

Spiegler Blevins & Company CPAs & Advisors
YEAR-END INCOME TAX PLANNING FOR INDIVIDUALS

INTRODUCTION

Once again, it's time for year-end tax planning. Over the past year, Congress, the IRS, and the courts have flooded us with significant tax developments. The White House has also warned of imminent tax increases, particularly for higher income taxpayers. Collectively, these changes make year-end tax planning for 2009 more important than for any year in recent history! Most recently, Congress passed the *American Recovery and Reinvestment Tax Act of 2009*, which includes the following *individual* tax benefits: an increased refundable first-time home buyer's credit of up to \$8,000 (which **expires after November 30, 2009**, unless extended by Congress); estimated tax payment relief for certain individuals owning small businesses; a deduction for sales tax on the purchase of new vehicles; an increased and partially refundable tuition tax credit (up to \$2,500); a refundable income tax credit to offset payroll taxes of low and middle income individuals; a significant expansion of various credits for energy-efficient home improvements; and alternative minimum tax (AMT) relief. As expected, many taxpayers have been scrambling to keep up with all of these important, and often temporary, tax changes.

We are sending you this letter to help you navigate through the many *new* tax planning opportunities available to individuals under these new provisions. We also want to remind you of the *traditional* year-end tax planning strategies that **1)** help ensure your income is taxed at the lowest possible rate, and **2)** will postpone taxes by deferring your taxable income and accelerating your deductions. **Caution!** Several of the most significant new tax breaks **expire in 2009** (and others in 2010), therefore, it is extremely important that you be proactive and act timely to obtain maximum benefits! **Tax Tip.** Even though the recent recession has caused many individuals to experience a significant drop in income for 2009, this drop in income may actually produce additional tax benefits. If your income is down for 2009, you may be eligible for deductions and credits that you did not get in previous years because your income exceeded the phase-out thresholds. So, you should **pay close attention to the income thresholds** for the various deductions and credits discussed in this letter. With informed year-end planning, you may now qualify for tax breaks that were not available in the past because of your higher income.

To help you locate items of interest, we have divided the planning ideas into the following categories:

- **Highlights Of Recent Legislation Impacting Year-End Planning**
- **Don't Overlook "Other" Expiring Individual Tax Breaks**
- **Planning With Other Recent Tax Changes**
- **Traditional Year-End Tax Planning Techniques**

Planning Alert! Tax planning strategies suggested in this letter may subject you to an unexpected alternative minimum tax (AMT). For example, many deductions are not allowed for AMT purposes, such as: personal exemptions, certain standard deductions, state and local income taxes, and real estate taxes. Also, AMT can be triggered by taking large capital gains or exercising incentive stock options. Therefore, **we suggest that you call our firm before implementing any tax planning technique discussed in this letter.** You cannot properly evaluate a particular planning strategy without calculating your overall tax with and without that strategy. **Please Note!** This letter contains ideas for Federal income tax planning only. State income tax issues are **not** addressed.

HIGHLIGHTS OF RECENT LEGISLATION IMPACTING YEAR-END PLANNING

Earlier this year, President Obama signed the *American Recovery and Reinvestment Tax Act of 2009* (the "2009 Act") providing approximately \$275 billion of temporary tax breaks and incentives. Also, late last year, Congress passed a law that temporarily waives required minimum distributions from employer retirement plans and IRAs. Together, these two tax bills will impact virtually every individual taxpayer. The following are

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selected provisions from this tax legislation that we believe will have the greatest impact on your 2009 year-end planning. **Planning Alert!** As you read the following highlights, please keep in mind that there are several tax breaks available **only in 2009**, and others expire after 2010! Due to mounting concerns about expanding budget deficits, it appears increasingly likely that Congress may not extend several of these temporary tax benefits. Consequently, pay careful attention to the **effective date** and **expiration date** (if applicable) for each new provision which we *highlight prominently* in each segment. Furthermore, you will notice that the 2009 Act provides for several “refundable” tax credits. This generally means that to the extent the “refundable” credit exceeds the taxes that you would otherwise owe (without the credit), the IRS will actually send you a check for the excess. **Tax Tip.** Many of these temporary tax breaks phase out as your 2009 income exceeds certain threshold levels. These phase-out thresholds are generally linked to your 2009 “adjusted gross income” (AGI) or “modified adjusted gross income” (MAGI). Pay careful attention to the income thresholds for each new provision, which we also *highlight prominently* in each segment. Please call us if you believe that you may qualify for a 2009 tax break but your income is approaching the income threshold for that benefit. We will help you evaluate year-end strategies that could reduce your AGI or MAGI below the phase-out threshold.

