



2010 Individual Year-End Tax Planning Checklist

- ❑ **Capital Gains** – With the 15% (and lower) rate going up to 20% or possibly higher after the end of 2010, you may want to sell assets this year if they will create long-term capital gains. You might even consider electing out of installment sale treatment to tax all capital gains from collections over a period of years at today's lower rates.
- ❑ **Dividends** - The 15% rate on qualified dividends also expires at the end of 2010. Barring action by Congress, they will be taxed at your marginal rate as ordinary income next year. You may wish to take dividends out of your corporation now while the rates are low, thus removing the profits from your business without having to treat them as salary. In 2013, there will be a surtax on investment income (including interest, dividends, and gains on the sale of these investments), creating an even greater incentive to accelerate capital gains and dividends into earlier years.
- ❑ **Qualified Small Business Stock** – If you buy stock in an eligible small corporation between September 27, 2010 and the end of this year and hold it for at least five years, there will be no tax on any gain when you sell it and no preferences for alternative minimum tax purposes. If the stock loses value and would be sold for a loss, you might be able to report this as an ordinary loss (no \$3,000 limit) rather than a capital loss under the right circumstances.

To be eligible, the stock has to be issued by a regular (C) corporation with total gross assets not more than \$50 million. There are additional requirements that we can discuss with you if you are interested.

- ❑ **Charity** – If you want to increase your deductions in 2010, make contributions by the end of the year. As long as you have put a cash contribution on your credit card or into the mail by December 31, it will be deductible in 2010. Make sure to save all acknowledgements for amounts of \$250 or more, because those contributions can no longer be deducted without them. Check with us if you are considering giving away significant noncash assets by year-end.
- ❑ **Convert Traditional IRAs to Roth IRAs** – If you do this by the end of 2010, you may elect to report one-half of the taxable income in 2011 and the other half in 2012. You may even choose not to make this election and instead include all of the income in 2010, since there is no reduction of itemized deductions or personal exemptions in 2010 based on your adjusted gross income (these phaseouts return in 2011), and also because the higher tax brackets of 36% and 39.6% are returning in 2011.

- ❑ **Facing Underpayment Penalties?** – If you have not prepaid enough taxes through withholding and/or quarterly estimates to avoid the underpayment penalty, there are some techniques available to help you catch up:
- If you have your own company, take a year-end bonus, allocated entirely to federal and state withholding and the necessary Social Security and Medicare taxes (i.e., zero-dollar net paycheck). We can help you calculate these amounts. While estimated payments are credited when received, withholdings are treated as if they had been remitted evenly throughout the year, so they can help you make up a shortfall.
 - If you don't have control over your paychecks and can't increase your withholdings sufficiently, take a distribution from a qualified retirement plan and calculate the withholdings to be enough to reduce or eliminate underpayment penalties. As long as you roll the distribution (grossed up for withholdings) into a traditional IRA within 60 days (okay even though this puts us into 2011), you can count the withholdings as 2010 payments and not be taxed on the distribution itself.
- ❑ **Required Minimum Distribution** – Taxpayers over 70 ½ were able to skip their required minimum distributions from their retirement plans and IRAs in 2009. But that was valid for one year only. Don't neglect to take your required minimum distributions for 2010 if you have not already done so, because *the penalty is steep* – 50% of the amount you were supposed to have withdrawn! We can help you calculate these amounts if they were not provided to you.
- ❑ **Health Plans** – Starting in 2011, you will no longer be able to claim over-the-counter medications, first aid supplies, and other nonprescription items, except for insulin for reimbursements from HSAs and Flexible Spending Accounts. This now parallels medical items permissible as tax deductions. There will also be a higher penalty (20% as opposed to the current 10%) in 2011 for distributions from such plans for non-medical purposes (e.g., these over-the-counter items that are no longer includible under these plans).
- ❑ **Paying for Education** – If you have set up a Coverdell education savings account (“education IRA”) rather than using a Section 529 plan to pay for educational expenses, you should be aware that “qualified educational expenses” include elementary and secondary education in 2010 but will revert to only higher educational expenses (college) thereafter, barring another change in the law. If applicable to your situation, you may want to prepay tuition for the spring semester of your child's private school in December. For a Section 529 plan, a computer could be an eligible educational expense in 2010, but NOT in 2011, so you might want to buy one this year if your college student will be needing one in the next year.
- ❑ **Energy-Efficient Improvements to Your Home** - qualifying exterior doors, windows, skylights, furnaces, main air circulating fans, insulation, hot water boilers and heaters, heat pumps, air conditioners, and roofs can entitle you to an energy credit in 2010, but this program expires at the end of the year.

- ❑ **Cancelling or Renegotiating a Debt** – If you are “under water” on a property and are considering renegotiating the mortgage loan, foreclosure, or a short sale, there is a special provision to defer the resulting income until 2014 and then recognize it over a five-year period. This provision expires at the end of 2010, so if you are thinking about a strategy like this, you might want to complete your transaction before December 31st.
- ❑ **Pension Plan** – If you are self-employed and haven’t done so yet, set up a self-employed retirement plan by the due date of your 2010 tax returns. A 401(k) or other type of profit-sharing plan, however, must be established by year-end.
- ❑ **Small Business Expensing** – Congress has increased the limit of fixed asset acquisitions that you can deduct in full in 2010 to \$500,000, which starts to phase out if you acquire \$2,000,000 or more of qualified property. For the first time, qualified property includes some real property (limited to \$250,000 in purchases). This deduction is limited to your taxable income, which cannot be brought below zero by making this election. If your business is profitable this year and you still need furniture and equipment, plan on purchasing it and placing it in service by the end of the year. You can still make this election even if you pay with a credit card or purchase on an installment basis, as long as the item is placed in service by December 31.
- ❑ **Gifts** – If you haven’t yet done your gifting for 2010, you can give a total for the year of no more than \$13,000 to each individual (no limit on number of individuals or their relationship to you) to reduce your estate without any gift tax consequences. Consider giving real estate or establishing a Family Limited Partnership before year end to utilize fair market value discounting that may not be available in future years.
- ❑ **Kiddie Tax** – This still applies to children up to the age of 19, or up to the age of 24 if they are still in school. If your children do not fall under the kiddie tax rules, give them shares of stock or mutual funds instead of cash. If their income is otherwise low enough (total under \$34,000), the lowest capital gains tax rate is 0% this year, so they would pay no tax on the gains if they sell the shares this year. Let them sell the shares themselves to buy the car or put the down payment on the house, instead of your selling the assets and giving them the cash.
- ❑ **Alternative Minimum Tax** – This has not gone away or even had its impact reduced appreciably. If you are interested in any of the ideas above or any other tax planning strategy, we encourage you to contact us so that we can prepare projections taking the alternative minimum tax into consideration along with anything else that you are contemplating.

When It Comes To Taxes, We Are Here To Help!

Contact an ECC Tax Adviser today to schedule a
2010 tax planning meeting
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You’ll Be Glad You Did!