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### TAX CUTS COMPROMISE?

Despite recent political theatrics in Washington, it now appears probable that Congress will strike a deal to extend the Bush era tax cuts. If the tax cuts were allowed to expire as schedule on January 1, income taxes would increase across all income levels. Instead, the tax cuts will probably be extended for all income levels, including the highest earners, for at least one more year, and maybe two.

The deal will probably also include extending emergency unemployment benefits and keeping some low income tax breaks as well. This last minute easing of legislative gridlock eliminates a lot of recent financial uncertainty for 2010.

We will keep you informed of the final outcome.

### CHANGES FOR THIS YEAR

#### Expired at the End of 2009:

These deductions and inclusions may or may not be included in the pending tax bill.

- Teachers expenses deduction of \$250
- Itemized deduction for state and local sales & use taxes
- Deduction for qualified higher education expenses
- Additional standard deduction for real estate taxes
- Deduction for taxes paid on qualified new vehicles
- Exclusion for unemployment benefits

#### Expiring after December 31, 2010:

These will probably be extended through 2011.

**Individual, estate and trust income tax rates** will revert to 15, 28, 31, 36 and 39.6%, the 10% individual rate will disappear (unless Congress takes action).

**Long term Capital gains tax rates:** current minimum tax rate of 15% will increase to 20%, the zero rate for taxpayers in the 15% or lower bracket increases to 10%. Other rates will apply to certain types of long term assets, so ask us.

**Qualified dividends by noncorporate taxpayers** will be taxed at

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#### PAYROLL NEEDS

Streamline your payroll with our web-based, hassle-free payroll system. Direct deposit and electronic filing included. Call Neil or Cynthia for more information.



## 2010 TAX ORGANIZERS

We will be mailing the Tax Organizers for 2010 taxes early in January. The Organizer will be the condensed form we normally send. For most clients, the organizer will be an email attachment of the short form.

If you do not have email, we will send you the short form by mail.

If you wish to receive the full organizer instead of the short form, please call us before the end of the year so that we can prepare your organizer.

## PLAN FOR ALTERNATIVE MINIMUM TAX

If you expect to be subject to the alternative minimum tax (AMT), you may want to accelerate income and delay deductions. Items that may affect the AMT include the deductions for state property taxes and state income taxes, miscellaneous itemized deductions, and personal

ordinary income rates rather than long term capital gains rates.

**Marriage penalty returns:** The increased standard deduction for married taxpayers expires, the standard deduction for married couples filing jointly reverts from 2 times the standard deduction for singles, to 1.67 times the standard deduction for singles.

**Phase outs of itemized deductions and exemptions** for higher income individuals will be reinstated.

**The student loan interest deduction** will change significantly, including no deduction for interest payments after the first 60 months of payments, and the deduction will phase out at lower income levels.

**The energy efficient home improvement credit** expires; qualified improvements must be placed in service by December 31, 2010.

**Self Employed medical insurance deduction.** SE tax payers should try to pay health insurance premiums by 12/31, as they may be deducted for tax year 2010 but not for subsequent years

**S Corporation medical insurance deduction.** For S corp owners wishing to deduct their medical insurance premiums on their 2010 1040, the medical insurance premiums must appear in the taxpayer's 2010 Form W-2 provided by the corporation.

**New business vehicle additional depreciation deduction.** Businesses planning to acquire a new vehicle over the winter should complete the purchase before 12/31, to qualify for an additional depreciation deduction of up to \$8K; the deduction expires at the end of the year.



## TAX SAVINGS STRATEGIES

There are a number of steps you might take by year-end to cut your 2010 tax bill, such as accelerating or deferring income, deferring deductions, and capital gain planning (always subject to the uncertainties discussed on page 1!).

You can find many of these tax tips on our web site. Go to [www.fradincpa.com/checklist](http://www.fradincpa.com/checklist), to find "Tax Savings Strategies: A Helpful Checklist" which provides an excellent overview. Other links listed here provide more in-depth guides to specific subjects, plus tax calculators to help you estimate the effect of some strategies.

