



Yearend Tax Planning for Individuals

Below is a brief list of actions that may help you save tax dollars if you act before year-end. Not all actions may apply to your particular situation, but you may benefit from many of them. Please review the following list and contact us at your earliest convenience so that we can advise you on which tax-saving moves to consider.

- **Flexible Spending Account (FSA).** Increase the amount you set aside for next year in your employer's health flexible spending account (FSA) if you set aside too little for this year. Don't forget that you can set aside funds for tax-free reimbursement of over-the-counter drug purchases including aspirin and antacids.
- **Health Savings Account (HSA).** If you become eligible to make health savings account (HSA) contributions in December of this year, you can make a full year's worth of deductible contributions for 2009.
- **Stock Losses.** Realize losses on stock while substantially preserving your investment position. There are several ways this can be done. For example, you can sell the original holding, and then buy back the same securities after 30 days. Capital losses directly offset capital gain income during the year, with an additional \$3,000 per year in capital losses allowed to offset other income. Any excess loss may be carried forward to future years until they are used up.
- **Postpone income and accelerate deductions.** Postpone income until 2010 and accelerate deductions into 2009 to lower your 2009 tax bill. This strategy may enable you to claim larger deductions, credits, and other tax breaks for 2009 that are phased out when you exceed certain levels of adjusted gross income (AGI). The following items may be impacted by your Adjusted Gross Income:
 - IRA and Roth IRA contributions
 - Conversions of regular IRAs to Roth IRAs
 - Child credits,
 - Higher education tax credits,
 - Above-the-line deduction for higher-education expenses
 - Deductions for student loan interest are all impacted by your AGI level.

Postponing income is also desirable for taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances.

- **Accelerate income.** In some cases, it may pay to actually accelerate income into 2009. For example, if your marginal tax rate is much lower this year than it will be next year, you would benefit by recognizing taxable income in 2009 instead of 2010.

- **Losses from partnerships or S corporations.** If you own an interest in a partnership or S corporation, you may need to invest additional funds in the entity so you can deduct a loss from it for this year. Your deductibility of losses is generally limited to your basis in the entity on the last day of the entity's tax year. We can assist you with some planning ideas to increase your 2009 allowable loss.
- **Credit card payments.** Consider using a credit card to prepay business expenses, medical expenses and charitable deductions for this year. Credit card charges are deductible during the year charged to the taxpayer's credit card account, not when you pay the credit card bill.
- **State income taxes.** If you expect to owe state or local income taxes when you file your 2009 return, consider pre-paying state estimated tax payments before December 31, 2009 in order to deduct those tax payments in 2009. However, if your 2009 income will be subject to the alternative minimum tax, there is no tax benefit to prepaying state income and property taxes during 2009. We can help you determine whether there will be a tax benefit to pre-paying your state income taxes.
- **Federal withholding.** Those facing a penalty for underpayment of federal estimated tax may be able to eliminate or reduce it by increasing their withholding.
- **Energy credits.** If you are a homeowner and make energy saving improvements to the residence, such as putting in extra insulation or installing energy saving windows, the improvements may qualify for a tax credit. Additional, substantial tax credits are available for installing energy generating equipment (such as solar electric panels or solar hot water heaters) to your home.
- **New car purchases.** If you are planning to buy a car, do so before year-end in order to nail down a deduction for state sales tax and excise tax on the purchase.
- **Bunch 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.
- **First-time homebuyer.** If you or family members are thinking of becoming a first-time homebuyer, make the purchase before April 30, 2010, in order to qualify for an up-to-\$8,000 credit (but note that an income-based phase-out applies).
- **Move-Up/Repeat Home Buyer Tax Credit.** If you or family members are thinking of purchasing a principal residence after November 6, 2009 and before April 30, 2010, you may be eligible for a \$6,500 credit. In order to qualify for this credit you must have used your old residence for at least 5 years, and there is also an income-based phase out.
- **Casualty losses.** You may want to settle an insurance or damage claim in order to maximize your casualty loss deduction this year.

- **Asset purchases.** Businesses should consider making capital expenditures that qualify for the up to \$250,000 business property expensing option for assets bought and placed in service this year; the maximum expensing amount will drop to \$134,000 for assets bought and placed in service next year. Certain limitations apply, so contact us to help make sure your purchases will qualify.
- **Bonus depreciation.** Businesses also should consider making expenditures that qualify for 50% bonus first year depreciation if bought and placed in service this year. Under the tax law currently in existence, this bonus write-off generally won't be available next year.
- **Self-employed retirement.** If you are self-employed and haven't done so yet, set up a self-employed retirement plan.
- **Estate and gift taxes.** 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.
- **Charitable gifts.** If you are age 70 1/2 or older, own IRAs (or Roth IRAs), and are thinking of making a charitable gift before year-end, consider arranging for the gift to be made directly by the IRA trustee. Such a transfer can achieve important tax savings.
- **Retirement distributions.** If you are age 70 ½ or older, you are not required to take the required minimum distribution from your retirement plan for 2009.
- **Social Security benefits.** If you are receiving Social Security benefits, there are a number of steps you can take to reduce or eliminate tax on your benefits. We can assist you in minimizing the taxability of your benefits.
- **Miscellaneous deductions.** Consider extending your subscriptions to professional journals, paying union or professional dues, enrolling in (and paying tuition for) job-related courses, etc., to bunch into 2009 miscellaneous itemized deductions subject to the 2% of AGI floor.
- **Other items to consider.** Depending on your particular situation, you may also want to consider deferring a debt-cancellation event until 2010, electing to deduct investment interest against capital gains, and disposing of a passive activity to allow you to deduct suspended losses.