

TAX TALK
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YEAR-END TAX PLANNING FRO 2010

It is the beginning of November and in order to properly plan for year-end 2010, it is time to consider some tax planning strategies.

Consider possible tax law changes

2010 is difficult to plan because there are so many variables. As the law stands now both income tax and capital gain tax rates are expected to rise in 2011. In most years where a taxpayer has potential income, such as a capital gain, they would probably try to defer a sale to next year and therefore have another year before the tax payment is due. The thinking may be different in 2010 as a sale in December of 2010 may produce less tax than the same sale in January of 2011.

With that said I have listed below some things that taxpayers should still look at before yearend. Whether rates increase or not in 2011 it may still be beneficial to reduce taxable income in 2010 because of various phase out rules that affect deductions or credits such as the child tax credit, IRA deductions or education credits.

Look at your investment portfolio

It is time to determine if you have any capital gains that you will have to report in 2010. Keep in mind that you are allowed to offset capital gains with capital losses. You have until December 31st to sell any securities that will generate a capital loss. You are entitled to offset all capital gains and are allowed \$3,000 of loss against ordinary income. If your capital losses exceed your capital gains by more than \$3,000, the excess is carried over to future years. I strongly recommend that you proceed with caution. While you do want to sell securities that will generate a loss, you would not want to sell securities that you feel are good securities that are just temporarily down in value.

Look at your business

If you are either a shareholder of an "S" corporation, partner of a partnership, member of an "LLC" or a sole proprietor, then you must look at your profit or loss to date and try to project results through December 31st. There are many avenues open to possibly lower your income taxes when there is a business involved. As discussed in previous articles there are large incentives to purchasing equipment before year-end.

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There may be additional planning for your business such as setting up a pension or profit sharing plan or ways of deferring income until 2011.

Conclusion

This article gives only basic strategies and unless you plan for your particular situation, you may find some unexpected consequences in April such as being subject to the AMT. To further complicate things, laws may still be passed which would keep rates as they are now. It is definitely that time of year that you should be contacting a tax professional that is current on the tax laws in order to keep as many options as possible open to you.