

## Year-End Tax Planning

*By W. Neal Carris, CPA*

This year brought with it a number of tax changes and incentives that may have altered significantly the effectiveness of your tax strategy. If you have not already done so, we recommend that you meet with your tax professional and discuss the implications of these changes on your tax strategy. A year-end tax planning session can be vital to ensuring your tax bill is minimized and your refund is maximized.

Some of the tax strategies you may discuss will have to deal with maximizing your deductions, reducing your taxable income and planning strategies for retirement and charitable giving. When speaking with your advisor about your individual tax planning strategy, you will most likely take advantage of one of the most common ways to reduce your taxable income: deducting the mortgage interest you paid on your home throughout the year. This may impact significantly your tax strategy if you took advantage of 2009's historically low interest rates and refinanced your loan.

You may also want to review your stock positions and determine whether selling a stock, on which you took a loss, before December 31 can assist you in further reducing your taxable income. Conversely, you may want to sell some stocks that rose in value if you believe that your tax rates will rise significantly next year. If you do sell stocks, you must do it before December 31 for any losses or gains to be reflected in your 2009 tax returns.

If you are interested in long-term estate planning, you may want to consider giving to your children or grandchildren. This year, you can gift up to \$13,000 per donor per recipient without triggering gift taxes. Furthermore, you may want to consider contributing to an education savings plan, or a 529 plan, as it allows you to give up to \$13,000 tax free per donor per recipient. You may even be able to take advantage of a rule that allows you to contribute up to 5-years' worth of savings in a single contribution: \$65,000 per donor per recipient.

If you are on the fence regarding the purchase of a new vehicle, the stimulus act passed earlier provides some incentive to make a new vehicle purchase as you can deduct any sales or excise taxes on the vehicle. The deduction is available to itemizers and non-itemizers but does begin to phase out based on income.

If you are a business owner, you should meet with your tax professional to ensure that you are taking advantage of the many tax changes that took place over the course of the last year. For example, you may be entitled to accelerated depreciation on some items; or your business may be able to take advantage of a new limit on its Section 179 deduction. The current limit set by recent legislation is \$250,000 – considerably higher than the approximately \$130,000 to which it is scheduled to be reduced next year. This deduction allows some businesses to claim first-year depreciation write-offs for the entire cost of new equipment and software.

You may also want to consider taking advantage of a longer carryback period for net operating losses as the 2009 stimulus bill has changed the rules regarding this. The legislation allows businesses who had net operating losses in the 2008 tax year to carry back those losses for up to five years. Normally, businesses are allowed only a two-year carryback. If you have a fiscal year-end, you may still have time to take advantage of this provision. Recent legislation now allows 2009 losses to be carried back up to five years.



### SHAREHOLDERS

Martin R. Glickstein, CPA  
[mglickstein@glccpa.com](mailto:mglickstein@glccpa.com)

Rodney S. Laval, CPA  
[rlaval@glccpa.com](mailto:rlaval@glccpa.com)

W. Neal Carris, CPA  
[ncarris@glccpa.com](mailto:ncarris@glccpa.com)

James M. Loomis, CPA  
[jloomis@glccpa.com](mailto:jloomis@glccpa.com)

Mary C. Dantuma, CPA  
[mdantuma@glccpa.com](mailto:mdantuma@glccpa.com)

Bethany K. Lusby, CPA  
[blusby@glccpa.com](mailto:blusby@glccpa.com)

Richard M. Ornstein, CPA  
[ronstein@glccpa.com](mailto:ronstein@glccpa.com)

Paula M. Taylor, CPA  
[ptaylor@glccpa.com](mailto:ptaylor@glccpa.com)

J. Russell Hamlin, CPA  
[rhamlin@glccpa.com](mailto:rhamlin@glccpa.com)

### PRINCIPAL

T. Shepard Burr, CPA  
[sburr@glccpa.com](mailto:sburr@glccpa.com)



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Finally, your business may benefit by deferring income until 2010. Speak with your tax professional about whether you will reap any benefits by postponing your late-December invoices until January. If you are a higher-income taxpayer, it may not be advisable to defer income again in 2010 as it is widely expected that the two highest tax-rate tiers will increase in 2011.

Please contact your tax professional before implementing any of these ideas. He or she will be able to explain fully any implications of the suggestions in this article.