

TAX TIPS – UPDATED 12/17/09

(Source: The Kiplinger Tax Letter)

- Many taxpayers will benefit by accelerating their deductions from 2010 into 2009 and deferring income until 2010. But – if you expect to be in a higher tax bracket in 2010 – consider the reverse. You can also consider taking the standard deduction in one year and itemizing the next. For example, if your itemizations are just over the standard deduction for this year, try paying some 2010 expenses this year and then taking the standard deduction in 2010.
- If you purchase a new car before the end of the year – you can deduct the sales tax paid on up to \$49,500 of the cost whether you itemize or not. This break starts phasing out for marrieds with AGIs over \$250,000 and for singles with AGIs over \$125,000.
- If you plan on converting an IRA to a ROTH, you may want to wait until 2010 when the tax on the conversions can be deferred and spread out over two years. In addition – the limitation on conversions for taxpayers with high incomes won't apply in 2010. Because tax rates may increase in 2011, high income earners may want to pay all of the associated taxes on the conversions in 2010 – rather than spreading it out in future tax years.
- If you had substantial capital losses in 2008 with a unused capital loss carry forward to this year, net gains from investment sales in 2009 can be offset by the loss carry forward and may be tax free. However – tax savings shouldn't be the only reason for selling.
- Don't forget the "wash-sale" rule. You cannot deduct a loss if you buy the identical securities within 30 days before or after the sale. But you can add the loss to the basis of the replacement securities.
- There are no required year-end distributions from IRAs and plans in 2009 for taxpayers age 70 ½ and older. This won't be true for 2010 so your quarterly estimates for 2010 may need to be adjusted for this difference.
- You can save taxes by donating appreciated stock. If you have owned the donated stock for more than one year, you can deduct the full value and not pay tax on the gain. Don't deduct stock that is now valued at less than you paid for it. If you do, you can't deduct the loss on your return. In this case, it would be better to sell the stock and then donate the proceeds to a qualified charity.
- The first time home buyers' credit has been extended. You must have a ratified contract by 4/30/2010 and settle by 6/30/2010 to qualify for the credit. And more high income earners can claim the credit if they purchased a home after November 6th. Buyers can claim qualifying 2009 purchases on amended 2008 returns. Credits for 2010 purchases can go on the 2009 returns. The credit remains refundable. But homes costing more than \$800,000 don't qualify.
- Remember the various deadline dates. Contributions to regular IRAs must be made by 4/15/2010. Check your flexible spending account balance. It must be used up by 12/31 unless your employer has added the 2 ½ month grace period allowed by the IRS. Mail checks for deductible items before year-end so that you can get a 2009 write-off. If you charge the deduction with a bank (not retail store) credit card – you can take the deduction on your 2009 return even though you don't pay the bill until 2010.