First-Time Home Buyer’s Refundable Credit Extended through 04/30/10! For 2008, first-time home buyers who satisfied certain income thresholds were eligible for a refundable credit of up to \$7,500 for purchases of a principal residence after April 8, 2008 and before 2009. However, this credit must be paid back to the government in equal installments over 15 years, or earlier if the house is sold or the purchaser fails to use the home as a principal residence. **Caution!** These rules continue to apply to qualifying home purchases **after April 8, 2008 and before 2009** (including the 15-year payback requirement). However, for **qualifying first-time home buyers who purchase a home after 2008 and before December 1, 2009**, the new law expands and enhances the credit by: **1)** increasing the maximum credit from \$7,500 to \$8,000 (not to exceed 10% of the home’s purchase price), **2)** eliminating the 15-year payback requirement, and **3)** requiring recapture of the credit upon the sale of the residence or failure to use the residence as a principal residence *only* where the sale or change of use occurs within 36 months of the date of purchase. The credit is phased out as your modified adjusted gross income (MAGI) increases from **\$75,000 to \$95,000** if you are single, or from **\$150,000 to \$170,000** if you are married filing jointly. The *Worker, Homeownership and Business Assistance Act of 2009* extended this credit **through April 30, 2010**. In addition, qualified **existing homeowners may take a new \$6,500 tax credit** if they purchase a different home as their primary residence. Furthermore, the law increases the beginning of the phase-out ranges for the credit eligibility to adjusted gross incomes of **\$125,000 for individuals and \$250,000 for couples filing joint returns**. **Tax Tip.** This is a *refundable* credit that offsets both alternative minimum tax (AMT) and regular tax liabilities, so you will actually get a refund to the extent the credit exceeds your tax liability. **Who Is A Qualified First-Time Home Buyer?** You are a “first-time home buyer” if neither you nor your spouse has owned an interest in a principal residence in the U.S. during the 3-year period ending on the date you purchase the current residence. A principal residence could include a condominium, houseboat, or mobile home. IRS says that a mobile home will qualify even if you place it on a lot you are leasing. **Planning Alert!** The “purchase date” is generally the date you close on the house, so you should make sure that you actually *close on the house* before **April 30, 2010**.

It May Not Be Too Late To Take Advantage Of 2009 Estimated Tax Relief. Generally, if your **2008 AGI** was \$150,000 or less, one way you can avoid 2009 underestimated tax penalties is to make your timely 2009 estimated tax payments based on 100% of your 2008 tax liability. If your **2008 AGI** was over \$150,000, you can avoid penalties by basing your 2009 estimated tax payments on 110% of your 2008 tax liability. The 2009 Act potentially offers you one more way to avoid underestimated tax penalties **for 2009 only!** If you qualify, you can eliminate 2009 underestimated tax penalties by basing your 2009 estimated tax payments on 90% (rather than 100% or 110%) of your 2008 tax liability. To qualify: **1)** you must have had adjusted gross income below \$500,000 (\$250,000 if married and filing separate returns) **for 2008**, and **2)** you *must certify* that more than 50% of the gross income on your 2008 return came from a “qualifying small business.” For this purpose, a “qualifying small business” is generally a business that employed on average less than 500 employees during calendar-year 2008. **Planning Alert!** Please call us as soon as possible if you think that your current tax withholdings or estimated tax payments may not meet one of these safe harbors. If so, we may be able to eliminate the penalty by having you withhold additional taxes from your 2009 year-end bonus (or from a

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distribution from your IRA, etc.).

