THE SMALLBIZ BUILDER

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THE SMALL BIZ PROS

Year End 2009 PADGETT BUSINESS SERVICES® Special Edition

Year-End Tax Planning

As the end of the year approaches, now is a good time for you to start planning for taxes by taking various actions that may save taxes for this year, next year, or both years. Act quickly to reap the most benefits—these strategies will be of no use after December 31.

Year-end tax planning may prove to be especially productive this year because of tax breaks that will expire at year end if Congress does not act to extend them. This includes both individual and business breaks.

Those with high income have other considerations for year-end planning if top tax rates on ordinary income are increased after 2010, as some expect. Long-term rates could go up as well. But on the bright side, income-based reductions on most itemized deductions and phase out of personal exemptions will no longer apply.

We've compiled a **checklist of actions** that, based on current tax rules, may help you to save taxes if you act before the year end. These are just some of the steps that can be taken to save taxes. Please review the list and contact us at your earliest convenience so that we can advise you on which tax-saving moves to make.

- ☐ Postpone income until 2010 and accelerate deductions into 2009 if you want to lower 2009 taxes. Doing this may allow larger deductions, credits, and other tax breaks that are normally phased out by income - especially if you expect to be in a lower tax bracket next year. Then again, doing the opposite may be more beneficial depending on the circumstance.
- ☐ Increase the amount you set aside for next year in your employer's health flexible spending account. Don't forget about over-the-counter drugs, such as aspirin and antacids.
- ☐ Realize losses on stock while substantially preserving your investment position by, for example, selling the original holding and buying back the same securities at least 31 days later. It is advisable for us to meet to discuss year-end trades.
- ☐ If Roth IRAs are better for your financial situation than traditional IRAs, and you want to remain in the market for the long term, consider converting traditional IRAs that have plunged in value into Roth IRAs if eligible to do so. Just keep in mind that the conversion will be taxable.
- ☐ It may be advantageous to try to arrange with your employer to defer your bonus until next year.
- ☐ You may be able to save taxes this year and next year by applying a bunching strategy to "miscellaneous" itemized deductions, medical expenses and other itemized deductions.

Continued on the Next Page

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Continued from the Previous Page

- ☐ If you are facing a penalty for underpayment of estimated tax, you may be able to eliminate or reduce it by increasing your withholding.
- ☐ Save gift and estate taxes by making gifts sheltered by the annual gift tax exclusion before the end of the year. You can give $13,000 in 2009 to an unlimited number of individuals, but can't carry unused exclusions from one year to the next.
- ☐ If you're thinking of donating a used auto to charity, be sure to inquire whether the charity plans to sell the car or use it in its charitable activities; the latter may yield a bigger deduction.
- ☐ Consider making credit-eligible energy saving improvements to your home, such as adding extra insulation or energy-efficient windows, to qualify for a tax credit. The largest credits are available for geothermal and solar energy products.
- ☐ Thinking of buying a car? Do so before year end to assure a deduction for state sales and excise tax on the purchase.
- ☐ If you are receiving Social Security benefits, there are several steps you can take to reduce or eliminate tax on your benefits.
- ☐ If you are an employee, consider asking your employer to increase withholding of state and local taxes to pull the deduction of those taxes into this year.
- ☐ If you're a business owner, consider making expenditures that qualify for the $250,000 business property expensing option and the 50% bonus depreciation. (The expensing limit will drop to $134,000 and the 50% bonus eliminated next year.)
- ☐ If you own an interest in a partnership or S corporation you may need to increase your basis in the entity so you can deduct a loss from it for this year.
- ☐ If a corporate liquidation is planned, delaying the distribution of assets until next year will defer a shareholder's gain or loss.
- ☐ Consider establishing a retirement plan for your business before December 31. Employer contributions to qualified plans are deductible.
- ☐ Consider using a credit card to prepay expenses that can generate deductions for this year.
- ☐ Accrual method businesses should consider accruing year-end bonuses to employees who are not controlling shareholders. They are deductible even though paid in the following year, and the bonus won't be taxable to the employee until next year.
- ☐ Estimate the effect of any year-end tax planning move on AMT for 2009, since many tax breaks allowed for regular taxes are disallowed for AMT. Examples include property taxes and state income tax. In some cases, deductions should be deferred in order to prevent their loss because of AMT.

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Padgett Business Services is dedicated to meeting the tax, government compliance, profit & financial reporting and payroll needs of businesses with fewer than 20 employees in the retail and service sector of the economy. This publication suggests general business planning concepts that may be appropriate in certain situations. It is designed to provide complete and accurate information to the reader. However, because of the complexities of the tax law and the necessity of determining whether the material discussed herein is appropriate to your business, it is important you seek advice from your Padgett office before implementing any of the concepts suggested in this newsletter.

PENALTY NOTICE: As required by U.S. Treasury regulations, you are advised that any written tax advice contained herein was not written or intended to be used (and cannot be used) by any taxpayer for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code.