



Bollenback & Forret, P.A.

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Dear Client:

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As we gear up for another busy season, we want to make you aware of some year-end planning opportunities and recap some of the changes affecting 2009 personal income taxes. **Please visit our website to view our on-line 2009-2010 Tax Planning Guide. (www.bollenback.com).**

While 2009 has been a difficult year financially for many, it does present some tax planning opportunities to consider prior to year-end. Below is a short list of some things to keep in mind for 2009. As always, if you have questions on this, or any other tax planning issues, please call us.

- Individuals in the bottom two income tax brackets owe no taxes on qualified dividends and long term capital gains. This reform is currently in effect through 2010.
- The “kiddie” tax has grown up. It now affects investment income of children under age 18 at the close of the tax year, and students under the age of 24 on December 31 and whose earned income does not exceed one half of their support. Investment income of these individuals are taxed at their parent(s) higher tax rates.
- With the market fluctuations, now is a good time to consider reviewing your stock portfolio to harvest losses. Capital losses offset capital gains, and you can offset up to \$3,000 in ordinary income with net losses. Losses in excess of the \$3,000 annual limitation can be carried forward to offset future gains. (Keep in mind the wash sale rules that disallow the capital loss if you replace the stock within 30 days before or after the sale.)
- Gifting appreciated long-term stock to charity has the tax benefit of not recognizing capital gains to the donor and being able to deduct the fair market value (FMV) of a contribution. If you are gifting stock - determine if the basis is greater than the FMV. In that case you might be better off selling the stock and recognizing the loss for tax purposes and contributing cash to the charity.
- The 2009 annual exclusion for gift tax purposes is \$13,000 per donor per donee per year. The lifetime exclusion remains at \$1,000,000. Again this could be a good time to take advantage of lowered portfolio values.
- If you own a retirement plan account, such as a 401(k) or IRA, it is important to know that the rules concerning required minimum distributions have been suspended for the 2009 year. This waiver essentially allows you to leave your retirement savings untouched for another year, so that they can continue to grow through tax deferral.

- The IRS has issued Notice 2009-82 granting taxpayers an extension for returning unwanted IRA distributions. Under this rule, required minimum distributions that have already been received may be returned until Nov. 30, 2009, or within 60 days of the withdrawal, whichever is later.
- Also, if you took a distribution from a retirement plan or IRA earlier this year, you may be able to avoid tax on the payout by rolling it over to an eligible retirement non IRA plan before December 31, 2009.
- The ability of taxpayers aged 70 ½ or older to make nontaxable IRA transfers to eligible charities of up to \$100,000 has been extended for 2009.
- With the lowered value of many stock portfolios, you may want to consider converting a traditional IRA to a Roth IRA (eligibility is limited to those with AGI less than \$100,000). Keep in mind, however, that such conversion will increase your adjusted gross income for 2009.
- Or, if you do not meet the eligibility requirement for the Roth conversion in 2009, the income limitation on conversions will be eliminated in 2010. The income tax for a 2010 conversion can be spread over two years – conversions in subsequent years will all be taxable in the year of conversion.
- You also may want to consider a recharacterization of a current year Roth conversion (basically a reversal) if your assets have declined in value, to avoid paying taxes on the higher value.
- As always, you should consider deferring taxable income by maximizing 401(k) and IRA contributions. The latter, even if made to a non-deductible or Roth IRA still have the benefit of deferring taxes on the income, and in the case of a Roth, qualifying distributions are tax free.
- Consider accelerating deductions to 2009 and defer receiving income to 2010. However, if you expect to be in a higher income tax bracket in 2010 you should consider accelerating income and put off taking deductions.
- You may be able to save taxes this year and next by applying a bunching strategy to “miscellaneous” itemized deductions, medical expenses and other itemized deductions.
- The first-time homebuyer’s credit increased to \$8,000 for primary residences purchased between January 1, 2009 and November 30, 2009. The credit is phased out for taxpayers with modified AGI over \$75,000 and \$150,000 for married filers.
- The homebuyer’s credit was extended on November 6 until April 30, 2010. The income limits have been increased to \$125,000 AGI for single purchasers and to \$225,000 for a couple.
- The homebuyer’s program has been expanded to offer a \$6,500 credit to those who have lived in a home for at least five consecutive years within the last eight years who purchase a new (or existing) home between Nov 6, 2009 and April 30, 2010. (This credit is limited to homes with a purchase price of \$800,000 or less).

- If you are thinking of making energy saving improvements to your home, such as putting in extra insulation or installing energy saving windows, 2009 and 2010 are the time to do them. A credit of up to \$1,500 may be available for such improvements.
- Consider increasing the amount you set aside for 2010 in your employer's health flexible spending account (FSA) 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.
- State income taxes are deductible in the year paid, so if you are making state estimated tax payments, consider paying your fourth quarter by Dec. 31, 2009 rather than Jan. 15, 2010.(But watch for AMT)
- Save your sales tax receipts for major purchases during 2009. They can increase your itemized deduction amount, thereby reducing your 2009 Income Tax.
- Buyers of new cars, light trucks, SUVs, motorcycles or motor homes after February 17, 2009 and through the end of the year will be permitted to claim an above the line deduction for the state sales or excise tax paid on the first \$49,500 of the vehicle's price. This deduction starts to phase out for single filers with AGI over \$125,000 and for joint filers over \$250,000.
- Tax regulations require that taxpayers making a charitable contribution (even if less than \$250), must keep a cancelled check or a receipt.
- You should review your withholding and estimated tax payments to verify that they are sufficient and timely. Conversely, determine if scheduled payments are still necessary if your 2009 income has decreased.
- Beginning after 2010 financial advisors must report your cost basis on all securities sold to the IRS. Plan to keep in touch with your advisor to ensure the information on file is accurate, particularly when the stock was received by gift or inheritance.

This is just a sampling of the some of the changes and tax planning opportunities available. Please contact us to discuss your individual tax planning needs, and go to www.bollenback.com for more information.

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Sincerely,

Bollenback & Forret, PA, CPAs