

THE HERALD

Experts provide tax advice as 2009 approaches

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"Want to talk Tax Planning 101?" Ken Kron asked. Kron, a CPA and tax partner for Mahoney Sabol & Co. LLP, with offices in Glastonbury and Middletown, said the general, end-of-the-year technique centers around either deferring income or accelerating deductions.

"You might want to recognize income in a year in which you're in a lower bracket," he said.

Certified Public Accountants aren't alone when it comes to tax advice at year's end. The Internal Revenue Service also wanted to weigh in.

"Connecticut taxpayers should review the recent tax changes and recently reinstated tax deductions as part of their year-end tax planning," said Dianne Besunder, IRS spokeswoman for Connecticut. "Some tax breaks and a review of your current tax situation may result in a bigger refund or less taxes to be paid come tax time."

Besunder says taxpayers have some control over their income through the sale of investments to incur a gain or loss. This is generally a key area of decision-making for investors. But, you need to make this decision by Dec. 31 to be counted on a 2008 tax return. IRS Publication 550, Investment Income and Expenses, for 2008, explains the rules.

Another key planning tool is "harvesting" a tax loss.

"After you've added up your net gains and losses for the year, the IRS doesn't allow you to deduct more than \$3,000 for the current year," said Kron, a former IRS agent. "However, those losses can be carried forward forever. Even if you have more than \$3,000 in losses and you're not going to get a benefit today, it's still good. Next year, when your capital gains are probably going to be higher, you'll be able to use those losses. If you have \$100,000 in gains, you can deduct \$103,000 in losses."

First-time home buyers should begin planning now to take advantage of a new tax credit available for a limited time. The credit applies to primary home purchases between April 9, 2008 and June 30, 2009. Normally, this tax credit must be paid back in equal payments over 15 years. The credit is 10 percent of the purchase price of the home, with a maximum available credit of \$7,500 for either a single taxpayer or a married couple filing jointly.

A first-time home buyer is someone who hasn't owned a home in the three years prior to a purchase.

Besunder says there's a new additional standard deduction for those who don't itemize their deductions, but pay real estate taxes. The additional deduction amount is equal to the amount of real estate taxes paid up to \$500 for single filers or up to \$1,000 for joint filers. This deduction is available for the 2008 and 2009 tax years and increases your standard deduction.

"You may be able to deduct qualified tuition and required enrollment fees up to \$4,000 that you pay for yourself, your spouse, or a dependent," says Besunder. "You don't have to itemize to take this deduction. However, a taxpayer can't take both the tuition and fees deduction and education credits for the same student in the same year. Income limits and other special rules apply to each of these provisions."

An "educator expense deduction" allows teachers and other educators to deduct the cost of books, supplies, equipment and software used in the classroom. Eligible educators include those who work at least 900 hours during a school year as a teacher, instructor, counselor, principal or aide in a public or private elementary or secondary school. Worth up to \$250, this deduction is available whether or not the educator itemizes deductions on Schedule A.

If you didn't qualify or receive the maximum amount for the 2008 Economic Stimulus Payment, you may be entitled to a Recovery Rebate Credit when you file your 2008 tax return. Review the tax return filing instructions including the Recovery Rebate Credit worksheet. You need to know the amount of the payment you received in 2008, which can be found on your Economic Stimulus Payment Notice (Notice 1378). In addition, two new online tools, the "Recovery Rebate Credit Calculator" and "How Much Was My 2008 Stimulus Payment?" will be available soon on IRS.gov.

Besunder points out that there are new Rules for "Cash" Charitable Contributions. To deduct any charitable donation of money, you must have a bank record, credit card statement or a written communication from the recipient showing the name of the organization and the date and amount of the contribution. In determining what may be deducted as a charitable contribution, see IRS Publication 526 for 2008.

Kron notes that when you donate marketable securities, you get a charitable deduction for the fair market value of the stock. In previous years, if you had large, unrealized gains, you would gift that stock to a charity. This year you need to be careful of losses.

"If you have losses on that stock, sell that stock first so you can claim a loss, then donate the proceeds to charity," Kron said. "This way you get a double benefit."

If you became a parent in 2008, obtain a Social Security number for the child so he or she can qualify as a dependent on your return. Also, having or adopting a child in 2008 may mean you'll receive a larger recovery rebate credit.

More tax advice at year's end

The Herald Press asked financial advisor Michael Chadwick, CLU, CFP, with offices in Unionville and Torrington what he's advising his clients about taxes before the year's end. His response:

"Max out your 401(k) or 403(b) prior to year end.

"Make your state income tax payment before the first.

"If possible, pay your property taxes for January this month.

"Sell your losing investments before year's end, those you don't plan on keeping, so you can lock in the tax loss. You must sell an investment for 31 days for the tax loss to work; you can't buy it back within the 30-day period or the loss is disallowed. However, you can buy another investment to stay invested.

"Finally, use any money in your flexible spending accounts for medical care, drugs and so on that doesn't roll over. Some plans have a 'use it or lose it' provision. Check to see what your account has."