

Surviving the tax season

How to beat the filing deadline and lower your tax bill

The Albuquerque office of Grant Thornton LLP wants to remind the community that even though the filing deadline is upon us, there's no need to panic. It's not too late to employ some last-minute strategies that could help you avoid common filing season hassles and possibly uncover savings you may have overlooked.

"You can't go back and change what happened last year, but believe it or not, there are still things you can do now to affect your 2009 tax return," said John Simpson, Tax Partner and local Tax Practice Leader in Grant Thornton's Albuquerque office. "There are also several tax law changes that taxpayers need to keep in mind."

Simpson is happy to offer some answers to the five biggest questions taxpayers ask this time of year:

1. What did I do in 2009 that I need to remember now to positively affect my 2009 return?
2. Are there actions I take now to positively affect my 2009 return?
3. What new provisions will surprise me as I do my 2009 taxes?
4. How do I avoid filing season hassles and mistakes?
5. What should I start thinking about for 2010?

1. What did I do in 2009 that I need to remember now to positively affect my 2009 return?

- **Paid real property taxes.** Congress last year extended a new deduction for non-itemizers on real property taxes of up to \$500 for singles and \$1,000 for married couples filing jointly. If you don't itemize your deductions but paid real property taxes, don't forget this deduction.
- **Bought a new car.** "Cash-for-clunkers" stole all the press, but don't forget about a new deduction for state and local sales tax on new car purchases made between Feb. 17 and the end of 2009. The deduction is allowed for taxes on the first \$49,500 of the car's price, and the income limit is unusually high for this type of targeted benefit. The deduction phases out beginning at income levels of \$125,000 for individuals and \$250,000 for joint filers.
- **Made home improvements.** The February stimulus bill revitalized the energy-efficient home improvement tax credit. For 2009, you are entitled to a 30 percent credit of up to \$1,500 for installing energy-efficient property such as insulation, windows, roofs, fans, furnaces or water heaters. Your property should have come with a sticker from the manufacturer if it qualifies, but try checking with your retailer if you're unsure.
- **Paid tuition.** February's stimulus bill enhanced the HOPE credit and renamed it the American Opportunity Credit for 2009 and 2010. The 2009 version features a higher income phaseout (\$80,000 to \$90,000 for singles and \$160,000 to \$180,000 for joint filers), an increased maximum credit of \$2,500 and 40 percent refundability.

2. Are there actions I can take now to positively affect my 2009 return?

- **Contribute to an IRA.** Get an above-the-line deduction for your 2009 return by contributing to an Individual Retirement Account (IRA) now. You can make contributions that are deductible on your 2009 return any time before the April 15, 2009 — and can even set up the account now if you don't have one already. Contribution limits for 2009 are \$5,000 plus a \$1,000 catch up for those 50 and over, but contributions only offer deductions at income levels below \$109,000 for joint filers and \$65,000 for singles.
- **Contribute to an HSA.** If you were covered by a “high deductible” health plan in 2009, it's not too late to make 2009 contributions to a Health Savings Account (HSA), which also provides an above-the-line deduction. Even if you didn't have an HSA set up last year, you can set one up and make 2009 contributions any time before the April 15, 2010, filing deadline. Contributions provide an above-the-lined deduction and for 2009 are limited to \$3,000 for individuals and \$5,950 for families, plus a \$1,000 catch up for those 55 and over.
- **Buy a home.** If you buy a house in 2010 that qualifies you for the homebuyer credit, you can claim it on your 2009 return. The credit offers up to \$8,000 for “first-time homebuyers” who have not owned a principal residence in the last three years or \$6,500 for “long-time residents” who have owned a home that is their principal residence for five of the last eight years. The home contract must be in place by April 30, 2010, and the home must be purchased by June 30. If your income is above the level where the credit begins to phase out (\$125,000 for singles and \$225,000 joint filers for purchases after Nov. 6, 2009), consider helping someone else in the family who may qualify. But watch out for the anti-abuse rules and remember that the house can't cost more than \$800,000.
- **Make charitable contributions to help Haiti.** Congress acted quickly to allow taxpayers to accelerate deductions for charitable contributions made to Haiti earthquake relief programs. Cash contributions made before March 1, 2010, can be claimed on your 2009 tax return. The new law also allows taxpayers to substantiate deductions made by text message with a copy of their phone bill. But remember, charitable contributions are only deductible if you itemize.

3. What's new that could surprise me as I do my 2009 taxes?

- **Am I under-withheld?** Last February's stimulus bill offered a credit of up to \$400 for singles and \$800 for joint filers. The IRS changed the withholding tables so the value of the credit could be delivered during the year through reduced withholding. This means taxpayers who ultimately will not qualify for the credit may not have had enough tax withheld. This problem could affect taxpayers with spouses or second jobs that push them over the credit's income limit, but is more likely to affect taxpayers with pension income that doesn't qualify as “earned” income for the credit. The IRS has said it will not apply underpayment penalties in these cases, so make sure you don't pay any penalty you shouldn't.
- **The “kiddie tax.”** The “kiddie tax” was expanded in recent years so that it applies to full-time students under the age of 24 and all children 18 and younger. If the income from these children does not represent at least one-half of their support, some of their investment income may have to be taxed at your marginal rate.

4. How do I avoid filing season hassles and mistakes?

- **Get your charitable house in order.** A charitable cash contribution must be documented to be deductible. Remember, you cannot deduct donations to individuals, social clubs, political groups or foreign organizations. But you can get a deduction of up to 14 cents a mile driven in service of a charitable organization.
- **Consider filing electronically.** Filing electronically will speed up your refund and can save you from simple mistakes. Before the IRS accepts an electronic return, it checks for several critical errors. The IRS gives you the chance to correct the problems before it accepts and processes your electronic return.
- **Check your numbers twice.** Avoid math errors and make sure to get your Social Security numbers right. IRS computers automatically match all Social Security numbers and check for simple math mistakes. If you wrote down the wrong Social Security number for one of your dependents, the IRS will disallow the dependent, recalculate the return and usually send you a brand new tax bill.

5. What should I start thinking about for 2010?

- **Roll over into a Roth IRA.** The \$100,000 income limit on rollovers into Roth IRAs disappeared in 2010. You can roll over into a Roth IRA from either a traditional IRA or a qualified retirement plan such as a 401(k), 403(b) or 457 plan, and you will pay taxes on the investments immediately in exchange for no taxes at withdrawal. Why pay tax now when you can defer? Tax rates are scheduled to go up, and the tax on your rollover may be low now if the economic downturn has depressed the value of your investments. Plus, Roth IRAs have no required minimum distributions.
- **Prepare for potential tax increases.** Tax rates are scheduled to increase in 2011. Although many lawmakers have pledged to extend some of the current tax cuts, taxes could increase in higher tax brackets and for capital gains and dividends. Depending on how the legislative outlook develops this year, it may make sense to reverse your normal tax strategy in 2010 by accelerating income and deferring deductions to take advantage of current low rates. If this strategy includes recognizing gain on business assets, you may want to begin exploring your options early in the year.