The "Daily Plan-It™"

ESTATE & BUSINESS LAW GROUP, P.C.

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Share Some Smart, Cost-Saving Tips for Clients' End-of-Year Tax Planning

It always makes sense to do year-end tax planning. But after this year's turbulent market and the uncertainty about next year's tax legislation, it seems especially important at this year's end.

As advisors, it's vital that we encourage clients to review their taxes before it's too late. An accountant can't do much for someone who waits until February for advice.

The Wall Street Journal recently published several tips for taxpayers that I suggest sharing with your clients. I've shared the article's highlights below, but you can read the entire piece online at: http://bit.ly/Ewcwd.

According to the WSJ, these are the areas for review that are especially relevant:

First-Time Homebuyer Tax Credit: New rules took effect on Nov. 6. The provision is a dollar-for-dollar tax credit of up to $8,000 for 10 percent of the cost of a home. The credit is refundable, and if a buyer doesn't owe $8,000 of tax, he can claim the full benefit and receive a refund check. The new law has more generous phase-outs, but unlike the prior law, this credit is capped. Those buying homes for more than $800,000 get no credit at all.

New Car Purchases: Taxpayers who buy a new car before Jan. 1, 2010, may deduct sales and excise taxes and other fees on as much as $49,500 of the purchase price.

This provision has generous phase-outs. It disappears between $250,000 and $260,000 of modified adjusted gross income for married couples and $125,000 and $135,000 for singles.

Retirement Savings: Did your client start a new job? If so, he can still put an entire year's contribution into his 401(k), which is $16,500 ($22,000 if he's over 50).

Charitable Gifts: Unless Congress acts, this will be the last year for taxpayers over 70½ years of age to make a charitable contribution directly from an IRA.

This provision is useful. Without it, the donation would have to be withdrawn from the IRA, claimed as income and then deducted as a donation. That, in turn, can trigger deduction limits or increase Medicare premiums in the future.

Investments: Taxpayers may deduct up to $3,000 of capital losses per year against ordinary income, with the excess carried forward for use in future years.

Capital losses may also be matched dollar-for-dollar against long-term capital gains. For example, if a client has $20,000 of long-term losses on some investments and $15,000 of gains on others, after the $3,000 deduction, he'd only have a net loss of $2,000 to carry forward.

The current top capital gains tax rate of 15 percent is the lowest it's been in decades, and it's almost certain to increase at some point as the government rushes to pay down the national deficit. If your client has a buyer and an acceptable price, he should consider selling.

Medical Expenses: In general, taxpayers may deduct all un-reimbursed medical expenses recognized by the IRS. This includes after-tax dollars spent on insurance premiums, Medicare Part B and D premiums, and co-payments for drugs and treatments. It also extends to costs that insurance almost never covers, such as weight-loss plans (if prescribed for a medical condition), lead abatement, bandages, wigs after chemotherapy, acupuncture, and medical travel.

As always, I hope this article has helped you and your clients. If you have a specific case or concern, please don't hesitate to contact our office.

Workshop Schedule

The Truth about Estate Planning
Usually Tuesday nights, 7:00 pm
(Please call for current dates)

IRA Preservation Planning
Learn how to properly protect your IRAs and what the IRA Preservation Trust can do!
(Please call for current dates)

On February 8, 2006, President Bush signed into law the Deficit Reduction Act of 2005 (DRA 2005), which included the most sweeping changes to Medicaid laws ever enacted.

Medicaid Planning Workshop
The new Medicaid laws and some of the planning options that are still available, even in light of these sweeping changes.
Usually Tuesday nights, 7:00 pm
(Please call for current dates)

Registration: *Contact Mary Lang at (847) 367-4460*
http://eblawgroup.com

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We invite you also to direct your clients to **http://eblawgroup.com/FAQ_medicaid.htm** for more information on Medicaid Planning.