Cash For Clunkers Is Gone – But You May Still Get A Sales Tax Deduction On A New Car. For purchases **from February 17, 2009 through December 31, 2009**, you may claim a deduction for sales or excise taxes you pay on the purchase of a “qualified motor vehicle.” If you itemize deductions, you may deduct the qualified sales or excise taxes as “taxes.” If you do not itemize deductions, you may deduct the qualified sales or excise taxes as an “additional standard deduction.” A *qualified motor vehicle* is a *new* passenger automobile with a gross vehicle weight (GVW) of 8,500 lbs or less, a new motorcycle with a GVW of 8,500 lbs or less, or a new motor home. This additional deduction for sales or excise taxes is limited to the sales tax on the first \$49,500 of the vehicle’s purchase price, and phases out ratably as your modified adjusted gross income (MAGI) increases from **\$250,000 to \$260,000** on a joint return (**\$125,000 to \$135,000** on a single return). **Tax Tip.** The IRS says that you can get this sales tax deduction for more than one qualifying purchase.

Expanded But Temporary “American Opportunity Education Tax Credit.” Before 2009, individuals were allowed a HOPE tuition tax credit (HOPE Credit) for qualifying tuition costs generally for the first two years of a student’s college (e.g., freshman and sophomore years). **For 2009 and 2010**, the *2009 Act* changes the name of the HOPE credit to the “*American Opportunity Tax Credit*” and makes five significant changes: **1) Amount of Credit** – the maximum credit is increased from \$1,800 to \$2,500 (100% of the 1st \$2,000 of qualifying education expenses plus 25% of the next \$2,000 of qualifying expenses); **2) Number of Years Credit Allowed** – the total number of years that a student may qualify for the American Opportunity Credit is increased from *two* years to *four* years (i.e., generally, freshman through senior years); **3) AGI Phase-Out Limits** – the credit is phased out as your modified adjusted gross income increases **from \$160,000 to \$180,000 for those filing joint returns (\$80,000 to \$90,000 for single filers)**; **4) Partially Refundable** – 40% of the credit is refundable *unless the person claiming the credit* is subject to the so-called *kiddie tax rules* (i.e., all students under age 18 and most full-time students under age 24); and **5) Qualifying Education Expenses** – course materials are added to the expenses qualifying for the credit (therefore, for **2009 and 2010**, expenses qualifying for the credit include tuition, fees, and *required course materials*). **Tax Tip.** To get the full \$2,500 credit for 2009, you must pay qualifying expenses of at least \$4,000 for the student **by December 31, 2009**. For example, if you paid tuition and books of \$2,500 for the fall, 2009 semester for a college freshman, you would need to pay tuition of at least \$1,500 for the spring, 2010 semester by **December 31, 2009**, to get the full credit of \$2,500 for 2009.

“Making Work Pay” Tax Credit. For **2009 and 2010**, if you have *earned income*, you may qualify for a new refundable *Making Work Pay tax credit up to \$800 for joint filers and \$400 for single filers*. However, the credit is phased out as your **modified adjusted gross income (MAGI) increases from \$150,000 to \$190,000 (\$75,000 to \$95,000 on a single return)**. Instead of receiving a rebate check as you did with last year’s economic stimulus payment, the IRS has reduced the federal income tax withholding by the amount of the credit. So, most individuals receive the benefit of the credit by having their 2009 take-home pay increased by the amount of the credit. However, if you qualify for this credit for 2009 but you do not have sufficient withholding to utilize all of the credit, you will be entitled to any unpaid portion as a refundable credit when you file your 2009 tax return. **Planning Alert!** Since the credit is built into the withholding tables, this may result in the amount of Federal income tax withholding for 2009 being less than your actual 2009 taxes. This becomes increasingly likely if both you and your spouse are employed forcing your combined income above the phase-out levels, or you have two jobs and both employers are reducing your withheld taxes by the credit. **Please call** our firm if you think that you may be in this situation, and we will help you determine whether you need to increase your 2009 year-end withholdings to avoid a penalty.

