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# Year-end Tax Planning Ideas

Despite the confusion created by never-ending legislative changes, the current federal income tax environment still offers some significant planning opportunities. Now is the time to take advantage of the tax breaks Congress has provided before they disappear. This article presents a few key tax planning ideas to consider before year-end. Some of the ideas may apply to you, some to family members, and others to your business.

**Cash in on First-time Homebuyer Credit.** Legislation enacted in 2008 created a temporary tax credit for so-called first-time homebuyers (basically, taxpayers who haven't owned a principal residence in the last three years). Stimulus legislation enacted earlier this year extended the credit provision to cover qualified home purchases through November 30, 2009, and made the maximum credit amounts a bit more generous. More importantly, the stimulus legislation also deleted a previous requirement to repay the credit over 15 years.

For a qualified principal residence purchased between January 1, 2009, and November 30, 2009, the maximum credit equals the lesser of: (1) 10% of the purchase price of a principal residence, (2) $8,000, or (3) $4,000 for those who use married filing separate status. The credit can be used to offset your federal income tax bill, including any Alternative Minimum Tax (AMT). The credit is also refundable,

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which means that after your tax bill has been reduced to zero, you are allowed to collect any leftover credit amount in cash. Note that the credit begins to phase out when your income reaches $75,000 ($150,000 for joint filers).

**Tax Break for Buying New Vehicle.** Thanks to a buyer's market and the following tax break that won't be around forever, now might be a very good time to purchase a new vehicle. Stimulus legislation passed earlier this year created a new federal income tax deduction for state and local sales and excise taxes paid on new (not used) vehicles that are purchased (not leased) between February 17, 2009, and December 31, 2009. The write-off is limited to the amount of taxes on the first

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# New Student Loan Repayment Plan

A new option for repaying federally guaranteed student loans may help some individuals who are struggling to make their monthly payments. The income-based repayment program sets monthly payments that are based on family size and adjusted gross income in relation to the federal poverty level. So, individuals who are unemployed, have low-income jobs, or are burdened by a very large student loan debt may qualify for this new program.

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Under this plan, individuals whose income is less than 150% of the poverty level for their family size would not need to make any payments. If they earn more than 150% of the poverty level, their annual loan payment is capped at 15% of the amount their income exceeds that threshold. (The monthly payment is one-twelfth of that figure.) As a point of reference, for 2009, 150% of the poverty level for a single person is $16,245. So, anyone making less than that amount would qualify for zero payments. After 25 years (10 for most public sector and nonprofit workers), the loan is considered paid off.

Interestingly, there is no income limit for this program. So, anyone who owes more than they earn in a year can qualify. The income-based repayment plan is available for subsidized and unsubsidized Stafford loans, Grad PLUS loans, and certain consolidated Stafford and Grad PLUS loans.

Note that things get more complicated for taxpayers filing jointly, especially if both spouses choose the income-based repayment plan. In some cases, there may also be income tax liability related to loan forgiveness. Additional information about this program can be found on the Federal Student Aid website at **http://studentaid.ed.gov/PORTALSWebApp/students/english/IBRPlan.jsp**.

# College Financial Aid Changes for 2010–2011

The Department of Education recently announced numerous adjustments to the Federal Need Analysis Formula. This is the calculation that takes information from the Free Application for Federal Student Aid (FAFSA) and determines the expected family contribution (EFC). The EFC is the amount each college uses to award federal need-based financial aid.

For 2010–2011, the Income Protection Allowance, the Adjusted Net Worth of a Business or Farm, the Education Savings and Asset Protection Allowances, the Assessment Schedules and Rates, and the Employment Expense Allowance have all been revised.

For example, the Income Protection Allowance for a dependent student has jumped from $3,750 (for 2009–2010) to $4,500 (for 2010–2011). This is the amount of income a dependent student may have in the 2009 calendar year before excess income impacts the EFC. Parents of a dependent student also are permitted an Income Protection Allowance based on the family size and the number of dependents in college.

$49,500 of purchase price. You can claim the break whether you itemize or not, and it's allowed even if you owe the AMT. Qualifying vehicles include almost all passenger autos, pickups, and SUVs, as well as motorcycles and RVs. However, a phase-out rule can reduce or completely eliminate the break for higher-income taxpayers.

**Take Advantage of Generous, but Temporary, Business Tax Breaks**

Several favorable business tax provisions have a limited shelf life that may dictate taking action between now and year-end. They include the following.