These are just a few of the steps you might take. Please contact us for help in implementing these or other year-end planning strategies that might be suitable to your particular situation.

exemptions. Please call us for more information.

### **MAXIMIZE RETIREMENT PLAN CONTRIBUTIONS.**

If you are an employee, contribute the maximum amount to your employer's retirement plan.

If you own an incorporated or unincorporated business, consider setting up a retirement plan if you don't already have one.

If you are employed or self-employed with no retirement plan, contribute the maximum amount to a traditional IRA. If you are 50 or over, this may include an additional catch up contribution.

### **DEFER INCOME OR ACCELERATE DEDUCTIONS**

You may be able to **defer income** into next year to lower this year's taxes if:

- You are planning on selling an investment on which you have a gain.
- You are due a bonus at year-end (unless the bonus is contractually due in 2010).
- You are planning to exercise a company stock option.
- You are self employed, and can afford to delay sending invoices to clients until the end of December.

You may be able to **accelerate deductions** into this year by:

- Paying your 4<sup>th</sup> quarter state estimated tax installment in December.
- Paying your entire property tax bill, including installments due in 2011, by year-end.
- Bunching "threshold" expenses, such as medical expenses and miscellaneous itemized deductions. (Threshold expenses are deductible only to the extent they exceed a certain percentage of adjusted gross income.)

**Tip:** Expenses paid by credit cards are generally considered paid in the year of the charge regardless of when you pay on the card. This does not apply to store revolving credit cards.

## USE YEAR-END GIVING TO REDUCE ESTATE TAX

Make lifetime gifts to family members to reduce your assets subject to future estate tax. Gifts to any donee are exempt from gift tax up to \$13,000 a year per donee. Husband-wife joint gifts to any third person are exempt from gift tax up to \$26,000 (\$13,000 each).

**You must make your gift by December 31**



## MAKE CHARITABLE CONTRIBUTIONS

You can donate property as well as money to a charity. A deduction is usually available for the fair market value of the property. However, for certain property, the deduction is limited to your cost basis. While you can also donate your services to charity, you may not deduct the value of these services. You may also be able to deduct charity-related travel expenses and some out-of-pocket expenses.

**Note:** A written record of charitable contribution is required. The record may be in the form of a bank record (such as a cancelled check) or a written communication from the charity showing the date and amount of the contribution.

## INVESTMENT GAINS AND LOSSES

Minimize taxes on investments by judicious matching of gains and losses. Where appropriate, try to avoid short-term gains, which are usually taxed at a much higher tax rate (up to 35%) than long-term gains (15%).

**Tip:** If you have a large capital gain this year, consider selling an investment on which you have an accumulated loss. Capital losses are deductible up to the amount of your capital gains plus \$3,000.

**Tip:** If you have losses, you might consider selling securities at a gain and then immediately repurchasing them, since the 30-day rule does not apply to gains. That way, your gain will be tax-free, your original investment is restored and you have a higher cost basis for your new investment (i.e., any future gain will be lower).

**Note:** The maximum long term capital gains tax rate is currently 15%. This is set to rise to 20% in 2011. This potential change in rate is something to think about in your long term investment planning. Rhode Island taxes long-term capital gains at ordinary rates starting in 2010.

## HEALTH SAVINGS ACCOUNTS.

Consider setting up a health savings account (HSA). Contributions are deductible, while investment earnings are tax-deferred until withdrawn, and amounts you withdraw are tax-free when used to pay medical bills. To be eligible, you must have a high-deductible health plan (HDHP), and only such insurance, subject to numerous exceptions, and must not be enrolled in Medicare.

This publication is not intended to be financial or tax advice, but is intended only to inform the reader of recent developments. If you require financial or tax advice on a particular matter, please contact us directly at (401) 738-2900, or email [info@fradincpa.com](mailto:info@fradincpa.com)

A publication of  
**Fradin & Company, Ltd.**  
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