Don’t Overlook Expanded Tax Credits For Making Energy-Efficient Improvements To Your Home. Starting in 2005, Congress gave us several *nonrefundable* credits for making certain energy-efficient improvements to our homes, and for installing qualified solar panels and solar water heaters. **Starting in 2009**, the *2009 Act* dramatically enhanced these credits. **Tax Tip.** Unlike many other tax benefits, these credits are not reduced or eliminated as your AGI increases, and they offset the AMT. Therefore, you may

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qualify regardless of your income level. For example, the *2009 Act* now allows you a 30% credit for “qualified energy-efficient home improvements” to your *principal residence located in the U.S. and placed in service in 2009 and 2010*, with a \$1,500 maximum cumulative credit for the 2009 and 2010 tax years (previously, there was a lifetime credit limit of \$500). Qualified improvements can include *properly certified* energy efficient roofs, insulation, exterior windows (including skylights), exterior doors, heat pumps, hot water boilers and air conditioners. In addition, the *2009 Act* allows a 30% credit for “qualified *residential* solar water heaters, geothermal heat pumps, wind energy property, and solar electric generating property” installed in your residence. **The residence need not be your “principal residence,”** so installations in your second residence or vacation home may qualify. Also, the credit will now offset the alternative minimum tax as well as regular tax. **Planning Alert!** Expenditures related to swimming pools or hot tubs (e.g., solar equipment to heat water or run electrical pumps) generally do not qualify. Also, to take the credit for 2009, the property must *actually be installed no later than December 31, 2009*.

Waiver Of Required Minimum Distributions (For 2009 Only!) During the last weeks of 2008, Congress passed a law waiving required payments (called “required minimum distributions” or RMDs) from employer-sponsored retirement plans and IRAs for **calendar year 2009 only**. Thus, if you have reached age 70½, or you are a beneficiary of an IRA or employer-sponsored plan whose owner has passed away, you will generally not be required to take a distribution otherwise due in 2009. **If you reach age 70½ in 2009**, you are not required to take your first distribution **until December 31, 2010**. If you have already received a payment in 2009 that was not required, you may keep it without penalty and simply include it in your taxable income. If you do not want to keep it and include the distribution in income, you normally are required to roll the amount distributed into an IRA **within 60 days of receipt**, in order to avoid taxation of the distribution. The IRS recently announced that it will waive the 60-day requirement if you complete the rollover **no later than November 30, 2009**. **Tax Tip.** Rolling the distribution over may be particularly helpful if you want to keep your taxable income below the income thresholds necessary to take advantage of other 2009 tax breaks discussed in this letter. **Planning Alert!** The IRS also reminded us in its recent announcement that only one rollover from one IRA to another may be made within a 12-month period. **Please call us** if you wish to rollover to an IRA a 2009 RMD that has been distributed, so we can assist you with the transaction.

DON'T OVERLOOK “OTHER” EXPIRING INDIVIDUAL TAX BREAKS

Even before the *2009 Act* discussed above, Congress had previously given us an ever expanding list of temporary tax breaks that expire after a certain date. Some of the more popular tax benefits that are currently scheduled to **expire at the end of 2009** include the: **1)** School Teachers' Deduction (up to \$250) for Certain School Supplies; **2)** Deduction for State and Local Sales Tax; **3)** Deduction (up to \$4,000) for Qualified Higher Education Expenses; **4)** Real Property Tax Standard Deduction For Non Itemizers, **5)** Qualifying Tax-Free Transfers from IRAs to Charities for Those at Least 70½; **6)** Higher Alternative Minimum Tax (AMT) Exemption Thresholds; and **7)** Increased Charitable Deduction Limits for Qualifying Conservation Easements. **Planning Alert!** In the past, these tax breaks have generally been extended before they actually terminated. However, given the current political environment of rising deficits, there is uncertainty as to which provisions Congress will extend beyond 2009.

