



How to Maximize Tax Savings in 2009

As we are approaching the end of the year, it is a good time to think of planning moves that will help lower your tax liability this year and possibly the next. Factors that compound the challenge include the stock market's decline, the current economic climate, and the likelihood that there will be more tax changes in the next few years. The following is a checklist of actions based on current tax rules that may help you save tax dollars if you act before December 31, 2009:

Businesses

- Businesses should consider making capital expenditures that qualify for the Section 179 deduction, which allows companies to take full deductions for the costs of qualified assets immediately, rather than depreciating the assets over their useful lives. The maximum Section 179 deduction in 2009 is \$250,000 for qualified assets bought and placed in service this year. In 2010, however, the maximum amount will drop to \$134,000 for qualified assets bought and placed in service during 2010. Businesses should also consider making capital expenditures that are eligible for the 50% bonus first year depreciation if bought and placed in service this year. This bonus write-off generally won't be available next year.

Healthcare

- Increase the amount of your employer's flexible spending account (FSA) or cafeteria plan contributions in 2010 if you have set aside too little for this year.
- If you are enrolled in a High Deductible Health Plan (HDHP), you may make contributions to a health savings account (HSA), a tax-advantaged medical savings account. If you are eligible to participate in an HSA as of December 2009, you can still make a full year's worth of deductible HSA contributions for 2009 before December 31st.

Homeowners

- If you are a homeowner, making energy-saving improvements to the residence, such as putting in extra insulation or installing energy-saving windows, entitles you to a tax credit. Other substantial tax credits are available by installing energy-generating equipment, such as solar electric panels or solar hot water heaters, to your home.
- If you or other family members are thinking of becoming a first-time homebuyer, make the purchase before December 1st, in order to qualify for a tax credit up to \$8,000.

Seniors

- If you are age 70 1/2 or older, own IRAs (or Roth IRAs), and are thinking of making a charitable gift, having the gift transferred directly from your IRA account to the charitable organization can generate significant tax savings. Contact your bank or account broker for assistance.
- If you are age 70 1/2 or older and took a distribution from a retirement plan or IRA earlier this year, you may be able to avoid tax on this payout by rolling the funds over into an eligible retirement plan (including an IRA) before December 1st.
- If you are receiving Social Security benefits, there are a number of steps you can take by working with your accountant to reduce or eliminate tax on your benefits.

Individuals

- Postpone income until 2010 and accelerate deductions into 2009 to lower your 2009 tax liability.
- If you own an interest in a partnership or S corporation and the business entity incurs a tax loss in the current year, you may want to contribute or loan more money to the entity so you can deduct the loss (referred to as a “pass-through deduction”) in the current year, since the additional capital contribution and loan will increase your tax basis in the business entity.
- If you expect to owe state income taxes for 2009, consider asking your employer to increase your state tax withholding from your December payroll checks (or make a 2009 state estimated tax payment prior to January 15, 2010) to pull the deduction of those taxes into 2010, if doing so won't create an alternative minimum tax (AMT) problem (see the next tip).
- Estimate the effect of any year-end planning moves on the AMT calculation for 2009, keeping in mind that many tax breaks allowed for purposes of calculating regular taxes are disallowed when determining if AMT is due.
- Those facing penalties for underpayments of federal estimated taxes may be able to eliminate or reduce these charges by increasing the federal tax withholding from their December payroll checks.
- If you plan to claim the state and local general sales tax deduction (based on sales taxes paid on items purchased) instead of the state and local income tax deduction (based on state and local income taxes withheld from payroll checks or paid through state estimated tax payments), acquire big-ticket items in 2009 to ensure a deduction for sales taxes on the purchases. If you are planning to buy a car, for example, do so before December 31st, in order to take a deduction for state sales tax and excise tax on the purchase.
- Consider making advance payments for certain miscellaneous expenses in December, such as extending subscriptions to professional journals, paying union or professional dues, enrolling in (and paying tuition for) job-related courses, in order to increase your 2009 miscellaneous itemized deductions. If the total of these miscellaneous itemized deductions exceeds 2% of your adjusted gross income (AGI), you can deduct the portion of these miscellaneous expenses that is in excess of that 2%.
- You may be able to save taxes this year and in 2010 by applying a bunching strategy to increase “miscellaneous” itemized deductions, medical expenses and other itemized deductions.

