THE SMALLBIZ BUILDER

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Year End 2010 PADGETT BUSINESS SERVICES® Special Edition

Year-End Tax Planning

As the end of the year approaches, now is a good time for you to start planning for taxes by taking various actions that may save taxes for this year, next year, or both years. Act quickly to reap the most benefits—these strategies will be of no use after December 31.

Year-end planning always involves some educated guesswork, but this year poses a bigger challenge than most. With Republicans winning control of the U.S. House of Representatives and picking up seats in the Senate, it is difficult to know exactly how tax changes will affect you.

Congress must decide whether to retroactively extend a number of tax provisions that expired at the end of 2009. In addition, without approval to extend the Bush tax cuts, individuals will face higher tax rates on their income, including capital gains. Unless Congress changes the rules, the estate tax, which isn't in effect this year, will return next year with a 55% top rate.

We have compiled a checklist of actions that can help you save tax dollars if you act before year end. These moves may benefit you regardless of what the lame duck Congress does on the major tax questions of the day. Not all actions will apply in your particular situation, so please review the following list and contact us so that we can advise you on which tax saving moves to make.

Year-End Moves for Individuals

- ☐ Postpone income until 2011 and accelerate deductions into 2010 to lower your 2010 taxes. Doing so may allow for larger deductions and credits that normally are subject to income phase outs, especially if you expect to be in a lower tax bracket next year. (Then again, doing the opposite may be more beneficial, depending on the circumstances)
- ☐ It may be advantageous to defer your year-end bonus until next year.
- ☐ Bunching your itemized deduction, such as real estate taxes and medical expenses, may save you taxes this year.
- ☐ Increase the amount you set aside for next year in your employer's health flexible spending account. Don't forget over-the-counter drugs, such as aspirin and antacids, **do not qualify**.
- ☐ Realize losses on stock while substantially maintaining your investment position. For example, you can sell the original holding, then buy back the same securities at least 31 days later. We advise meeting with us to discuss year-end trades.
- ☐ Increase your withholdings if you are facing a penalty for underpayment of federal estimated tax. Doing so may reduce or eliminate the penalty.
- ☐ Consider taking an eligible rollover distribution from a qualified retirement plan before year-end if you are facing a penalty for underpayment of estimated tax. Income tax will be withheld and applied pro rata over 2010. You can then timely roll over the gross amount of the distribution to a traditional IRA. No part of the distribution will be includible in income for 2010.
- ☐ Make energy saving home improvements to your home, such as insulation and energy efficient windows, and qualify for a 30% tax credit, up to an aggregate of $1,500 for 2009 and 2010. If Congress does not act, this tax break will not be around after this year. Additionally, you can earn substantial tax credits for installing energy generating

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equipment (such as solar electric panels or solar hot water heaters) to your home.

- Convert your traditional IRA into a Roth IRA if doing so is expected to produce better long-term tax results. Distributions from a Roth IRA can be tax free but the conversion will be taxable. You can choose to pay the tax on the conversion with the 2010 return, or half with the 2011 return and half on the 2012 return.
- Take required minimum distributions (RMD) from your employer sponsored retirement plan if you have reached age 70 ½. Failure to do so can result in a penalty. A temporary tax law change waived the RMD requirement for 2009 only, but the usual withdrawal rules apply full force for 2010.
- Make annual exclusion gifts before year-end to save gift tax (and estate tax if it is reinstated). You can give $13,000, tax free, in 2010 to an unlimited number of people.

Year-End Moves for Business Owners

- If you hire a worker who has been unemployed for at least 60 days, your business will be exempt from their 6.2% share of the Social Security payroll tax on the new-hire for the remainder of 2010. Plus, if you keep that new-hire on the payroll for a continuous 52 weeks, your business could be eligible for a nonrefundable tax credit of up-to $1,000 for 2011.
- To qualify for the 50% bonus first-year depreciation allowance, put new business equipment and machinery in service before year-end. If Congress does not take action, this bonus won't be available for property placed in service after 2010.
- The maximum amount you can expense for a tax year beginning in 2010 is $500,000 of the cost of qualifying property placed in service for that tax year. Also, within the overall $500,000 expensing limit, you can expense up to $250,000 of qualified real property. Note that at tax return time, you can choose not to use expensing (or bonus depreciation) for 2010 assets.
- Set up a self-employed retirement plan if you are self employed and haven't done so yet.
- Consider establishing a retirement plan for your business. Employer contributions to qualified plans are deductible.
- Increase your basis in a partnership or S corporation if doing so will enable you to deduct a loss from it for this year.
- Consider whether to defer cancellation of debt income from the reacquisition of an applicable debt instrument in 2010. The business can elect to recognize the income ratably over five tax years beginning with the fourth tax year following the tax year in which the repurchase occurs (i.e., beginning with 2014).
- Consider using a credit card to prepay expenses that can generate deductions for this year.
- Accrual method businesses should consider accruing year-end bonuses to employees who are not controlling shareholders. They are deductible in the current year even though paid in the following year, and the bonus won't be taxable to the employee until next year.