- Tax break for the unemployed. The first $2,400 of unemployment will be tax free for 2009.
- A new $1,500 credit is allowed for qualifying energy efficient improvements made to a primary residence. Energy efficient improvements include qualifying new insulation; replacement windows, skylights and doors; central air conditioners; certain water heaters, furnaces or boilers; and a new metal or asphalt roof specifically treated to reduce heat loss. This is available through 2010.
- In 2010, the opportunity to convert any IRA into a Roth IRA without the $100,000 income restriction has many individuals already setting aside funds. Some individuals, however, may do better to convert to a Roth IRA before the end of 2009, when the value of their accounts, and the consequential income that must be recognized on conversion, are at historic lows. Taxpayers who convert in 2010 will be able to pay the tax due on conversion over two years – 2011 and 2012.
- For 2011, the Obama administration has *proposed* to increase the income and capital gains tax rates on single individuals with incomes of more than $200,000 and married couples with incomes exceeding $250,000. For taxpayers in those groups, including unincorporated small businesses from which their owners recognize income on their individual returns, following the traditional year-end planning maxim of deferring income into next year may not work well. Deferring too much income into 2010 could result in overloading income next year if you are looking to accelerate income into 2010 to escape the expected higher rates in 2011.

These concepts may be a lot to comprehend, and the details of all these provisions can make it even more complicated. Fortunately, you won't have to remember all of it by yourself. The two most important pieces of tax advice that we can give are to keep good records and ask questions if you have them. We look forward to hearing from you.

Wishing you a wonderful holiday season and a New Year filled with loads of good health.

Sincerely yours,

Toscano & Ardito, PC, CPA's

Larry Ardito
George Toscano
Roberta McCollum