Individuals (Continued)

- If you are self-employed and do not have a self-employment retirement plan, consider establishing a Simplified Employee Pension (SEP) Plan.
- You can save gift and estate taxes by making gifts sheltered by the 2009 annual gift tax exclusion of \$13,000, which is the amount you can give to an individual before the gift is considered to be taxable. Prior to December 31st, you can give an unlimited number of individuals \$13,000 each, but you can't carry over unused exclusions from one year to the next.

Businesses Must File “Use Tax” Returns by April 15, 2010

A recent change in California law requires many businesses that do not currently hold a seller's permit to register with the Board of Equalization (BOE) and report and pay any use tax due from purchases made in 2009 by April 15, 2010. Use tax is equivalent to sales tax which generally applies to purchases made from out-of-state vendors. Taxpayers who are required to register must file a form BOE-401-A, *State, Local, and District Sales and Use Tax Return*, or a BOE-401-EZ, *Short Form - Sales and Use Tax Return*, even if no use tax is owed.

A business that meets all the following tests must register with the BOE:

- is not currently required to hold a seller's permit with the BOE;
 - is not previously required to be registered, and is not otherwise registered with the BOE;
 - is not a holder of a use tax direct payment permit; and
- receives at least \$100,000 in gross receipts per year from business operations.

The new law applies to purchases made during the 2009 calendar year. Returns to report use tax on 2009 untaxed purchases are due on April 15, 2010. Some businesses may not have kept track of their purchases that were subject to use tax and may have a difficult time determining their correct use tax liability.

The BOE will begin sending out letters to taxpayers in the next few months, informing them of the new registration requirements. On the letter, the taxpayer will be asked to verify contact information, and the BOE will then establish an account. The BOE will send an account number and log-in information to the taxpayer so the use tax return can be filed online. If taxpayers do not respond to the letter, the BOE will register them automatically. The legislation has not provided any specific penalty for not registering. If taxpayers no longer meet the registration requirements, they should contact the BOE immediately after letters are received.

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After the taxpayers are registered, the BOE will ask them to verify that they reported and paid their use tax for 2007 and 2008. The BOE most likely will waive any penalties on unpaid use tax for 2007 and 2008, but the taxpayers are still required to pay the interest. Registered taxpayers will also be required to file a use tax return for 2009 and later years, even if they do not owe any tax. There is no penalty for failure to file a use tax return if there is no tax due. However, there is a penalty if the taxpayer fails to file and pay their use tax if there is amount due. The penalty is 10% of tax owed plus interest.

Fraudulent Letter from Sacramento

There have been mass mailings of a letter from a private company in Sacramento to update entity information with the California Secretary of State. The letter is addressed to the business entity. Each letter "assessed" different fee amounts that were "due" on different dates and also with different return addresses in Sacramento. The fees ranged from \$235 to \$245. The letter appears to be official correspondence and one could easily conclude that the amount should be paid as owed to the government. Based on verification with the California Secretary of State office, these letters were not issued by the State and are fraudulent.

IRS Working with State and Local Governments to Uncover Gifts of Real Estate

The IRS Estate and Gift Tax Program recently started working with state and county authorities in several states to determine if real estate transfers reported to them are considered unreported gifts. Although a tax may not be due, a gift tax return may still be required if the annual exclusion amount applies to the transfer of real estate. Penalties will be imposed by the IRS on the delinquent taxable gift tax returns.

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Convert Unused Gift Card Balances to Charitable Donation

The unwanted gift card or the card with just a few dollars left on it can be converted to a tax-deductible contribution to schools. A website dedicated to converting gift cards to cash has teamed up with a website dedicated to making donations to schools. At www.plasticjungle.com, an individual with an unused card, or a card with a remaining balance, can convert that card to a DonorsChoose.org Charity Gift Card. After logging onto that website, you will go to "sell" and then "cash in now." From there, enter the gift card information, then request to get a DonorsChoose.org Charity Gift Card by email. The seller can then visit www.donorschoose.org and choose from a variety of schools and school projects to donate the money from the gift card.

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