Tax Planning

Tax Saving Moves for the Rest of 2009

Year-end tax planning could be especially productive this year because timely action can nail down a host of tax breaks that won't be around next year unless Congress acts to extend them. These include: the option to deduct state and local sales and use taxes instead of state income taxes; the standard or itemized deduction for state sales tax and excise tax on the purchase of motor vehicles; the above-the-line deduction for qualified higher education expenses; tax-free distributions from IRAs for charitable purposes; the $8,000 first-time homebuyer credit (expires for purchases after Nov. 30, 2009); 50% bonus first year depreciation for most new machinery, equipment and software; an extraordinarily high $250,000 expensing limitation; the research tax credit; the five-year writeoff for most farm equipment; and the 5-year writeoff for qualified leasehold improvements, qualified restaurant buildings and improvements and qualified retail improvements. Finally, without Congressional “extender” legislation (which has come at the eleventh hour for several years), alternative minimum tax (AMT) exemption amounts for individuals are scheduled to drop drastically next year, and most nonrefundable personal credits won't be available to offset the AMT.

High-income-earners have other factors to keep in mind when mapping out year-end plans. Many observers expect top tax rates on ordinary income to increase after 200, making long-term deferral of income less appealing. Long-term capital gains rates could go up as well, so it may pay for some to take large profits this year instead of a few years down the road. On the other hand, the solid good news high-income-earners have to look forward to next year is that there no longer will be an income-based reduction of most itemized deductions, nor will there be a phaseout of personal exemptions. Additionally, traditional IRA to Roth IRA conversions will be allowed regardless of a taxpayer's income.