

## 20 Top Tax Strategies for Year-end

Do not miss out on valuable tax-planning strategies at the end of the year. Although everyone's situation is different, here are 20 popular ideas for individuals and small-business owners.

### Ten Tax Savers for Individuals

1. Realize capital gains. The maximum tax rate of 15% on net long-term capital gain is scheduled to increase to 20% in 2011 (from 0% to 10% for certain low-income taxpayers). Thus, it may make sense to sell appreciated securities before the end of the year. If you have capital loss carryovers from a prior year, they can be used to shelter any capital gains realized this year.
2. Harvest tax losses. Conversely, when the situation warrants, a taxpayer may realize losses from securities sales at year-end. The losses can offset capital gains plus up to \$3,000 of ordinary income in 2010. Any excess loss is carried forward.
3. Consider charitable giving. Year-end gifts made to qualified charitable organizations may be deducted in full if substantiation rules are met. Note: Donations by credit card are deductible in 2010 if the account is charged before 2011.
4. Adjust income tax withholding. Normally, an employee must pay a penalty if the requisite amount of income tax is not paid through withholding. But an "estimated tax penalty" may be avoided if payments equal 90% of 2010 liability or 100% of 2009 liability (110% if AGI was above \$150,000).
5. Downsize kiddie tax. Under the "kiddie tax," earned income received by a child in 2010 is taxed at the parents' top tax rate to the extent it exceeds \$1,900. This tax generally applies to children under age 19 (age 24 for full-time students). Try to keep unearned income below or near the \$1,900 level.
6. Generate energy credits. A residential energy credit may be claimed for 30% of the cost of energy-saving installations. The list of qualified expenses ranges from skylights to furnaces to insulation. The maximum credit is \$1,500 for expenses incurred in 2009 and 2010.
7. Minimize the AMT. A taxpayer owes the alternative minimum tax (AMT) for 2010 if a special calculation exceeds regular income tax liability. The top AMT rate is 28%. When warranted, AMT liability may be reduced or eliminated by postponing certain "tax preference" items.
8. Price out hybrid vehicles. The "alternative motor vehicle credit" is available for purchases of certain hybrid vehicles before 2011. The credit amount depends on the vehicle's fuel economy. Caveat: Credits are phased out for some of the more popular models.

9. Pay college tuition. For 2010, parents of college students may benefit from the revamped "American Opportunity Tax Credit." The maximum \$2,500 credit is phased out for high-income taxpayers. Note: The increased credit amount is available for tuition paid in 2010 for education furnished in an academic period beginning in 2009 or 2010.

10. Convert to a Roth IRA. Restrictions on Roth IRA conversions for high-income taxpayers have been removed. For a conversion in 2010, the taxable income resulting from a conversion may be split evenly over the next two years—2011 and 2012. Consult a professional adviser for details.

#### Ten Tax Savers for Small-business Owners

11. Utilize Section 179. Under Section 179 of the tax code, a business may currently deduct the cost of qualified property placed in service during the year. The maximum allowance of \$250,000 for 2010 is scheduled to drop to \$25,000 next year.

12. Maximize depreciation deductions: Other property may be depreciated under the regular depreciation rules. But watch out for a tax trap: If the cost of property (other than real estate) placed in service during the last quarter exceeds 40% of the cost for the year, deductions may be reduced.

13. Map out travel plans. Travel expenses incurred by employees—including airfare, lodging and 50% of meals—are generally deductible if the trips are business-related. When it is warranted, move up travel planned for early 2011 to late 2010.

14. Collect bad debt deductions. As a general rule, bad business debts are deductible only when they become worthless. To bolster deductions, keep detailed records of collection efforts showing the worthlessness of debts.

15. Nail down repairs. If a business makes repairs before year-end, it can deduct them on its 2010 return. In contrast, capital improvements to the business premises must be capitalized. To preserve current deductions, implement separate plans for repairs and major renovations.

16. Add corporate donations. A corporation can generally deduct charitable donations up to 10% of its taxable income for the year. Note: Certain enhanced tax breaks for gifts of food, books and computers have expired but may be extended by new legislation. If the corporation is an S-Corporation, the donations pass through to the shareholders and are deductible on their individual income tax returns.

17. Produce Section 199 deductions. The Section 199 "manufacturing" deduction may be claimed by certain business owners. For 2010, the deduction equals 9% (up from 6%) of the lesser of taxable income from qualified production activities or taxable income. Consult a tax adviser for requirements.

18. Time year-end bonuses. Normally, a corporation must deduct employee bonuses in the year they are paid. But an accrual-basis corporation generally may deduct bonuses in the current year, as long as they are paid within 2½ months of the close of the tax year.

19. Get tax breaks for new-hires. Under the Hiring Incentives to Restore Employment (HIRE) Act, an employer may be exempt from the 6.2% Social Security tax on wages of a previously unemployed worker. Also, the employer may qualify for a special tax credit for retaining the worker. Both tax breaks expire for workers hired after 2010.

20. Target disadvantaged workers. A business may also qualify for the Work Opportunity Tax Credit (WOTC) if it hires a worker from certain disadvantaged groups. The maximum WOTC is \$2,400 per worker. Caveat: This credit must be coordinated with HIRE Act benefits.

Note that certain tax rate increases are scheduled for 2011, but they may be postponed or modified by new legislation. Obtain professional assistance before implementing any year-end tax-planning strategies for 2010.