

Tax Moves 2010 – Part 2

By: Bruce Hosler EA, CFP[®], and AIF[®]

Client Update Meeting

November, 11 2010

- 1. Itemizers can bunch expenses so they can take the standard deduction one year, and itemize the next.** By choosing to bunch itemized deductions in alternating years, taxpayers that are close to itemizing, maybe able to achieve a better result by itemizing every other year.
- 2. Shift expenses from one year to the next, or vice versa.** By timing (accelerating or delaying) mortgage payments, medical elective procedures, and charitable donations etc... Taxpayers may be able to benefit by achieving an overall lower tax rate (i.e. if you think that tax rates for you will be higher next year, you may want to delay some deductions into that higher tax year).
- 3. Make donations of appreciated stock which you have owned for more than one year.** If you have appreciated long term stock positions, you can donate the stock itself, and take the deduction of the appreciated valued, without having to declare or recognize the appreciation (capital gain) on your tax return. If you sell it first, you will recognize the capital gain and owe the tax.
- 4. Use loss carry forwards to offset capital gains, by selling winners and using the loss carry forwards to offset those gains.** If you have loss carry forwards from a prior year (look at your schedule D), you can sell positions with a gain this year and not recognize capital gains until your loss carry forwards are used up.
- 5. Sell positions that are losers to take advantage of tax loss harvesting.** If you have investment positions that have unrealized losses, sell them before the end of the year to harvest the loss. \$3,000 of losses (except for MFS \$1,500), can be used each year to offset ordinary income. You may want to try and at least make sure you are taking this deduction each year if available to you. Excess losses above this amount can be carried forward until used up, or used to offset capital gains in the current year.
- 6. Boost withholding if you are likely to face an underpayment penalty.** If you may be facing an underpayment penalty (you did not make your estimated tax payments on time or in the right amount), you can take an IRA distribution in November or December and boost the tax withholding and possibly avoid an underpayment penalty. You need to withhold 90% of this year's tax bill, or 100% of your 2009 tax liability, or 110% of your 2009 tax liability if your AGI was over 150K for 2009. (Example, take an IRA distribution and withhold the whole amount for Federal tax and or State income tax).

7. **The IRS can now offset a tax refund against a proposed tax bill for a prior year according to a recent ruling of the tax court** (Perry, TC Memo. 2010-219). The taxpayer was audited and the IRS determined he owed more tax. In the interim before the 90 day period to contest the determination in tax court was up, the IRS took (seized) a refund he had coming from a current year tax return, and applied it to what they said he owed. The tax court upheld the offset. This means you may want to plan your taxes so that you are never really ever getting a large refund, as it would always be at risk of being confiscated by the IRS – even before you had your day in court.

8. **Energy Tax Credits.** (Credits save taxes dollar for dollar) A 30% tax credit is available for 2010 for energy efficient improvements such as (insulation, qualifying windows and doors) that you make to your principal residence. It also includes some energy-efficient equipment installed including furnaces, water heaters, and air conditioning units. The credit is aggregated for 2009 and 2010 with a combined cap of \$1500 which applies to both years. So, if you have claimed the full credit in 2009, it will not be available to you in 2010. If you have as yet to use the full credit, then it can be a great tax move before the end of the year.

9. **Special new depreciation rules for business.** Federal only. Business (rental property owners) and self-employed individuals can now take a special 50% first year depreciation deduction for qualifying property purchased and placed in service by the end of 2010. The section 179 depreciation deduction maximum amount that can be expensed was increased for both 2010, and 2011.

Bruce Hosler EA, CFP® AIF® is a Personal Wealth Manager and helps Retirees and Widows make smart financial decisions. As an Enrolled Agent and a CERTIFIED FINANCIAL PLANNER™ professional, Bruce combines his knowledge and experience of both disciplines to provide advanced tax, financial planning, and wealth management services. He specializes in IRA and retirement planning issues, and is a member of Ed Slott's National Elite IRA Advisor Group. He lives in Prescott AZ with his wife and four children and has practiced in the area for 13 years. Bruce is active in Boy Scouts, loves to play golf and all outdoor activities. He can be contacted at:

Hosler Wealth Management LLC, 973 W Gurley Street, Prescott AZ 86305 (928) 778-7666

Website: www.hoslerwealthmanagement.com email: bruce@hoslerwealthmanagement.com

Securities and Advisory Services offered through Commonwealth Financial Network® Member FINRA/SIPC, a Registered Investment Adviser