



OCTOBER 2009

## YEAR-END TAX PLANNING STRATEGIES

2009 is drawing to a close. The sooner you address year-end tax planning issues, the better. Whether you are approaching year-end planning from an individual or business perspective, you can take action to benefit from favorable tax law provisions.

### IRA Charitable Donation Rule for 2009

Contributing to charity is a way to benefit others and realize valuable tax benefits at the same time. If you are an older IRA owner, you may be eligible for a special charitable contribution rule that extends through the end of 2009.

Under federal tax law, an IRA owner age 70½ or older can directly transfer tax free up to \$100,000 from the IRA to an eligible charitable organization in 2009. This planning option is eligible to IRA owners regardless of whether they itemize their deductions.

To qualify, the funds must be contributed directly by the IRA trustee to the eligible charity. The transferred amounts are not taxable to the IRA owner and no deduction is available for the amount given to charity. We can help you determine if this strategy would be beneficial to you in your planning.

### Avoid AMT

Although the alternative minimum tax (AMT) system was originally aimed at very

wealthy taxpayers, over recent years it has become a problem for many more taxpayers. The AMT is designed to ensure that taxpayers who use various deductions, credits, and exclusions to reduce their regular tax liability still pay a minimum amount of tax.

Deferring items that could trigger the AMT to a later year may help you avoid the tax. You might be able to preserve some deductions that are allowed for regular tax purposes but not for AMT purposes — such as state and local taxes and miscellaneous itemized deductions — by deferring them into a non-AMT year.

### Income Timing

If it is economically feasible, delaying the receipt of taxable income until after the end of the year is a traditional tax planning technique you may want to consider. By delaying income, you defer your taxes on that income. Delaying income can also keep you from losing tax breaks that are reduced or eliminated at higher income levels and prevent you from being pushed into a higher tax bracket in 2009.

### Offset Gains and Losses

Capital losses generally are fully deductible against capital gains. You can deduct excess net capital losses against ordinary income of up to \$3,000 a year (\$1,500 if married filing

separately). And, you can carry forward additional losses to later tax years. A traditional planning strategy is to time asset sales so your capital losses for the tax year offset your capital gains.

*Example:* Suppose, earlier in 2009, you sold investments that resulted in a net capital gain of \$10,000. Some other investments you hold have unrealized losses of \$10,000. You might consider selling the assets on which you have a loss and, thus, fully offset your earlier gains.

As you plan, you'll want to pay attention to the "wash-sale" rules. Under these rules, if you sell securities at a loss and purchase substantially identical securities within 30 days before or after the sale, your loss will be disallowed.

However, for 2009, you may find yourself in a situation opposite to the "normal" offset scenario described above. Many securities, after suffering a substantial downturn in late 2008 and early 2009, rallied significantly from their lows to current higher levels. If you were fortunate enough to have purchased securities near the market's bottom, you may have significant unrealized capital gains.

If you realized net capital losses earlier this year (and/or have a net capital loss carryover from last year), a possible tax planning strategy is to sell some winners by year end so that the gains can be offset by your earlier losses. That way, you can take full tax advantage of your losses this year. But what if you want to retain those winning securities going forward? Just buy them back immediately after selling them. The

wash sale rules don't apply to securities you sell at a gain. (Of course, additional broker commissions would be incurred on the repurchases.)

### **"Bonus" First Year Depreciation**

Business taxpayers must generally recover the cost of assets used in a trade or business through annual depreciation deductions. The tax law enables businesses to significantly increase their first year depreciation deduction by providing a limited opportunity for "bonus" first year depreciation (50%) under the modified accelerated cost recovery system (MACRS) rules. The American Recovery and Reinvestment Tax Act of 2009 extended this provision for favorable first year depreciation deduction for property placed in service in 2009.

### **Section 179 Expensing**

Under Section 179 of the Internal Revenue Code, smaller businesses can take advantage of an election to write off the cost of many types of otherwise depreciable assets in the year they are acquired and placed in service (limits apply).

For qualifying property placed in service in taxable years beginning in 2009, there is a \$250,000 maximum Section 179 deduction. This deduction maximum is reduced to the extent the cost of qualifying property placed in service exceeds \$800,000.

### **Need More Information?**

If you have questions about these or any other year-end tax planning strategies for 2009, please let us know. We are here to help.