PLANNING WITH OTHER RECENT TAX CHANGES

Should You Consider Converting Your “Traditional IRA” To A “Roth IRA?” Currently, whether you file joint or single, you are not allowed to convert (rollover) your traditional IRA into a Roth IRA unless your modified adjusted gross income is \$100,000 or less. In addition, if you are married, you must file a joint return with your spouse. **Tax Tip.** If the recession has caused your income to decline, you may be a good candidate for converting all or a portion of your regular IRA to a Roth, if your 2009 modified adjusted gross income does not exceed \$100,000. This is particularly true if: **1)** you believe that the value of your IRA is currently at or near an all time low, **2)** you expect it to appreciate in the relatively near future, and **3)** you have funds outside the IRA to pay the income taxes caused by the conversion. **Planning Alert!** If you want the conversion to be effective for 2009, you must transfer the amount from the regular IRA to the Roth IRA **no later than**

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December 31, 2009 (you do not have until the due date of your 2009 tax return). Also, when you convert a traditional IRA to a Roth IRA, you generally must pay tax on the amount converted as if you withdrew the funds from the traditional IRA. **Major Change Coming Next Year.** Effective for tax years beginning after 2009, you will be able to convert your regular IRA to a Roth IRA, without regard to your income or your filing status. If you convert in 2010, unless you elect out otherwise, you will report the income triggered by the conversion pro rata in 2011 and 2012. **Caution!** Don't attempt a Roth conversion or implement a Roth conversion strategy **without calling us first.** There is a host of factors you should evaluate before deciding to convert your traditional IRA to a Roth.

Planning With Temporary Zero Percent Capital Gains Tax Rate. Starting in 2008 (and through 2010), long-term capital gains and qualified dividends that would otherwise be included in the 15% (or below) ordinary income tax bracket, are taxed at a zero % rate. **Planning Alert!** For 2009, all ordinary income (e.g., W-2, interest income) up to \$67,900 for joint returns (\$33,950 if single) is taxed at the 15% rate, or below. Thus, taxpayers filing jointly can benefit from the zero percent capital gains rate if (and to the extent) they have 2009 ordinary taxable income under \$67,900 (\$33,950 if filing single). **Tax Tip.** Taxpayers who have historically been in higher tax brackets but now find themselves between jobs, recently retired, or expecting to report higher-than-normal business deductions in 2009, may temporarily have income low enough to take advantage of the zero % capital gains rate for 2009. If you are experiencing any of these situations, please call our firm and we will help you determine if there is a strategy for you to take advantage of these low capital gains rates. **Please note** that traditional year-end planning for capital gains and losses is discussed below.

TRADITIONAL YEAR-END TAX PLANNING TECHNIQUES

Year-End Considerations For Capital Assets. Timing your year-end sales of stocks, bonds, or other securities may save you taxes. After fully evaluating the economic factors, the following are time-tested, year-end tax planning ideas for sales of capital assets. **Caution!** Always consider the economics of a sale or exchange first! **Taking Capital Losses To The Extent Of Capital Gains Plus \$3,000.** If you have already recognized capital gains in 2009, you should consider selling securities (that have declined in value) **prior to January 1, 2010.** These losses will be deductible on your 2009 return to the extent of your recognized capital gains, plus \$3,000. **Tax Tip.** These losses may have the added benefit of reducing your income to a level that will qualify you for other tax breaks (e.g., the temporary \$8,000 first-time home-buyer's credit, sales tax deduction for buying a new car, American Opportunity Tuition Tax Credit, \$400 Making Work Pay Credit, \$1,000 child credit, IRA contributions, etc.). **Planning Alert!** If within 30 days before or after the sale of loss securities, you acquire the same securities, the loss will not be allowed currently because of the "wash sale" rules. **Making The Most Of Capital Losses.** Many taxpayers sold losing stocks in 2008 and now have substantial loss carry forwards coming into 2009. If your stock sales to date have created a *net* capital loss exceeding \$3,000, consider selling enough appreciated securities **before the end of 2009** to decrease your net capital loss to \$3,000. Stocks that you think have reached their peak would be good candidates. All else being equal, you should sell the short-term gain (held 12 months or less) securities first. This will allow your *net* capital loss (in excess of \$3,000) to absorb your short-term capital gain, while preserving your favorable long-term capital gain treatment for later years. **Tax Tip.** If you are considering selling "loss" investments held 12 months or less, and you also have short-term capital gains and investment interest expense, please call our office. We will help you determine which strategy will maximize your tax savings.

