

# Year End Planning Tips

By Claire Durand

It's November already, and the end of 2009 is quickly approaching. While every year-end presents an opportunity to engage in tax planning, this year in particular offers some special opportunities to take advantage of tax breaks that will expire before the start of 2010. This chart summarizes just a few tax breaks that will end by December 31.

## Expiring Individual Tax Breaks Expiring

- Option to deduct state sales taxes instead of income taxes
- Deduction for state sales tax on purchase of motor vehicle
- Above the AGI line deduction for higher education expenses
- The \$8,000 first-time homebuyer credit (expires by November 30th)
- The AMT patch will expire, and exemption amounts will drop

## Business Tax Breaks

- 50% bonus first-year depreciation for new machinery, equipment and software
- \$250,000 expensing limitation
- Research credits
- 5 year write-off for farm equipment
- 15 year write-off for qualified leasehold improvements, qualified restaurant buildings and improvements and qualified retail improvements

Some other changes include a likely increase in long-term capital gains rates, elimination of the income-based reduction of itemized deductions and phaseout of personal exemptions. Traditional IRA to Roth IRA conversions will also be allowed without consideration of the owner's income. Here are some possible tips for clients to consider before the end of the year.

**Buy a new home** – A temporary tax credit for first-time home buyers (or buyers who haven't owned a principal residence within the past three years) is available until November 30, 2009. For a qualified principal residence purchased between January 1, 2009, and November 30, 2009, the maximum credit equals the lesser of: (1) 10% of the purchase price of a principal residence, (2) \$8,000, or (3) \$4,000 for those who use married filing separate status. The credit can be used to offset your federal income tax bill, including any Alternative Minimum Tax (AMT). The credit is also refundable, which means that after your tax bill has been reduced to zero, you are allowed to collect any leftover credit amount in cash. The credit begins to phase out when income reaches \$75,000 (\$150,000 for joint filers).

**Purchase a new car** – The stimulus law passed earlier this year created a federal income tax deduction for state and local sales and excise taxes paid on new (not used) vehicles that are purchased, not leased, between February 17, 2009, and December 31, 2009. The write-off is limited to the amount of taxes on the first \$49,500 of purchase price. The tax break can be claimed even if you don't itemize, or if you owe AMT. Qualifying vehicles include almost all passenger autos, pickups and SUVs, as well as motorcycles and RVs.

**Postpone income** – If possible, it may be advantageous to postpone the receipt of income until 2010. This will result in a lower adjusted gross income for 2009, and the ability to claim larger deductions, credits and other tax breaks such as IRA and Roth IRA contributions and conversions, child credits and higher education tax credits that are phased out at certain income levels. This could be accomplished by arranging with an employer to have a bonus paid in January instead of December.

**Prepay expenses** – Paying for some expenses by using credit may enable you to accelerate deductions to offset income for 2009. You also may consider purchasing bigger cost items this year in order to make use of the sales tax deduction instead of the state and local income tax deduction.

**Make energy improvements** – For those who own a home, making energy saving improvements – such as putting in energy saving windows, extra insulation or solar equipment – will provide additional tax credits.

**Retirement plans** – Self-employed individuals should set up a self-employed retirement plan this year to offset income taxes.

**Give to loved ones** – Make use of the \$13,000 per donee annual gift exclusion by making gifts before year-end. Also note that gifts made directly to the creditor for education or medical purposes do not count against the annual exclusion amount and are not subject to gift taxes.

**Charitable IRA Distributions** – If you are over age 70½, consider making a charitable gift using distributions directly from your IRA.

**Take bigger business deductions** – Many businesses may be able to take advantage of the temporarily increased Section 179 deduction, up to \$250,000 from \$130,000. Under Section 179, an eligible business can often claim first-year depreciation write-offs for the entire cost of new and used equipment and software additions. The increase drops back to prior levels starting in 2010.

**Claim first year depreciation** – Many businesses may also benefit from claiming first-year bonus depreciation equal to 50% of the cost of most new (not used) equipment and software acquired and placed in service by December 31 of this year. Again, this bonus depreciation expires at year-end.

**Carryback losses further** – The stimulus bill passed at the beginning of the year also allows certain businesses to carry back net operating losses beginning or ending before 2009 for up to five years (as opposed to the prior two year rules). Qualifying businesses using a fiscal tax year still have time to take actions that will create or increase an NOL for the current tax year. That NOL can then be carried back for up to five years to recover taxes paid in those years.

These are just a few of the many planning ideas out there for year-end that may help you or clients reduce taxes.

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