

# Tax Highlights

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As 2009 nears an end, it's a good time to take stock in your tax situation and focus on year-end tax planning. First and foremost, if you're trying to reduce your overall income taxes, look for ways to defer income to a future year and accelerate deductions into the current year. Here are some additional ideas you may find useful.

## **Individual Retirement Plans – IRAs**

The Worker, Retiree, and Employer Recovery Act of 2008 waived the need for taking required minimum distributions (RMDs) for calendar year 2009. The waiver applies to all qualified plans, such as IRAs, 401(k) plans, 403(b) plans, etc. Under normal circumstances, RMDs are required for the year a taxpayer reaches age 70-1/2 and all subsequent years. RMDs will once again be required in 2010.

Taxpayers who have taken an RMD distribution in 2009, prior to knowing about the 2009 waiver, have until November 30, 2009 to move the money back to the retirement account without having to pay tax per IRS Notice 2009-82. Unfortunately, if multiple distributions were made during 2009, only one of the distributions can be rolled back into an IRA.

In 2009, taxpayers who have reached age 70-1/2 are still permitted to make tax-free trustee-to-trustee contributions from their IRA to a qualified charitable organization of up to \$100,000.

In addition, starting in 2010 (and ONLY 2010) all taxpayers owning traditional IRA's may convert them to Roth IRA's. Now, and again after 2010, only taxpayers with AGI under \$100,000 are eligible to make this conversion. The amount of the conversion will be taxable as ordinary income in 2010; however, an election can be made to pay the tax on the conversion amount ratably over two years (2011 and 2012) using the tax rates effective for each of those years. The 10% early withdrawal penalty does not apply for such conversions. Make your decision carefully, however. President Obama is proposing reinstatement of the top two tax brackets that existed prior to 2001: 36% and 39.6%, and they would take effect after 2010.

## **1040 Returns**

As in 2008, state sales tax can still be used as an itemized deduction in place of state and local income taxes. The additional standard deduction available to non-itemizers for property taxes has also been extended through 2009.

The American Recovery and Reinvestment Act of 2009 created some new tax savings.

For years 2009 and 2010, eligible individuals are allowed a refundable tax credit equal to the lesser of 6.2% of earned income or \$400 (\$800 for joint filers). The credit is phased out for individuals with modified adjusted gross income (MAGI) above \$75,000 (\$150,000 for joint filers). Withholding tables have been modified to reflect this credit in tax withheld from taxpayer's paychecks.

Most individuals receiving social security, railroad retirement or veterans benefits will be eligible for a one-time \$250 economic recovery payment.

The first-time homebuyer credit has been extended to principal residence purchases before December 1, 2009. Unlike the previous credit which had to be repaid, the new credit only needs to be repaid if the residence is sold within 36 months after the purchase. The new credit is also increased from \$7,500 to \$8,000.

For purchases of eligible new motor vehicles between February 17, 2009 and January 1, 2010, the sales tax paid on the purchase is deductible as an itemized deduction or as part of the standard deduction. The deduction is phased out for taxpayers with MAGI between \$125,000 and \$135,000 (\$250,000 and \$260,000 for joint filers).

The Hope Credit has been expanded for 2009 and 2010. Now referred to as the American Opportunity Tax Credit, it equals the sum of 100% of the first \$2,000 of qualified tuition and related educational expenses plus 25% of the expenses over \$2,000 but not more than \$4,000. This credit is phased out for taxpayers with MAGI between \$80,000 and \$90,000 (\$160,000 and \$180,000 for joint filers).



An increasingly occurring tax for many taxpayers is the Alternative Minimum Tax (AMT). For tax years beginning in 2009, AMT exemption amounts are increased to:

- \$70,950 for married couples filing a joint return and surviving spouses
- \$46,700 for single individuals
- \$35,475 for married individuals filing separate returns.

For tax-exempt, private-activity bonds issued in 2009 or 2010, interest earned will not be subject to the AMT. Prior to 2009, such interest was considered a tax preference item and increased AMT income.

We provide this information to help spark ideas you may find to be useful and of interest. It is not, however, intended to be, nor should you rely on it, as tax advice. Before making decisions regarding your own tax situation, please consult your tax advisor for guidance.

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