Postponing Taxable Income. It is generally a good idea to defer as much income into 2010 as possible if you believe that your marginal tax rate for 2010 will be equal to or less than your 2009 marginal tax rate. Deferring income into 2010 could also increase various credits and deductions for 2009 that would otherwise be phased out as your adjusted gross income increases. **Tax Tip.** This classic tax planning strategy may be particularly valuable for 2009 if it also keeps your 2009 income below the phase-out thresholds for the *first-time home buyer's credit* or the *new vehicle sales tax deduction*, each of which **expire after 2009.** **Planning Alert! For 2010,** it may be actually better for higher-income taxpayers to avoid this income deferral tactic, because tax rates are scheduled to **automatically increase in 2011.** **Caution!** In the current political environment, some are even predicting that Congress could increase tax rates on regular income, dividend income, and/or capital

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gains **as early as 2010**. **Tax Tip.** If you believe that deferring taxable income into 2010 will save you taxes, and you are a cash-method, self-employed taxpayer, consider delaying year-end billings to defer income until 2010. **Planning Alert!** If you have already received the check in 2009, deferring the deposit does not defer the income. Also, you may not want to defer billing if you believe this will increase your risk of not getting paid.

Accelerating Deductions Into 2009. As a cash method taxpayer, you can generally accelerate a 2010 deduction into 2009 by “paying” it in 2009. Accelerating an “above-the-line” deduction, such as the IRA or Health Savings Account (HSA) deduction, qualified student loan interest and tuition deductions, qualified moving expenses, and deductible alimony into 2009 may allow you to reduce your “adjusted gross income” below the thresholds needed to qualify for many other tax benefits. **Caution!** *Itemized deductions do not* reduce your “adjusted gross income” and, therefore, will not affect your 2009 deductions and credits that are reduced as your income increases. *Itemized deductions* include charitable contributions, state and local taxes, medical expenses, unreimbursed employee travel expenses, and home mortgage interest. **Tax Tip.** “Payment” typically occurs in 2009 if a check is delivered to the post office, if your electronic payment is debited to your account, or if an item is charged on a *third-party credit card* (e.g., Visa, Discovery, American Express) in 2009. **Be careful,** if you post-date the check to 2010 or if your check is rejected, no payment has been made in 2009. **Planning Alert!** The IRS says that prepayments of expenses applicable to periods beyond 12 months after the payment will not be deductible in 2009.

- **“Bunching” Itemized Deductions.** If your itemized deductions fail to exceed your standard deduction in most years, you are not receiving maximum benefit for your itemized deductions. You could possibly reduce your taxes over the long term by bunching the payment of your itemized deductions in alternate tax years. This may produce tax savings by allowing you to itemize deductions in the years when your expenses are bunched, and use the standard deduction in other years. **Tax Tip.** The easiest deductions to shift between tax years are charitable contributions, state and local taxes, and your January home mortgage interest payment. For 2009, the standard deduction is \$11,400 on a joint return and \$5,700 for single individuals. If you are blind or age 65, you get an additional standard deduction of \$1,100 if you’re married (\$1,400 if single).
- **Charitable Contributions.** A charitable contribution deduction is allowed for 2009 if the check is mailed **on or before December 31, 2009**, or the contribution is made by a credit card charge in 2009. However, if you give a note or a pledge to a charity, no deduction is allowed until you pay off the note or pledge. **Tax-Free IRA Payments To Charities.** If you have reached age 70½, you may have your IRA trustee contribute up to \$100,000 from your IRA directly to a qualified charity and exclude the distribution from your income (you **do not** get a charitable contribution deduction). To qualify: **1)** you must have reached age 70½ *before* the date of the transfer, and **2)** the IRA check must be made out *directly to the charity* (not to you), although you may *deliver* the check to the charity. **Tax Tip.** This provision is particularly beneficial if you do not plan to itemize your deductions (i.e., you plan to use the standard deduction), or you expect your itemized deductions to be reduced because your income exceeds certain thresholds. **Planning Alert!** This provision is **scheduled to expire after 2009**, so this may be the last year you can use it.
- **Maximizing Home Mortgage Interest Deduction.** If you are looking to maximize your 2009 deductions, you can increase your home mortgage interest deduction by paying your January, 2010 payment **on or before December 31, 2009**. Typically, the January mortgage payment includes interest that was accrued in December and, therefore, is deductible if paid in December. **Planning Alert!** Make sure that you send in your January, 2010 mortgage payment early enough in December for your lender to actually receive it before year-end. That way, your lender will be sure to reflect that last payment on your 2009 Form 1098, and we can avoid a matching problem for your 2009 return.
- **Time Payment Of State And Local Taxes To Your Benefit.** If you anticipate deducting your state and local income taxes, consider paying them (fourth quarter estimate and balance due for 2009) and any property taxes for 2009 **prior to January 1, 2010** if your tax rate for 2009 is higher than or the same as

