

NOVEMBER 25, 2009

**“HE WHO FAILS TO PLAN, PLANS TO FAIL”****PROVERB**

With just five weeks left before the end of the year, it is time to review your year-end income tax plans. Making the right moves now can save you plenty.

As you consider your options, you need to take into account two tax years – 2009 and 2010. To be successful, you want to be able to cut your tax bill over both years, not just one. Most of you will benefit by accelerating your deductions from 2010 into 2009 and deferring your income until 2010. If, however, you expect to be in a higher income tax bracket in 2010, consider accelerating income into 2009 and delaying deductions until 2010.

The Bush tax cuts are set to lapse after 2010, raising the top income tax bracket to 39.6%. In our opinion, it is unlikely that Congress will act to accelerate that change. There are a number of issues that you should be cognizant of as you begin to think about year-end tax planning.

**Tax Matters**

**HOME BUYERS’ CREDIT.** The first time home buyers’ credit has been extended through April 30, 2010, and won’t lapse on November 30 as previously scheduled. Sales contracts signed by April 30, 2010 must close by June 30, 2010 to qualify for the credit. Congress is unlikely to grant any further extensions so if you are in the market for a new home, now is the time to act. For homes purchased after November 6, married couples can claim the full \$8,000 credit – assuming the home cost more than \$80,000 – if their adjusted gross income is less than \$225,000 –

this is up from the \$150,000 limit contained in the first bill. For married couples, the credit phases out at \$245,000 and for single individuals the phase out starts at \$125,000 and ends at \$145,000.

Additionally, current homeowners are now permitted to take advantage of this credit. Those people who have owned a home for five consecutive years out of the last eight qualify for a tax credit of up to \$6,500 if they purchase another home after November 6, 2009 and before May 1, 2010. As with the first time buyers’ credit, the home must be the buyer’s principal residence.

There are some limits to both of these credits. Homes costing over \$800,000 do not qualify for either credit if they are purchased after November 6, 2009 and no credit is allowed for purchasing a home after November 6, 2009 from your in-laws. Finally, no one under the age of 18 can claim either credit.

**AUTOMOBILES.** A tax break for new car purchases is set to disappear at year-end and isn’t likely to be extended. This tax break permits you to deduct the sales tax paid on up to \$49,500 of the cost of new automobiles purchased in 2009. If you don’t itemize your deductions on your tax return, you can still deduct the sales tax by adding it to your standard deduction. If you do itemize and you deduct your state income taxes rather than sales taxes, you can deduct the sales tax paid in addition to your other itemized deductions. The break starts phasing out for single individuals at \$125,000 of income and for married couples at \$250,000 of income.

**ROTH IRA CONVERSIONS.** If you are thinking about converting a traditional IRA to a Roth IRA this year, you may want to wait until 2010. The tax on 2010 conversions can be deferred and

spread out over two years. You can have 50% of the conversion income taxed in 2011 and the balance in 2012. Furthermore, the ban on conversions by individuals with adjusted gross incomes over \$100,000 won't apply in 2010. Note, however, that if you are in the top marginal income tax bracket and you convert to a Roth in 2010, you may want to consider paying the tax in 2010 as the top marginal income tax bracket is likely to go up to 39.6% after 2010.

Other important items include:

- Taxpayers can make IRA contributions for 2009 up to April 15<sup>th</sup> of 2010. Contribution limits are 100% of compensation up to \$5000 per taxpayer for individuals who were less than 50 years old in 2009. Catch-up contributions for those individuals 50 and older in 2009 are \$1000, bringing the total contribution limit for the 50 and older crowd to \$6000.
- Taxpayers who did not participate in a retirement plan in 2009 can fully deduct their IRA contribution, regardless of the level of their income. However, taxpayers who were "active participants" in either a defined contribution or defined benefit retirement plan can be phased out of a deductible IRA contribution, depending on the amount of their adjusted gross income (AGI). Those limits are \$65,000 for single taxpayers and \$109,000 for married taxpayers who file jointly. For married couples filing jointly, where one spouse is an active participant and one spouse is not, the deduction for the spouse who is not an active participant is phased out if the couples' joint income exceeds \$176,000. If you do exceed the aforementioned income limits, you can still make a non-deductible

IRA contribution which will also grow on a tax-deferred basis.

- 2009 contributions to a Roth IRA are phased out for single taxpayers at an AGI of \$120,000 and \$176,000 for married taxpayers filing jointly. Roth IRA contributions are not deductible but grow tax-free, distributions are withdrawn tax-free and mandatory distributions are not required at age 70 ½.

Remember, required minimum distributions ("RMD") for 2009 were suspended by the passage of the Worker, Retiree & Employee Recovery Act, on December 23<sup>rd</sup>, 2008. Thus, if you are over 70 ½ in 2009, you are still permitted to take any distribution that you might need; however, you are not required to take a distribution for 2009. This new law applies only to tax year 2009.

Contribution limits for IRAs and qualified plans for 2010 are as follows:

IRAs (traditional and Roth)	\$5000
Catch-up IRA contributions	\$1000
401(k) contributions	\$16,500
401(k) catch-up contributions	\$5,500

Phase out limits for IRAs in 2010 are listed below:

Deductible IRA (active participant)	
Single taxpayer	\$55,000-\$65,000
Married filers	\$89,000-\$109,000
Roth IRA	
Single taxpayer	\$105,000-\$120,000
Married filers	\$166,000-\$176,000

## Holidays

Everyone here at THOR wishes you and your family a very joyous and safe Holiday season.