

Twenty-Two Last-Chance Opportunities for Tax Savings

1. Income. Up to \$2,400 of unemployment compensation benefits are excluded from gross income by the recipient. However, the exclusion is not available for benefits received in tax years beginning after 2009 [IRC Sec. 85(c)].

2. Personal deductions. Clients can claim a deduction (whether they itemize or claim the standard deduction) for sales or excises taxes paid on the purchase of a new vehicle. The deduction (phased out at higher income levels) does not apply to purchases after December 31, 2009 [IRC Sec. 164(b)(6)(G)].

3. Personal deductions. Clients who claim the standard deduction can take an additional deduction for state and local property taxes, up to a maximum of \$500 (\$1,000 for joint return filers). The deduction is not available for tax years beginning after 2009 [IRC Sec. 63(c)(7)].

4. Personal deductions. A client can elect to take an itemized deduction for state and local general sales taxes instead of an itemized deduction for state and local income taxes, but the election is available only for tax years beginning before Jan. 1, 2010 [IRC Sec. 164(b)(5)(I)].

5. Personal deductions. A client may claim an above-the-line deduction for “qualified tuition and related expenses” paid for the enrollment or attendance of the client, the client’s spouse, or a dependent at an eligible institution of higher education. The deduction cannot exceed \$4,000 (phased out at higher income levels) and applies only to tax years beginning before January 1, 2010 [IRC Sec. 222(e)].

6. Personal deductions. The maximum deduction allowed annually for charitable donations is increased in the case of “qualified conservation contributions.” The increased deduction is not available for donations after December 31, 2009 [IRC Sec. 170(b)(1)(E)].

7. Business deductions. For tax years beginning before 2010, teachers in grades K-12 and other eligible educators can claim an above-the-line deduction for up to \$250 of their out-of-pocket expenses for books and supplies used in the classroom [IRC Sec. 62(d)(1)].

8. Business deductions. A client can claim an additional 50% depreciation allowance for qualifying business machinery and equipment placed in service before January 1, 2010 [IRC Sec. 168(k)(2)(A)].

9. Business deductions. A client can claim a Section 179 expensing deduction for the first \$250,000 of qualifying equipment and machinery placed in service during the year, subject to a phase out if more than \$800,000 of eligible property is placed in service during the year. For tax years beginning after December 31, 2009, the maximum Section 179 deduction drops to \$125,000 (adjusted for inflation) with the phase-out starting at the \$500,000 level [IRC Sec. 179(b)(7)].

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10. Business deductions. The cost of qualified leasehold improvement property, restaurant property, and retail space improvement property can be written off over 15 years. The 15-year write-off period is not available for property placed in service after December 31, 2009 [IRC Sec. 168(e)(3)(E)].

11. Business deductions. Business clients may claim enhanced deductions for donations of food inventory to a charitable organization if the organization uses the property solely for the care of the ill, the needy, or infants. The enhanced deduction does not apply to donations after December 31, 2009 [IRC Sec. 170(e)(3)(C)].

12. Business deductions. The maximum first-year depreciation deduction for passenger automobiles used for business purposes is increased by \$8,000 for automobiles placed in service before 2010 [IRC Sec. 68(e)(3)(B)].

13. Business deductions. Certain qualifying machinery and equipment used in a farming business may be written off over a five-year cost recovery period. The original use of the property must begin with the taxpayer and the property must be placed in service before January 1, 2010 [IRC Sec. 168(e)(3)(B)].

14. Personal tax credits. A client who hasn't owned a home during the previous three years can claim a first-time homebuyer credit of up to \$8,000 (phased out at higher income levels) for the purchase of a principal residence. The credit can be claimed only for homes purchased before December 1, 2009 [IRC Sec. 36].

15. Business credits. Employers may claim a 20% income tax credit for qualifying differential pay paid to employees on active military duty. The credit expires for payments made after December 31, 2009 [IRC Sec. 45P].

16. Business credits. An eligible contractor may claim a credit of up to \$2,000 for each qualified new energy efficient home that the contractor constructs and that is acquired from the contractor for use as a residence. The credit does not apply to homes acquired after December 31, 2009 [IRC Sec. 45L].

17. Alternative minimum tax. Clients can offset nonrefundable personal tax credits, such as the child and dependent care credit and the Lifetime Learning credit, against their alternative minimum liability. The offset will not be available for tax years beginning after 2009 [IRC Sec. 26(a)(2)].

18. Alternative minimum tax. For tax years beginning in 2009, the exemption amounts used in calculating a client's alternative minimum taxable income of \$70,950 for married couples filing a joint return and \$46,700 for singles and heads of households. For tax years beginning after 2009, these amounts are scheduled to drop to \$45,000 and \$33,750, respectively [IRC Sec. 55(d)(1)].

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19. Estimated taxes. For small business owners with adjusted gross income of \$500,000 or less, the “required annual payment” of 2009 estimated taxes is the lesser of (1) 90% of the current year’s tax or (2) 90% of the prior year’s tax. For 2010, the prior-year’s-tax threshold rises to 100% (or 110% for clients with adjusted gross income of \$150,000 or more) [IRC Sec. 6654(d)(1)].

20. Retirement plans. The requirement that an IRA owner age 70 ½ or over must receive a minimum distribution annually is suspended for 2009, but is reinstated in 2010 [IRC Sec. 401(a)(9)(H)].

21. Retirement plans. An IRA may exclude from income distributions of up to \$100,000 annually if paid directly by the IRA trustee to charitable organization. The exclusion expires in tax years beginning after 2009 [IRC Sec. 408(d)(8)].

22. Employee benefits. Clients who are covered by employer-sponsored health plans and are laid off before January 1, 2010 can qualify for subsidized plan continuation (COBRA) coverage for up to nine months. Employers can claim a credit against employment taxes for the subsidies provided to employees [IRC Sec. 6432].