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Happy Holidays!

As the holiday season has now snuck upon us and we are in the final weeks of 2010, I thought it best to point out a few tax-saving strategies that can still be implemented before the 2010 tax year ends. I know that everybody wants to enjoy the last few weeks of 2010 and not think about taxes until January rolls around, but even if you only take advantage of one or two of the strategies listed below, you will be helping to lower your 2010 tax bill.

My original goal was to hold off on sending these tips out until after the President and Congress finalized their extension of the Bush-era tax cuts as well as the other tax issues currently being debated, but since they have dragged their feet for a few weeks now, I thought it best to go ahead and issue these tips in advance of their decision. As always, please contact someone at our firm should you have any questions about the information below and how it applies to your individual tax situation.

Year-End Tax Planning for Individual Taxpayers

- Prepay your mortgage payment that is due on January 1, 2011 by December 31, 2010. You can deduct the interest on your 2010 tax return.
- Charge deductible expenses like medical bills, state and local taxes, real estate taxes and charitable donations to your credit card. By charging these expenses now, they become deductible in 2010 even if you do not pay the credit card bill until after the year ends.
- Pay your state estimated tax payment that is due on January 15, 2011 no later than December 31, 2010. This will count towards your itemized deductions on your 2010 tax return.
- Sell stock losses before the year ends. This will help to offset any capital gains and possibly enable you to take a loss of up to $3,000 on your 2010 tax return.
- Maximize your charitable contributions and donate unwanted items before the year is over. Please try to document the items that were donated and take pictures as well if possible. Also, hold on to the receipts that you receive when donating.
- Exhaust all of the funds contributed to your Flexible Spending Account (FSA) by year-end. You may be able to charge expenses for 2010 through March 15, 2011, but please verify this with your employer as this is at their discretion. Any remaining funds after the spending deadline are forfeited.
- Consider rolling over your Traditional IRA, SEP IRA, SIMPLE IRA or old 401(k) or 403(b) into a ROTH IRA before 2010 ends. For rollovers and conversions to a Roth IRA in 2010 only, you have the option of reporting the taxable portion of your rollover in your gross income for 2010, or reporting half in 2011 and half in 2012.
- Making energy-efficient purchases before year end will allow you to be able to take advantage of several tax credits that are available:

Receive a tax credit of up to 30% of cost with a maximum of $1,500 total for all home improvements made in the following areas: Windows & Doors, Heating, Ventilating, Air Conditioning (HVAC), Insulation, Roofs (Metal & Asphalt), Water Heaters (non-solar) and Biomass Stoves. This tax credit is currently only available for 2009 and 2010 tax years and only applies to an existing home that is your principal residence (new construction and rentals do not qualify).

Receive a tax credit of up to 30% of cost, with no maximum for all home improvements made in the following areas: Solar Panels, Solar Water Heaters, Geothermal Heat Pumps, and Small Wind Energy Systems. This credit is available through 2016 and can be used for both existing homes and new construction (may either be a principal residence or a second home, rentals do not qualify).

Year-End Tax Planning for Business Owners

- For cash-basis taxpayers, pay any outstanding bills by December 31,2010. This will allow you to deduct the expense in the current tax year even though the payments may not hit your account until January.
- Also for cash-basis taxpayers, remember that only deposits made to the bank and recorded on your books on or before December 31, 2010 are taxable in the current year.
- For accrual-basis taxpayers, write off any non-collectible accounts receivable.
- Also for accrual-basis taxpayers, remember that your revenues are calculated based on what you invoice between January 1, 2010 and December 31, 2010. Any invoices created after December 31, 2010 will be included in income for the 2011 tax year, regardless of when the service was provided or the product was delivered.
- If you are planning on upgrading your computer or any other office equipment, try to do so before year-end. This will allow you to take advantage of any holiday promotions that are in effect and you can write off the entire purchase amount for the 2010 tax year.
- Write off any obsolete inventory as of year-end.
- Purchase equipment before year end. You can write-off up to $500,000 in equipment purchases in 2010. If you are facing a profitable year and therefore, higher taxes, this could offer an instant last-minute deduction for your business.

Tax Breaks Not Available in 2010

- The additional standard deduction for state and local property taxes for non-itemizers
- The deduction of up to $250 in classroom supplies (available to teachers, other educators) ****Extended through the end of 2011 as of 12/17/2010****
- The election to itemize state and local sales taxes in lieu of state and local income taxes (which mainly benefits individuals in states without state income taxes) ****Extended through the end of 2011 as of 12/17/2010****
- The exclusion from gross income of up to $2,400 of unemployment benefits

What's Coming in 2011?

- Higher tax rates!! If the Bush-era tax cuts are not extended (even though I believe they will), the federal income tax brackets as scheduled for 2011 will result in the following:

  2011: 15% -15% - 28% - 31% - 36% - 39.6%

  vs.

  2010: 10% -15% - 25% - 28% - 33% - 35%

****The lower tax rates have been extended through the end of 2012 as of 12/17/2010****

- The Child Tax Credit of $1,000 per eligible child reverts to $500 after 2010. After 2010, none of the child tax credit will be refundable to taxpayers unless their earned income is more than $12,550. ****$1,000 tax credit per child extended through the end of 2012 as of 12/17/2010****
- Estate Tax Revived**-**For individuals dying after 2010, the federal estate tax returns with a $1million exemption (although the current tax legislation being proposed would make the exemption in 2011 $5million) and a 50 percent maximum rate. ****2011 exemption set at $5million as of 12/17/2010****
- Temporary increases in the Earned Income Tax Credit for filers with three or more children and the higher income levels for the phase-out of the credit are repealed. ****Now extended through 2012 as of 12/17/2010****
- The special itemized deduction for mortgage insurance premiums paid on mortgages taken out after 2006 expires on Dec. 31, 2010

Please remember, these are general tax-savings tips and they may or may not apply to your particular situation. It is advised that you call and speak with someone at Shurek Accounting & Tax or your own tax advisor before making any of the moves listed above if you are not 100% sure as to their deductibility.

Also, please be sure to check our blog in the upcoming weeks for updates on the current tax laws that are being debated. It seems as if there are many changes on the way. Once Congress and the President finally do make some final decisions, we will offer some explanation on whatever they decide is best for the American taxpayer.

Shurek Accounting & Tax would like to thank you for your business this past year and we hope that you and your family have a safe and enjoyable holiday season.