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Albuquerque office of Grant Thornton LLP offers 10 year-end tax planning tips

ALBUQUERQUE, Nov. 30, 2009 – The Albuquerque office of Grant Thornton LLP wants to remind area residents and business owners that it's the perfect time to consider some holiday season tax planning strategies as 2009 winds down.

"It's a shame that so many people forget about their taxes until April 15," said John P. Simpson, Tax Partner in the Albuquerque office. "A little more planning in November and December can go a long way in April."

There's still plenty of time to put last-minute planning techniques into play, but remember to consider your individual circumstances and consult a tax advisor. With that in mind, 10 last-minute tax planning tips include:

- 1. Accelerate deductions and defer income.** Why pay tax now when you can pay tomorrow? Deferring tax is a cornerstone of tax planning. Generally this means you want to accelerate deductions into the current year and defer income into next year. There are plenty of income items and expenses you may be able to control. Consider deferring bonuses, consulting income or self-employment income. On the deduction side, you may be able to accelerate state and local income taxes, interest payments and real estate taxes. But beware of the alternative minimum tax, which can affect timing strategies. Also, this strategy assumes that tax rates will be the same in 2009 and 2010, as current law provides.
- 2. Bunch itemized deductions.** Many expenses can be deducted only if they exceed a certain percentage of your adjusted gross income (AGI). Bunching itemized deductible expenses into one year can help you get over these AGI floors. Consider scheduling your non-urgent medical procedures into one year to get over the 7.5 percent AGI floor for medical expenses. To get over the 2 percent AGI floor for miscellaneous expenses, bunch professional fees like legal advice and tax planning, and unreimbursed business expenses such as travel and vehicle costs.
- 3. Maximize "above-the-line" deductions.** Above-the-line deductions are especially valuable because they reduce your AGI. Many valuable tax benefits are limited based on your AGI. Common above-the-line deductions include traditional Individual Retirement Account (IRA) and Health Savings Account (HSA) contributions, moving expenses, self-employed health insurance costs, alimony payments and any bank penalties you may have had to pay for early account withdrawals. If you are thinking about a new car, consider buying it before the end of the year to take advantage of the above-the-line deduction for state and local sales taxes scheduled to expire after 2009.

4. **Consider charitable contributions carefully.** Think about giving appreciated property to charity so you can deduct the full value without paying capital gains taxes. But don't donate depreciated property. Sell it first and give the proceeds to charity so you can take the capital loss and a charitable deduction. If you're 70½ or older, consider making charitable donations directly from any traditional IRA distributions so the gift/distribution will not be included in your AGI. As always, double-check the limits and substantiation rules before making any contributions.
5. **Make up a tax shortfall with increased withholding.** Don't forget that taxes are due throughout the year. Check your withholding and estimated tax payments now while you have time to fix a problem. If you're in danger of an underpayment penalty, try to make up the shortfall through increased withholding on your salary or bonuses. A bigger estimated tax payment can still leave you exposed to penalties for previous quarters, while withholding is considered to have been paid ratably throughout the year.
6. **Leverage retirement account tax savings.** It's not too late to maximize contributions to a retirement account. Traditional retirement accounts like 401(k)s and IRAs still offer some of the best tax savings in the Code. Contributions reduce taxable income at the time you make them, and you don't pay taxes until you take the money out at retirement. The 2009 contribution limits are \$16,500 for a 401(k) and \$5,000 for an IRA (not including catch-up contributions for those 50 and older).
7. **Roll over into a Roth account.** "Roth" versions of traditional retirement accounts, such as 401(k)s and IRAs also provide a great savings opportunity. You don't get a tax break when you put money into a Roth account, but the money grows tax-free and is never taxed again if distributions are made properly. Rolling over into a Roth account now may make sense. Tax rates are low, and the value of many accounts has been depressed by the downturn. Paying tax on the rollover now could save you if tax rates go up and your account recovers. The \$100,000 AGI limit on these rollovers is also scheduled to disappear in 2010.
8. **Jump-start a 529 plan for education.** Think about using a 529 plan to save for future college expenses. Contributions are made after tax, but the accounts grow tax-free and distributions are tax-free if used to pay qualified higher education expenses.
9. **Don't forget to use annual gift tax exclusion.** If you may eventually have to pay estate taxes, consider establishing a gifting program for your children and grandchildren to take advantage of the annual gift tax exclusion. Gifts of up to \$13,000 per donee (\$26,000 for married couples) are generally excluded from gift tax in 2009 and will be removed from your estate, with no limit on the number of donees.
10. **Watch out for the "kiddie tax."** The "kiddie tax," which requires a portion of a child's unearned income to be taxed at the parents' marginal rate, has been expanded to apply to full-time students under the age of 24 whose earned income does not represent at least one-half of their support. Be careful transferring income-producing assets to your kids.

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