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your projected 2010 tax rate. This will allow a deduction for 2009 (a year early) and possibly against income taxed at a higher rate. **Planning Alert!** State and local income and property taxes are not deductible for AMT purposes. Consequently, you should not employ this tactic without carefully calculating the alternative minimum tax impact. Also, "overpayment" of your 2009 state and local income taxes is generally not advisable particularly if a refund in 2010 from a 2009 overpayment will be taxed at a higher rate than the 2009 deduction rate. **Please consult us before you overpay state or local income taxes!**

- **Sales Tax Deduction.** You may "elect" to deduct "either" state and local *income* taxes or state and local *sales* taxes, as itemized deductions. **Tax Tip.** This election may be particularly beneficial if: **1)** you are a resident of a state with little or no state income taxes, **2)** you reside in a state where the state income tax rate is generally lower than the sales tax rate, **3)** you are a senior citizen who has modest taxable income and you are living largely on lifetime savings, or **4)** your state income tax liability has been significantly reduced because of state credits, etc. Taking the sales tax deduction rather than the state income tax deduction may also avoid including a state income tax refund in federal taxable income in a subsequent year. **Planning Alert!** If you plan to deduct sales taxes for 2009, consider purchasing your big ticket items such as a motor vehicle, boat, mobile home, or home building materials **by December 31, 2009.**

Planning With Retirement Plans. As your income rises and your marginal tax rate increases, deductible retirement plan contributions generally become more valuable to you. Also, making your deductible contribution to the plan as early as possible generally increases your retirement benefits. **IRA Contributions.** If you are married, even if your spouse has no earnings, you can generally deduct in the aggregate up to \$10,000 (\$12,000 if you're both at least age 50 by the end of the year) for contributions to your and your spouse's traditional IRAs. You and your spouse must have *combined earned income* at least equal to the total contributions. However, no more than \$5,000 (\$6,000 if you're at least age 50) may be contributed to either your or your spouse's separate IRA for 2009. If you are an active participant in your employer's retirement plan during 2009, your IRA deduction is phased out ratably as your adjusted gross income increases from **\$89,000 to \$109,000** on a joint return (**\$55,000 to \$65,000** on a single return). However, if your spouse is an active participant in his or her employer's plan and you are not an active participant in a plan, your ability to contribute the full amount to an IRA phases out only as the adjusted gross income on your joint return goes from **\$166,000 to \$176,000.** **Planning Alert!** Every dollar you contribute to a deductible IRA reduces your allowable contribution to a nondeductible Roth IRA. For 2009, your ability to contribute to a Roth IRA is phased out ratably as your adjusted gross income increases from **\$166,000 to \$176,000** on a joint return or from **\$105,000 to \$120,000** if you are single. **Consider Contributing To Your Company's \$401(k) Plan.** If you are covered by your company's \$401(k) plan, you should consider putting as much of your compensation into the plan as allowable. The maximum contribution you may make (employee portion) for 2009 is \$16,500 (\$22,000 if you're at least age 50 by the end of 2009). This is particularly appealing if your employer offers to match your contributions .

FINAL COMMENTS

Please call us if you are interested in a tax topic that we did not discuss. Tax law constantly changes due to new legislation, cases, regulations, and IRS rulings. Our firm closely monitors these changes and we will gladly discuss any current tax developments and planning ideas with you. **We urge you to call us before implementing any planning ideas addressed in this letter, or if you need more information.**

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Note: The information contained in this material represents a general overview of tax developments and should not be relied upon without an independent, professional analysis of how any of these provisions may apply to a specific situation

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