**Larger Section 179 Deduction.** Your business may be able to take advantage of the temporarily increased Section 179 deduction. Under Section 179, an eligible business can often claim first-year depreciation write-offs for the entire cost of new and used equipment and software additions. For tax years beginning in 2009, the maximum Section 179 deduction is $250,000 (same as last year). For tax years beginning in 2010, however, the maximum deduction is scheduled to drop back to about $130,000 (depending on the inflation adjustment), unless Congress takes further action. Note that various limitations apply to the Section 179 deduction privilege.

**50% First-year Bonus Depreciation.** Above and beyond the bumped-up Section 179 deduction, your business can also claim first-year bonus depreciation equal to 50% of the cost of most new (not used) equipment and software acquired and placed in service by December 31 of this year. The first-year bonus depreciation break is scheduled to expire at year-end unless Congress takes further action.

**Longer Carryback Period for Net Operating Losses (NOLs).** Stimulus legislation passed earlier this year allows qualifying businesses to carry back NOLs generated in tax years beginning or ending in 2008 for up to five years (versus the two-year carryback rule that usually applies). Therefore, if your qualifying business uses a *fiscal tax year*, you may still have time to take actions that will create or increase an NOL


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for the current tax year. That NOL can then be carried back for up to five years to recover taxes paid in those years.

**Consider Deferring Income**

It may also pay to defer some taxable income from this year into next year, especially if you expect to be in a lower tax bracket in 2010. For example, if you're in business for yourself and a cash-method taxpayer, you can postpone taxable income by waiting until late in the year to send out some client invoices. That way, you won't receive payment for them until early 2010. You can also postpone taxable income by accelerating some deductible business expenditures into this year. Both moves will defer taxable income from this year until next year. Deferring income may also be helpful if you're affected by unfavorable phase-out rules that reduce or eliminate various tax breaks (such as itemized deductions, personal exemption deductions, the child tax credit, the education tax credits, and so forth). By deferring income every other year, you may be able to take more advantage of these breaks in those years.

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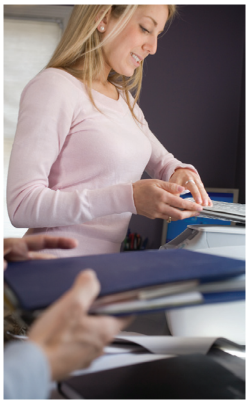
**Note:** For higher-income taxpayers, it may not be advisable to repeat the income deferral drill in 2010, because pushing income from 2010 into 2011 could expose you to higher marginal tax rates in 2011. For that year, it is widely expected that at least the top two federal income tax rates will be increased.

**Conclusion**

As we said at the beginning, this article is intended to give you just a few ideas to get you thinking about tax planning moves for the rest of this year. Please don't hesitate to contact us if you want more details or would like to schedule a tax planning strategy session.

# Retaining Tax Information and Records

Retaining and storing your income tax information and records is an important final step of your tax filing responsibility. This article contains information on the rules for keeping your tax records.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When determining how long to keep most of your income tax information and records, look at (a) the time frame over which the IRS can audit a return and assess a tax deficiency or (b) the time frame during which you can file an amended return. For most taxpayers, this period is three years from the original due date of the return, or the date the return is filed, if later. For example, if you filed your 2008 Form 1040 on or before April 15, 2009, the IRS has until April 15, 2012, to audit the return and assess a deficiency. However, if a return includes a substantial understatement of income, which is defined as omitting income exceeding 25% of the gross amount reported on the return, the statute of limitations period is extended to six years.

A good rule of thumb for keeping tax records is to add a year to the IRS statute of limitations period. Using this approach, you should keep your income tax records for a minimum of four years, but it may be more prudent to retain them for seven years, which is what the IRS informally recommends. State tax rules must also be considered, but holding records long enough for IRS purposes will normally suffice for state tax purposes, assuming the federal and state returns were filed at the same time.

Certain tax records, however, should be kept much longer than described above and some, indefinitely. Records substantiating the cost basis of property that could eventually be sold, such as investment property and business fixed assets, should be retained based on the record retention period for the year in which the property is sold. Tax returns, IRS and state audit reports, business ledgers, and financial statements are examples of the types of records you normally should retain indefinitely.

Keep in mind that there may be nontax reasons to keep certain tax records beyond the time needed for tax purposes. This might include documents such as insurance policies, leases, real estate closing statements, employment records, and other legal documents. Your attorney can provide additional guidance.

We hope this brief overview helps you understand the income tax record retention rules. If you have any questions regarding your specific situation or if you would like to discuss these rules in more detail, please give us a call.