

Tax-Saving Moves for Individuals at Year End as published December 15, 2010



Opportunities are Knocking -- But Only Until December 31

Even though New Year's Eve is just around the corner, there's still a little time left for year-end tax planning. If you move fast enough, a few eleventh-hour tax moves can cut your tax bill or increase a refund for the 2010 tax year.

Keep in mind that the "Bush tax cuts" are scheduled to expire December 31, 2010, thereby raising tax rates for some individuals in 2011. But a late reprieve from Congress could preserve lower rates for another year or longer. Until the uncertainty is removed, focus on what you can do now to reduce your 2010 liability.

Here are ten tax strategies to consider:

1. Review your AMT status. You may owe the alternative minimum tax (AMT) if a complex calculation involving "tax preference items" and an exemption amount exceed your regular income tax liability. Consult with your tax adviser at year-end. Depending on your situation, you might defer certain items to avoid the AMT or accelerate income to benefit from a lower tax rate. *Note:* Congress is expected to "patch" the AMT by bumping up exemption amounts for 2010.

2. Balance stock gains and losses. Take advantage of tax rules for selling or buying stock. If you're currently showing a net capital loss for the year, a capital gain from a stock sale realized at year-end is effectively tax-free up to the amount of the loss. Conversely, if you have a net capital gain, a year-end capital loss can offset the gain, plus up to \$3,000 of ordinary income. And you can still carry over any excess capital loss to next year. (Friday, December 31 is the last day to sell a stock this year.)

3. Install energy savers at home. Don't wait to acquire property that qualifies for the residential energy credit. This credit, which generally equals 30 percent of the cost of expenses like furnaces and air conditioning units, will expire after this year unless it's extended by Congress. *Caveat:* The maximum credit allowed for 2010 is \$1,500 (reduced by any credit claimed for 2009).

4. Schedule doctor visits. The deduction for medical and dental expenses is limited to your unreimbursed expenses over 7.5 percent of your adjusted gross income (AGI). If you've cleared the threshold for 2010 or you're close to it, move elective expenses like dental cleanings and medical exams into this year. The idea is to "bunch" expenses in the year they'll do you the most good.

If you have a flexible spending account (FSA) for medical expenses through your job, you'll want to use up the balance by the end of the year. Visit doctors for elective procedures, get a new pair of prescription glasses, and purchase medicines. Remember, 2010 is the last year that FSAs can be used to buy over-the-counter drugs, such as aspirin, so you have until December 31 to stock up.

5. Avoid an underpayment tax penalty. Generally, you have to pay an "estimated tax" penalty if you don't pay enough income tax during the year. But no penalty will be assessed if your tax payments equal at least 90 percent of your 2010 tax liability or 100 percent of your 2009 tax liability (110 percent if your AGI exceeded \$150,000). A late adjustment to your tax withholding might do the trick.

6. Salvage a dependency exemption. If your child graduated from college in 2010, it might be the last year you're entitled to a dependency exemption for him or her. Generally, you qualify if you provide more than half the support of a child who is under age 19 or a full-time student under age 24. Give your child a

generous holiday gift if it will push you over the half-support mark.

7. Speaking of being generous, make annual exclusion gifts to reduce your taxable estate. Under the annual gift tax exclusion, you can give gifts of cash or property up to \$13,000 this year to as many recipients as you would like with no gift tax consequences.

8. Boost your 401(k) contributions. It's not too late to add to retirement plan accounts at work. If you participate in a 401(k), you can increase your elective deferral, up to the tax law limits. For 2010, the maximum deferral allowed is \$16,500 (\$22,000 if you're age 50 or over). *Tip:* If your salary exceeded the Social Security wage base (\$106,800 for 2010), you can use payroll tax savings to bolster 401(k) contributions.

9. Don't forget retirement plan distributions. If you're over age 70 1/2, you're generally required to take required minimum distributions (RMDs) from your retirement plans and IRAs. Otherwise, you must pay a penalty equal to 50 percent of the required amount. Unlike the 2009 tax year, there's no waiver for 2010. The deadline for most retirees is December 31, 2010 (April 1, 2011 if you turned age 70 1/2 in 2010).

10. Give to charity. If you donate cash or property to a qualified charity, you may be able to deduct the contribution within generous tax law limits. To increase your deduction for 2010, if desired, add a few dollars to a charitable gift late in the year. Even if you charge a donation by credit card on December 31, 2010, and pay the charge in 2011, the donation is deductible in 2010.

Be aware that the tax law is complex. Consult with [David A. Schlein, CPA](#) if you have questions about year-end tax moves for your situation.



Dave is a tax partner with Lumsden & McCormick with over 25 years experience in services to closely held family run businesses, high net worth individuals and for profit flow through entities. Dave is affiliated with 1st Global Capital Corp. as a Registered Representative holding a FINRA Series 7 and Series 66 licenses and he also holds Life, Accident and Health Insurance licenses which aids in delivering wealth management solutions to individuals and businesses. Dave is member of the Board of Directors for Jewish Family Services. He is a member of the Financial Planning Counselors of WNY, the American Institute of Certified Public Accountants and the New York State Society of Certified Public Accountants. Dave graduated from the State University of New York at Buffalo with a Bachelor of Science degree in Accounting.

