

## Tax Planning for 2010

The following are tips on how to reduce your tax liability for the 2010 Tax Year. Keep in mind of what you hear is happening in the federal government,, This is the term for energy savings!

1. **The energy credit** is big right now! There are certain levels you need to be aware of:

**Residential energy credit (form 5695) includes:**

- i. **Non business energy property credit: Expires 12/31/2010**

1. Insulation, energy efficient windows, metal roofing and other energy efficient building property.

- ii. **Residential Energy Efficient property credit Expires 12/31/2016**

1. This includes just about anything that is solar powered or some other form of alternative energy.

**Did you know that the credit also includes energy efficient Heating and AC systems**

You won't see this on the form, but it is specifically stated in an IRS article that came out on November 3, 2009

Keep in mind it is 30% of the cost for 2009 and 2010 combined. The max is \$1500 for both years.

### **2. Now on vehicles:**

**On Hybrids:** This began with the The Energy Policy Act of 2005

**This expires on 12/31/10** but very likely to be extended.

This credit is a minimum of \$750 to \$3400. It is very specific as to the year make and model of vehicle. So before you buy one, you might want to talk to your CPA (ME:☺)

**On Electric vehicles:** the credit **begins in 2010 starting at \$2500 up to \$7500**

These are plug in electric vehicles. They must be new and four or more wheels. So I guess the ones you see in Austin don't qualify.!

This also applies to Plug in electric drive conversion kits.—that ends 2011

In summary: Think “energy efficient” in everything you do! It will certainly save you money and you just might get a credit for it.!

### **On retirement contributions:**

**3. On the 401K retirement plan:** If you're lucky enough to have an employer that provides it for you, please take advantage of it. It's one of the most valuable tax deductions an individual can take. It's pre-tax. Which means that you do not pay social security or Medicare on it. You pay federal tax on when you reach age 59½. The maximum is **\$16,500 for 2010**.

**4. The Roth retirement contribution** is very popular these days. Mostly because you are not taxed on earnings and you only have to carry it for 5 years before you start taking it without a penalty. You do not get the deduction when you contribute to it but then again you are not taxed when you withdraw after 5 years. But conversions are a different story.

**5. IRA to Roth IRA conversion.** With a Roth, you can benefit through tax free growth, no required minimum distributions and tax free distributions. You would have to pay the tax when you convert and the income from the rollover is taxed with your regular income. **The good thing about this is that for 2010 income, you can split the tax over 2011 and 2012.** By splitting you can be put in a lower tax bracket and you have two years before the tax is due.

**6. Capital gain rates** are now reduced. **For 2010, capital gain rates can even be 0% if you are in the 10% income tax bracket and 5% if you are in the 15% bracket.** If you have any appreciated stocks, this is definitely the year to sell them for the tax advantages.

**7. Alternative Minimum Tax (AMT) changes.** For 2010, the AMT personal exemption levels decrease to \$45,000 for MFJ, \$33,750 for single and HOH, and \$22,500 for MFS. It is likely that the amounts will rise again or change permanently.

## **What We're Losing**

The following list is a couple of things we're losing with the upcoming 2010 Tax Year. However, Congress still might extend a few as that tends to happen towards the beginning of the year. We'll keep you posted.

1. **IRA to Charity Donations.** Say goodbye to that tax break. Congress has not yet extended this.
2. **State and local sales tax deduction.** This ended in 2009.
3. **Property Taxes for Non-Itemizers.** In the 2009 Tax Year, taxpayers who did not itemize were allowed to deduct up to \$1,000 of property taxes they paid, but that ends in 2010.
4. **Tuition and Fees Deduction.** 2009 allowed for a deduction of up to \$4,000 in college tuition and fees. The amount is back to \$2,500.
5. **Educators' Deduction.** 2010 will not allow for an educator to deduct up to \$250 in classroom supplies like previous years.

**That's it for now:**