



## Year-end Planning Letter

To Our Clients and Friends:

As we approach year-end, it's again time to focus on last-minute moves you can make to save taxes—both on your 2009 return and in future years. The federal income tax environment is very favorable right now, but it is not likely to continue much longer. Now is the time to take advantage of the tax breaks that Congress has provided before they disappear. To get you started, we've included a few money-saving ideas here that you may want to put in action before the end of the year.

- ◆ For 2009, the tax rate on long-term capital gains is 0% when they fall within the 10% or 15% regular income tax rate brackets. This will be the case to the extent your taxable income (including long-term capital gains) does not exceed \$67,900 if you're married and file jointly (\$33,950 if you're single). While your income may be too high to benefit from the 0% rate, you may have adult children, grandchildren, or other loved ones who can. If so, consider giving them some appreciated stock that you've held for more than a year, which they can then sell and pay 0% tax on the resulting long-term gains. (Watch out though, if you give securities to someone who is under age 24, the Kiddie Tax rules could cause the gains to be taxed at the parent's higher rates.)
  
- ◆ A great way to cut energy costs and save up to \$1,500 in income taxes this year is to make energy efficiency improvements to your principal residence. Basically, if you install energy efficient insulation, windows, doors, roofs, heat pumps, hot water heaters or boilers, or advanced main air circulating fans to your home during 2009 or 2010, you may be entitled to a tax credit of 30% of the purchase price, up to a maximum credit of \$1,500. For 2009, the credit is allowed against the AMT. However, unless Congress changes the rules, this will not be the case for 2010. So, if there is any possibility you'll be subject to AMT next year, you may want to make these improvements this year.
  
- ◆ If you own your own business and have plans to buy office furniture, equipment, or other tangible business property, you might consider doing so before year-end to take advantage of the temporarily increased Section 179 deduction and the temporary 50% bonus depreciation. For 2009, the maximum Section 179 deduction is a whopping \$250,000 (assuming property purchases for the year don't exceed \$800,000). This means an eligible business can often claim first-year write-offs for the entire cost of new and used equipment and software additions. You can also claim first-year bonus depreciation equal to 50% of the cost (reduced by the Section 179 deduction) of most new (not used) equipment and software placed in service during 2009. Unless Congress takes action, the Section 179 deduction will drop to about \$134,000 in 2010 and the 50% first-year bonus depreciation break will expire at year-end.
  
- ◆ If you're age 70½, or older, there a couple of temporary tax saving opportunities you might want to take advantage of this year. First you can arrange to transfer up to \$100,000 of otherwise taxable IRA money to the public charity of your choice (such as your church or other favorite charity). The distribution is federally income tax free. You don't get to claim it as an itemized deduction, but the tax-free treatment equates to a 100% write-off, without the need to itemize your deductions. Secondly, although you are normally required to withdraw a minimum amount out of your retirement accounts each year, a temporary tax law change made in late 2008, waives this requirement for 2009. So, if you haven't already received your required distribution during 2009 and you do not need the funds, you can just leave them in your retirement account for another year. If you have already received the distribution and now wish you hadn't, you may be able to roll the funds back into your retirement account, even if the normal 60-day rollover period has already expired. However, this may require action before 11/30/09. If this situation applies to you, please give us a call.

And finally, watch out for the AMT in all of your planning because what may be a great move for regular tax purposes may create or increase an AMT problem.

Again, these are just a few suggestions to get you thinking. Please call us if you'd like to know more about them or want to discuss other ideas.

Best regards,

Brad S. Kanter, C.P.A., E.A.