

# Tax Talk

## 2009 Year-End Tax Planning Ideas

by

Ronald G. Lykins, CPA, MBA, Ph.D.

---

---

Between now and the end of the year you can save “big bucks” by reducing your tax burden. For example, by reducing your federal and state taxable income \$1,000 could easily save you \$300 or more—a whopping 30% return on your investment. Tax planning and implementation is time consuming and difficult work but saving money, rather than paying IRS, is a lot of fun. Following are a few ideas to stimulate your thinking:

**1. Tax Projection:** The starting point for year-end tax planning is to prepare a tax projection for 2009 and 2010. In general and where possible, defer income to 2010 and accelerate tax deductions in 2009. **NOTE: Many taxpayers who usually have a tax refund may owe taxes this year because of the “2009 Making Work Pay Credit” program. This act reduced withholding taxes, while the actual tax liability of many taxpayers probably did not change.**

**2. Increase Paycheck Withholding:** If the tax projection reveals that you owe taxes, and/or are subject to an underpayment tax penalty, consider having additional taxes withheld from your last paycheck in December or make an estimated tax payment. For some people this planning technique could enable them to avoid substantial tax penalties for not making adequate and timely estimated payments. IRS penalties are at an epidemic level.

**3. Auto Sales Tax Deduction:** If you need a new vehicle, consider purchasing before December 31, 2009. The sales tax is deductible for purchases up to \$49,500. Franklin County has a sales tax rate of 6.75%, so the tax on a \$49,500 vehicle would be \$3,341. **NOTE:** you can deduct the sales tax on more than one vehicle.

**4. IRA Distributions:** You are not required to take any minimum IRA distributions in 2009. For those people who are fortunate enough not to need the monies, they can save hundreds of tax dollars by not taking a distribution this year. If you have already taken a distribution, and are financially able, you can return the monies to your IRA by November 30 and not be taxed.

**5. Pre-pay Taxes:** Prepay your real estate taxes and 4<sup>th</sup> quarter estimated state and city income taxes by December 31. Note: this general advice is not applicable if the tax projection reveals that you are subject to the dreaded Alternative Minimum Tax (AMT).

**6. Charitable Contributions:** Accelerate church, synagogue, education, and charitable contributions to the extent possible. A \$1000 contribution to your favorite charity could save you \$300 of taxes or more depending on your tax rate. You can even write and mail a check on December 31, or make a credit card payment, for a 2009 tax deduction regardless of when the payment is processed.

**7. Roth IRA Conversions:** Presently, taxpayers can only convert to a Roth if their adjusted gross income is \$100,000 or less. Good news! In 2010, the income limitation has been removed. Top tax rate taxpayers who convert in 2010 may want to elect to pay the tax up front as the top tax rate is likely to go from about 35% to about 40% after 2010. Top tax rate filers and others who are in a position to do so may want to consider establishing residency in a state like Florida that has no state income tax, and literally save thousands of state tax dollars on IRA conversions.

If you have already converted an IRA to a Roth in 2009, you may want to re-convert and wait until 2010. If you wait to convert, "0" percentage of the conversion income would be taxed in 2010, 50% in 2011, and 50% in 2012. NOTE: We believe that this 2010 IRA to Roth conversion opportunity, regardless of your income level, is a **ONCE IN A LIFETIME TAX-SAVING OPPORTUNITY.**

**8. Non-cash Contributions:** Consider gifting non-cash contributions by December 31. By using the Ron Lykins' "Charitable Donations Valuation Guide", most of our clients are able to deduct several hundred dollars of charitable contributions that they normally would overlook. Don't forget to list holiday gifts like food, Christmas presents for needy children, and charitable miles driven at 14¢ per mile.

**9. Medical Expenses:** Accelerate your medical expenses if you are not in the AMT, and your medical expenses exceed 7.5% of adjusted gross income (AGI). Be aware of "out of the ordinary" medical expense deductions. For example, the entire cost for medical care in a nursing home, including meals and lodging, are deductible if the main reason for being in the home is to obtain medical care. Medical miles are deductible at 24¢/mile.

**10. College Savings Plans:** If you are saving money for college for a child or grandchild, consider contributing to the State of Ohio 529 Plan. Ohio residents can deduct up to \$2,000 per account and carry forward any contributions in excess of \$2,000.

**11. Stocks and Bonds:** Review your investments with The Edwards Group at Morgan Stanley Smith Barney (866-273-3726). You may be able to sell enough securities at a gain but still pay no tax because of carry-forward losses from last year's down market.

Check with our CPA firm to see if you can benefit from the special 0% tax rate on long-term gains and dividends. If you are in the 10 or 15% tax bracket, proceeds from these sales are tax free until you reach the 25% tax bracket.

**12. Auto Mileage:** Review your tax-deductible auto mileage records. The standard mileage allowance for 2009 is as follows: Business, 55¢, Charitable, 14¢, Medical and Moving, 24¢.

**13. Business Expenses:** If you are self employed, accelerate all business expenses possible. Every dollar of business expenses will reduce your IRS, Ohio, City and Social Security taxes. Total tax savings could be about 50%. Consider purchasing necessary business equipment and putting it into use by December 31 and deducting up to \$250,000.

**14. Homebuyer's Tax Credits:** New homeowners can get up to an \$8,000 tax credit by purchasing a home by April 30, 2010. Existing homeowners who buy a new principal residence may be able to receive a tax credit up to \$6,500.