

## Five Ways to Cut 2010 Tax Bills

Although the federal income tax filing deadline of April 18, 2011, is fast-approaching, there are still several ways to reduce 2010 tax liability. Here are five prime examples.

1. Roth IRA conversions: Beginning in 2010, taxpayers can convert funds in a traditional IRA to a Roth, regardless of their income level. Previously, conversions were not permitted for someone with an adjusted gross income (AGI) above \$100,000. Furthermore, for a conversion occurring in 2010, a taxpayer can choose between paying the entire tax from the conversion up front or having the taxable income split evenly between the following two years—2011 and 2012. Note: In most cases, the “split” option is preferable, especially now that low income tax rates have been reinstated for the next two years.

2. Sales-tax deductions: Instead of deducting state income tax, a taxpayer can write off the state sales tax paid in 2010. This optional tax deduction, which had expired after 2009, was retroactively reinstated by the 2010 Tax Relief Act. After comparing the amounts, a taxpayer can deduct the bigger of the two. An IRS-approved table may be used to compute the state sales tax amount. Note: If the taxpayer chooses the sales-tax deduction, he or she may add the sales tax on cars, boats and home-building materials to the IRS table amount.

3. Business property: Under the Small Business Jobs Act of 2010, the maximum Section 179 deduction is \$500,000 for tax years beginning in 2010, with a phaseout threshold of \$2 million. But the Section 179 deduction is limited to taxable income from business activities. If this limit applies, a taxpayer may still claim 50% bonus depreciation for qualified business property, plus a regular depreciation deduction. Note: The 2010 Tax Relief Act increases bonus depreciation to 100% for certain property.

4. Capital losses: A capital loss from past years can be carried forward until it is exhausted. For example, if a taxpayer suffered a stock loss in 2009, he or she can use the excess loss to offset capital gains in 2010, plus up to \$3,000 of ordinary income. Any remainder can still be carried forward. Note: The “wash sale” rule prohibits investors from claiming a loss from securities sales if he or she acquired substantially identical securities within 30 days of the sale.

5. Separate returns: Normally, a married couple will benefit from filing a joint return, but that is not always true. In some cases, a couple may do better overall by filing separate returns. For instance, a married couple may save tax by filing separate returns if one spouse has an exceptionally large proportion of the couple's medical and dental expenses, miscellaneous expenses or casualty losses. Reason:

Those deductions have certain “floors” that are difficult to exceed jointly, but might be exceeded by one spouse. Note: Filing separately might affect other federal income tax benefits and state income tax returns.

Of course, every taxpayer’s situation is different. Consult a tax professional concerning these tax return elections.