

Tax Moves 2010 !

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

Client Update Meeting

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1. Cash in on low capital gains rates - Through the end of 2010.

- a. Zero (0%) tax on capital gains if you are in the 15% tax bracket on your other ordinary income.
- b. Maximum long term capital gains rate for 2010 is 15%, but only through the end of 2010. Sell positions with an unrealized gain in taxable accounts before year end to take advantage of this historically low tax rate.

2. Roth conversion 2010 – Split income recognition over the next two year. THIS IS ONLY AVAILABLE FOR 2010 CONVERSIONS.

New (option available this year only).

- a. Convert this year and you have the choice to recognize the income in 2010, or over the next two years. This decision does not have to be made until you file your 2010 tax return (including extensions). OR
- b. Convert this year and recognize 50% of the income in 2011, and the other 50% in 2012.
- c. You will recognize income at the future tax rates in effect in 2011 & 2012.
- d. If you set the Roth IRA up in a new account, you can easily re-characterize the Roth IRA account back to a Traditional IRA if need be, and not recognize the conversion amount, or any portion thereof if you choose a partial re-characterization.
- e. Many tax planners feel it is a good idea to convert some of your IRA this year before tax rates go up.
- f. If you may be subject to estate taxes (death tax) converting your Traditional IRA to a Roth you will lower your taxable estate, because you will have paid the tax on the Roth conversion.

3. Roth conversions now available to high income taxpayers. (New)

- a. Starting with 2010, ANY taxpayer with a Traditional IRA may now convert some, or all, of their Traditional IRA to a Roth IRA, no matter their income or tax bracket.
- b. This is the first year this option has been made available to those with MAGI (Modified Adjustable Gross Income) of 100K or more.

4. Use the tax bracket method – Roth conversion plan for the biggest tax benefit.

- a. The tax bracket Roth conversion plan involves looking at what tax bracket you will be in each year, and then converting enough of your Traditional IRA to use up the rest of your tax bracket.
- b. A good example is the 15% tax bracket. If you can convert, let's say \$10,000 this year, and still stay in the 15% tax bracket, you have assured that the \$10,000 Roth conversion amount will never be taxed at more than the 15% rate. The conversion didn't push you into a higher tax bracket, and you used up the entire 15% tax bracket that was available to you in 2010. This planning allows you to use the full amount of

income allowed at the 15% tax bracket rate, thus taking advantage each year of the maximum amount that can be included within each tax bracket. Over a long period of time, this will help you include as much income as possible in the lower tax brackets.

5. Dividends will be taxed at ordinary income rates in 2011

- a. Dividends currently receive favorable tax treatment. At the end of 2010 that expires and dividends will be taxed at your ordinary income tax rate.

6. Estate tax rates look like they will revert back to the \$1 million dollar exemption amount on January 1, 2011.

- a. If you have an estate value (all of your assets combined including life insurance) in excess of \$1 million dollars, you should start looking at what estate planning you may want to put in place in order to protect your family.
- b. Contingent and Tertiary Beneficiary designations on larger IRA's, 401(k)'s, annuities, and life insurance become very important when combined with a living trust with disclaimer and A/B split provisions.

7. Charitable non-cash donations.

- a. Make your non-cash pre-Christmas cleaning a tax advantaged activity, by donating all that junk /stuff you have been wanting to get rid of to your favorite charity.

8. Section 529 College Plan Deduction (Arizona State)

- a. Beginning January 1, 2008, Arizona began providing a deduction to gross income for cash contributions to both Arizona and non-Arizona Section 529 College Savings Plans. The maximum amount of the deduction is \$750 for single taxpayers or heads of household, and \$1500 for married taxpayers.
- b. This deduction was only made available for 5 years, and is currently available for 2010, 2011, and 2012.

9. Arizona tax credits you don't want to miss - Take advantage of these before the end of the year!

- a. School tax credit (Public Schools)
- b. Charities for the working poor
- c. Private tuition organizations
- d. Others Credits that you may qualify for. (Energy Credits, etc...)

10. Tax moves to consider before the end of the year:

- a. Contribute to retirement plans at work.
- b. Bunch medical expenses in this year, or delay until next year.
- c. Pre-pay variable deductible expenses
 - i. Property Taxes
 - ii. Auto Registration
 - iii. Medical Insurance, Dr. bills, etc...
- d. Sell investments with gains equal to amount of losses less 3K (ordinary income amount)

11. Health Care (Obama Care) tax issues. (Just some to be aware of).

- a. 2013 the itemized deduction for medical expenses threshold limitation will be raised from the current 7.5% of AGI to 10% of AGI.

- b. 2013 Medicare tax rate will increase to 2.35% from the current 1.45% on earnings over \$200K individual, \$250K for families.
- c. 2013 for the first time Medicare tax of 3.8% will be imposed on unearned income.
- d. 2014 requirement to buy health care insurance or pay a fine of \$95 dollars per person up to \$285 per family, or 1% of taxable income, whichever is greater.

12. Bush Tax cuts expire 12/31/2010 – some of the tax items that will be affected.

- a. Marriage Penalty is back.
- b. Tax bracket rate increases 10, 25, 28, and 33 % rates become 15, 28, 31, 36, and 39.6 % rates.
- c. Indexing for the Alternative Minimum Tax would end.
- d. Tax rates on capital gains and dividends go back up and will be taxed at ordinary income rates.
- e. Estate tax rates go back to only the \$1 million exemption amount and a 55% tax rate.
- f. Higher income tax payers will most likely hit phase outs on certain itemized deductions getting limited on those deductions.

13. IRS enforcement – (NEW!)

- a. It appears that thousands of taxpayers will begin to receive so-called soft notices from the service when it finds discrepancies between their returns and information shown on 1099's. We have seen a large uptick in the number of automatically generated computer matching letters. Many of these have had mistakes and inaccuracies. Do not assume they are correct, bring in the letter and let us review it.

14. 3.8% Medicare surtax will not apply to all home sale profits after 2012.

- a. We have seen, and received, emails saying that gains on all home sales will be hit by a 3.8% tax.
- b. That is not correct.
- c. Most gains on the sale of primary residences will be exempt. Only a portion of profits that exceed the \$250,000 or \$500,000 exclusion will be subject to the tax. Only higher income taxpayers will owe the surtax...single taxpayers with an adjusted gross income (AGI) over \$200,000 or joint filers with an AGI above \$250,000.
- d. The 3.8% surtax is levied on the smaller of the filer's net investment income (including taxable capital gains) or the excess of the Taxpayers AGI over the threshold amounts above.
- e. Here is the key! Profits on the sales of rental properties and second homes will be hit by the surtax, assuming the seller's AGI is large enough.

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

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