

Year End Tax Planning for Individuals

It's not too late for you to think about tax planning for 2009. The most basic of all tax planning strategies is to accelerate and maximize deductions and defer income. The following list is not exhaustive, but it includes tried and true ideas, as well as new ones resulting from recent tax legislation:

- **Did you generate significant capital loss carryovers in 2008?** If you have short-term carryover losses and long-term gains (including capital gain distributions), consider whether you can generate any short-term gains before the end of the year to maximize the benefit of those carryover losses. The maximum net capital loss allowed to offset other income each year is \$3,000. Unused losses can be carried over to later years until completely used up.
- **Do you pay mortgage interest or real estate taxes?** Consider paying mortgage interest and/or real estate taxes earlier or later. This will shift the interest payments you can deduct from one year to the next. There may be 13 months of interest payments in one year if a January statement is paid in December.
- **Have you made any energy efficient home improvements?** There is a credit available for 2009 and 2010 to increase energy efficient incentives for home improvements. The credit is up to 30% of the cost of all qualifying improvements with the maximum limit set at \$1,500 combined total for 2009 and 2010. Home improvements eligible for this credit include adding insulation, energy-efficient exterior windows and energy-efficient heating and air conditioning systems. The home improvements must be made to the principal residence in the United States and must be placed in service in the 2009 and 2010 calendar years.
- **Do you qualify for the sales tax deduction?** Consider making large purchases in 2009 rather than in 2010 to assure a deduction for state and local sales taxes instead of state and local income tax deduction if that option is chosen. This applies more specifically to those with residency in states with no income taxes, such as Florida and New Hampshire, and only applies when deductions are itemized.
- **Are you considering buying a new car?** New car purchases may be eligible for the state and local sales and excise tax deduction. Qualifying vehicles must be purchased between February 17, 2009 and December 31, 2009. The deduction is on taxes paid on up to \$49,500 of the purchase price and can be taken regardless of whether or not the standard deduction is taken or if deductions are itemized. The benefit begins phasing out for married couples with AGI over \$250,000 and singles with Adjusted Gross Income over \$125,000. It is completely gone for single filers with Adjusted Gross Income of \$135,000 or more, or joint filers with AGI of at least \$260,000.
- **Can you afford to forgo taking a distribution from your IRA this year?** There are no required minimum distributions (RMDs) for 2009 for most retirement plan participants and beneficiaries. RMDs for 2010 will be required.
- **Do you have retirement assets you would like to gift to charity?** In 2009, people age 70 ½ and older can elect to have gifts made directly to a charity from their IRA.

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There is no deduction for the contribution but it is not treated as a distribution (i.e. it is not included in gross income). The contribution limit is up to \$100,000 per year.

- **Do you have appreciated stock you would like to gift to charity?** Consider gifting appreciated stock rather than cash. By making charitable contributions with securities instead of cash, taxes on the gain may be avoided and the fair market value can be deducted as a charitable donation. If the securities are showing a loss, an option is to sell the securities so the loss can be deducted and then the cash proceeds may be given to charity.
- **Do you have the option to defer your performance bonus until next year?** Deferring bonuses until 2010 may be useful in tax savings if it is believed that the tax rates will be lower in 2010. In that environment, accelerating deductions this year while the tax rates are higher, and deferring income until next year when the tax rates are lower, will help to produce greater tax savings. Under current tax law, tax rates are expected to rise in 2011.
- **Should you make an 83(b) election for restricted stock grants?** After you receive restricted stock, you have 30 days to make an 83(b) election. If you choose to make an 83(b) election, you'll be treated as if you received vested stock. The net value of the shares you received is included as compensation income (not capital gain) when vested. There are potential tax savings by making the 83(b) election in instances where you believe the stock will increase in value between the times of grant and when the stock will vest.
- **Did you exercise incentive stock options (ISOs)?** If you exercised ISOs earlier in 2009, what is their current value? If the shares have since lost value, especially if the value is now less than the initial strike price, you should consider a disqualifying disposition before year end. Generally when an ISO is granted or exercised, no amount is included in gross income, but there may be an AMT adjustment. This AMT adjustment may cause you to have an AMT liability and owe additional taxes. In general, the result of a sale of stock is treated as a capital gain or loss; however, if the holding period requirements are not met (i.e. a disqualifying disposition), the income from the sale of stock is treated as ordinary income. If there is a loss, no income is reported and the loss is reported as a capital loss.

Whether you consider one or all of the techniques above, the idea is to consider ways to be more tax efficient. For example, you earned a significant performance bonus in 2009 and your employer is willing to pay it in December or January. While the obvious choice seems to be December to have the cash in hand, depending upon your particular situation, there may be a tax benefit to waiting until January. Likewise, you know you need to make state estimated tax payments by January 15, 2010, but depending upon your particular situation, there may be a tax benefit to paying them by December 31, 2009.

If you have any questions or would like to find out how you could benefit from year-end tax planning, please contact your Tonneson + Co representative for more information.

