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Tax Tips Roasting on an Open Fire...

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I'm so glad that my last column of the year will appear in mid-December, because I love to chat about year-end tax planning ideas! As you know, I try to uncover a few unusual ideas and angles about things you already have heard a lot about. This year will possibly provide us with the most atypical year-end tax planning ideas for the decade. So here they are:

1) My first column of 2010 will be devoted to Roth IRA conversions because as of January 1st 2010 the current limit of Adjusted Gross Income (AGI) at $100,000 will be permanently repealed. But THIS year there are still a couple of ideas to think about. First is the notion that your AGI for 2009 may actually be under $100,000. Examples: Those of you who are retired weren't required to take an RMD for the year, with high unemployment many have experienced reduced taxable wage or self-employment income, and very few of you will be posting any taxable capital gains on your tax returns. So you may want to quickly explore with your tax advisor the idea of pulling some money out of your traditional IRA(s) this year and converting those to Roth IRAs before the end of the year. This would be an especially good idea if you anticipate you'll have negative taxable income. Having low income and a high deductions such as a mortgage is the most frequent example of this type of phenomenon.

2) If you are thinking that next year could also be a very low taxable income year for you, think about moving funds from your regular IRA to a Roth first thing in January. While investment markets have certainly recovered, they are still down quite a bit from their highs. Moving the funds at the beginning of the year could be a good strategy as that might accelerate the growth in the Roth. If you over contribute, you have time to move the funds back to your regular IRA. A lot to discuss about the mechanics of Roth's which I hope to cover in my next column. Meanwhile, I recommend you consult with your tax and financial advisors. One cautionary note: Every advisor I know recommends you only do a conversion if you have additional money OUTSIDE your IRA/Roth IRA with which to pay the taxes.

3) For those who are experiencing a low income year, try to defer any deductible expenses until next year when hopefully your income will increase. Don't prepay property taxes, an extra mortgage payment and the like because those deductions may be far more powerful next year, especially if Congress raises rates to help with the ever increasing deficit.

4) If you were aggressive about harvesting losses last year and earlier this year in your portfolios, you probably have a sizable capital loss carry forward. If your holdings are recovering well, and in fact some have gains, why not lock in those gains by selling assets this year before the end of the year and then buying them right back? There are NO WASH SALE RULES when it comes to selling assets for a profit. So if you sell, create gain, offset prior year losses against that gain, and create a higher basis for yourself, that might stand you in very good stead when you sell these assets in future years in a possibly more hostile, higher capital gains tax environment. BE VERY CAREFUL that you know for SURE that you have losses either from prior years that you are carrying forward and/or from earlier this year. Check with your tax advisor to run some double checks on this. And to be sure you aren't running into any AMT (alternative minimum tax) problems. And of course factor in trading costs.

5) We live in a very charitable community. If you are about to do year end gifting, think through which assets you will be giving. If you have the opportunity to gift appreciated securities, be careful to pick those with the lowest basis. For example, if you have owned a stock for many years and have been reinvesting dividends, you should consider gifting those shares with the lowest basis. With reinvested dividends having spanned some up years in the market and some down years, pick those that were invested in years when stocks were least expensive and keep the others. You will need to do this "Specific Identification Method" with the firm that custodians your assets so that they know which you are gifting and which you are not. Otherwise, they might use an average cost basis accounting method which may not be in your best interests. Your favorite charities don't care about low basis --- qualified charities pay no taxes on the sale. Good for you and good for them!

Wishing everyone a wonderful holiday! Let's hope the only coal in our stockings is due to the improving economy and that it all turns into diamonds! Cheers!

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