



1794 Bridge Street, Suite 13B
Dracut, Ma 01826
978-957-9665 • fax 978-957-9661
www.wittscpa.com

A CPA Firm Servicing the Needs of Small Businesses

November 30, 2009

Dear Clients and Friends,

Year-end tax planning is always a tricky proposition, and this year is no exception. No one likes to pay taxes any sooner than required. So, traditional year-end strategies tend to focus on deferring income from 2009 to future years and accelerating deductions from 2010 into 2009.

This year, those strategies are complicated by the potential for higher tax rates in the next few years and the absence of details concerning what future tax changes may look like.

We recognize that not every year-end tax strategy will apply to every reader. As you read through the list, check the box next to those items that might apply to you. Then you can easily go back to review the more pertinent planning points that you want to follow up on. We would be pleased to meet with you to discuss all aspects of your tax situation.

Remember, it is not about taxes – it is about your money!

- **Salaries, bonuses, etc.** – If your employer is willing, compensation you earn in 2009 can be paid to you in early 2010. Your employer may even be entitled to its tax deduction in 2009. If you are self-employed and your business operates on the cash method, you can delay sending out bills for 2009 work until late in the year, so payment comes to you in 2010. Alternatively, you can offer a discount to a client who prepaays, if you are trying to increase 2009 income.
- **Capital gains and losses** – You generally recognize gains and losses from securities sales on the trade date, not the settlement date. December trades will be 2009 transactions, while January trades will be reported in 2010. Sales at a loss can reduce other capital gains, and a net loss up to \$3,000 can be deducted to offset other income.

Before you recognize a gain, check your holding period. Long-term capital gains from the sales of assets with a holding period greater than one year are eligible for a significantly lower tax rate – generally no more than 15 percent. It could be as low as 0 percent – see “Zero percent tax rate”.

- **Credit card payments** – Paying tax-deductible expenditures, including charitable contributions, with a credit card secures the deduction, even if you do not actually pay the credit card company until the following year. A pledge – or promise – to make the contribution is not good enough. You actually have to make the payment or charge it to your credit card.

You will need adequate records to support your tax deductions. Receipts, canceled checks or bank records may be sufficient to support most expenditures. However, certain types of deductions, e.g., meals, travel, and entertainment expenses and charitable contributions, have specific record-keeping requirements.

- **Sales tax deduction for new car purchase** – Even though the Cash-for-Clunkers program has expired, you can still secure an income tax deduction for state and local sales or excise taxes paid on a new vehicle purchased between Feb. 17 and Dec. 31, 2009. Importantly, the deduction is available even if you don't itemize.
- **Home buyer credits** – Congress recently extended the first-time home buyer credit and added a new home buyer credit for long-term residents of the same principal residence.
 - **First time home buyer credit** – This credit, which was originally slated to expire on Nov. 30, 2009, has been extended and expanded. The maximum credit for first-time home buyers is \$8,000. The credit does not have to be repaid if the buyer keeps the home for at least three years. A first-time home buyer is someone who has not owned a home during the prior three years. The credit has been extended to include homes under contract by April 30, 2010, and closed by June 30, 2010.
 - **Credit for owners of existing homes** – A new \$6,500 credit is available for those who have owned their existing home for at least five years. This credit is available for home purchases after Nov. 6, 2009, and before May 1, 2010, as long as closing takes place by June 30, 2010. Both credits are limited to 10 percent of the cost of the new home.
- **Tax credits for home improvements** – A tax credit for 30 percent of the cost of qualifying home improvements, up to a maximum credit of \$1,500, is available for improvements placed in service in 2009 and 2010. The credit applies to energy-efficient improvements such as insulation and exterior windows, as well as heating and air conditioning systems. You will need to complete your purchase before Dec. 31 to qualify for the credit in 2009.
- **Funding your retirement plans** – To qualify for a deduction in 2009, your retirement plan generally must be in place before the end of the year. Exceptions are IRA and SEP (simplified employee pensions) plans, which must be set up by April 15, 2010.

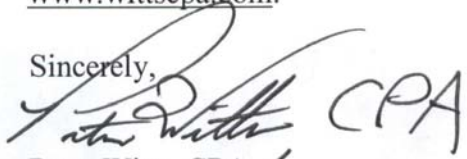
The following limits apply for both 2009 and 2010:

- Participants in a 401(k) plan can defer up to \$16,500 (\$22,000 for ages 50 or older).
- The IRA contribution limit is \$5,000 (\$6,000 for ages 50 and older).
- Simple IRA participants can defer up to \$11,500 (\$14,000 for age 50 and older).
- Self-employed individuals can contribute 20 percent of their self-employment income up to \$49,000.

During these times of uncertainty, remember that we are here to help you. Give us a call to review your year-end strategies and plans for 2010.

For more information about our firm and the services we provide, visit us on our website at www.wittscpa.com.

Sincerely,


Peter Witts, CPA