



Newsletter

TAX TIPS

Year-End Tax Planning

*The Reardon Group of Companies:
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Accounting, Tax Planning & Preparation*

*Reardon Consulting, Inc.
Healthcare, Financial & Management Consulting*

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Valuations for Practice Mergers & Acquisitions,
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From Shawn J. Dorsett, Principal

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To Our Clients and Friends:

We've already seen legislation with major tax changes this year, and, even though the year is almost over, more legislation is almost certainly on the way. Despite confusion created by the never-ending changes, the 2010 federal income tax environment is still quite favorable. However, we may not be able to say that for 2011 and beyond. Therefore, tax planning actions taken between now and year-end may be more important than ever. This letter presents some planning ideas to consider while there is still time to act before the year-end. Some of the ideas may apply to you, some to family members, and others to your business.

First of all, the goal of year-end tax planning is to identify strategies that will allow you to pay the lowest overall tax. You should look at your tax situation for at least a two-year period, with the objective of reducing your tax liability for the two years combined rather than just for 2010. Also, it's important to limit tax planning to achieve your financial goals in a tax efficient manner.

- A great way to cut energy costs and save up to \$1,500 in federal 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, furnaces, central A/C units, hot water heaters or boilers, or advanced main air circulating fans to your home during 2010, you may be entitled to a tax credit of 30% of the purchase price. However, the maximum credit you can claim for 2009 and 2010 combined is limited to \$1,500. Absent Congressional action, the credit won't be available after 2010.
- If you're a shareholder in a closely held C corporation and the company pays you a taxable dividend this year, the maximum federal rate is only 15% (it is 0% to the extent you are in the 10% or 15% ordinary income tax brackets). However, this may well change in the near future. Thus, now may be a good time to convert some of your C corporation wealth into cash at a very manageable tax cost (and possibly none at all). Although the current administration has stated that it wants to hold the rate to 20%, unless Congress acts soon, the maximum federal rate on dividends is scheduled to skyrocket from the current 15% to 39.6% starting with 2011.
- If you own your own business and have plans to buy office furniture or equipment, or make certain improvements to real property, you might consider doing so before year-end to take advantage of the increased 179 deduction. Thanks to the Small Business Jobs Act passed in late September, for tax years beginning in 2010 and 2011, the maximum Section 179 deduction is a whopping \$500,000 (assuming qualifying property placed in service during the year does not exceed \$2 million). Furthermore, for the first time, up to \$250,000 of some types of real property can qualify, including restaurant buildings and improvements made to interiors of retail and leased nonresidential buildings.
- If your company has Flexible Spending Accounts (FSAs), before year-end you must specify how much of your 2011 salary to convert into tax-free contributions to the plan. You can then take tax-free withdrawals next year to reimburse yourself for out-of-pocket medical and dental expenses and qualifying child care costs. Watch out, though, FSAs are "use-it-or-lose-it" accounts—you don't want to set aside more than what you'll likely have in qualifying expenses for the year. And, starting in 2011, over-the-counter drugs (e.g., aspirin and antacids) will no longer qualify for reimbursement by health FSAs so you may need to consider that when you determine your 2011 contribution amount.

- If it looks like you are going to owe income taxes for 2010, consider bumping up the Federal income taxes withheld from your paychecks now through the end of the year. When you file your return, you will still have to pay any taxes due less the amount paid in. However, penalties will be minimized, if not eliminated.
- Depending on your AGI, you may get more tax-saving benefit from accelerating into 2010 your state and local tax payments that are due early next year and some charitable donations that you'd normally make in 2011. However, things get a bit tricky if you'll be subject to the AMT this year. Please contact us if you have questions about the advisability of accelerating itemized deductions into this year.
- As you evaluate investments held in your taxable brokerage firm accounts, consider the impact of selling appreciated securities this year instead of next year. The maximum federal income tax rate on long-term capital gains from 2010 sales is 15%. However, that low 15% rate only applies to gains from securities that have been held for at least a year and a day. In 2011, the maximum rate on long-term capital gains is scheduled to increase to 20%. That will happen automatically unless Congress takes action, which looks increasingly unlikely right now.

To the extent you have capital losses from earlier this year or a capital loss carryover from pre-2010 years (most likely from the 2008 stock market meltdown), selling appreciated securities this year will be a tax-free deal because the losses will shelter your gains. Using capital losses to shelter short-term capital gains is especially helpful because short-term gains will be taxed at your regular rate (which could be as high as 35%) if they are left unsheltered.

Important Point: Selling enough loser securities to create a big net capital loss that exceeds what you can use this year might turn out to be a pretty good idea. You can carry forward the excess net capital loss to 2011 and beyond and use it to shelter both short-term gains and long-term gains recognized in those years. This can give you extra investing flexibility in future years because you won't necessarily have to hold appreciated securities for over a year to get better tax results. Remember: It's widely expected that the maximum federal income tax rate on long-term capital gains will be increased to 20% after 2010 (up from the current 15%). Also, the top two federal rates on ordinary income, including short-term capital gains, are scheduled to be increased starting in 2011 to 36% and 39.6% (up from the current 33% and 35%). Contact us if you want help in identifying your best tax-smart options in a world where future tax rates are uncertain, but likely are heading higher.

- The tax laws generally require individuals with retirement accounts to take withdrawals every year after they reach age 70^{1/2}. Failure to take a required withdrawal can result in a penalty of 50% of the amount not withdrawn. A temporary tax law change waived the minimum distribution requirement for 2009 only. This waiver does not apply for 2010. So, if you are age 70^{1/2} or older, you generally must take your required distribution before the end of the year to avoid the penalty.
- 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.

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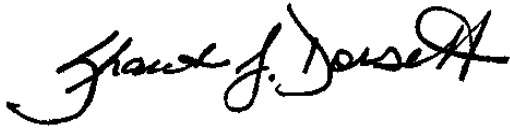
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Conclusion

As we said at the beginning, this letter is intended to give you just a few ideas to get you thinking about tax planning moves for the rest of this year. Please don't hesitate to contact us if you want more details or would like to schedule a tax planning strategy session. We are at your service!

Very truly yours,
Weiss + Reardon & Company, P.C.



Shawn J. Dorsett
Principal

If you would prefer to receive future newsletters electronically (or to be removed from our mailing list), send your request via e-mail to rg@thereardongroup.com



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