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2008 Year-End Tax Planning

As we head into the final quarter of 2009, thoughts turn to tax planning–the chance to make the best of our current financial situation using the tax tools at our disposal. We also look ahead to opportunities in 2010. Here is a roundup of tax laws that may affect your year-end tax planning and planning in the year to come:

1. **Federal Estate Tax**. As faithful readers of this report, you already know that the Federal Estate Tax is scheduled for repeal on January 1, 2010. All sources report this repeal in all likelihood will not happen. More likely, Congress will pass a one-year extension of the current law before the end of the year. Congress plans to tackle this issue as part of a broader tax reform in 2010. Both sides of the aisle recognize that addressing the estate tax issue is a "must-do" in the coming months. Sadly, the concept of a portable estate tax exemption has fallen out of all proposals–it proved too complicated from a compliance standpoint. On a positive note, the dreaded carry-over basis threat has also dropped out of all proposed estate tax legislation. This was a provision that would have had negative consequences for all taxpayers, whether or not they were subject to the federal estate tax.
2. **Annual Exclusion from Gift Taxes**. The annual exclusion from gift taxes remains at $13,000 per donor per donee. No announcement has yet been made by the IRS regarding an increase for 2010.
3. **Roth IRA Conversions**. Effective January 1, 2010, the income limits that have thus far prevented taxpayers with a modified adjusted gross income exceeding $100,000 per year from converting their Traditional IRAs (IRAs) into Roth IRAs (Roths) are removed. Unlike IRAs, Roths are funded with after-tax dollars. Like IRAs, assets in a Roth grow income-tax free. There are two big differences between IRAs and Roths: Roths can distribute income-tax free and Roth owners don't have to worry about taking Required Minimum Distributions. Now is the time to run the numbers for your personal situation, to determine if it makes sense for you to convert to a Roth in 2010. But remember, there is a price to be paid: You will have to pay income tax on all assets converted from tax-deferred IRAs to Roths. The good news is that for Roth conversions made in 2010, you are allowed to spread the tax liability out over two years. There are many different angles from which to view this decision–please consult with your personal

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4. **Required Minimum Distributions from IRAs**. If you are over 70 ½, you are usually required to take a Required Minimum Distribution (RMD) out of your Traditional IRA each year, but not in 2009–Congress suspended the requirement as part of its economic relief efforts. No word yet on whether Congress will extend that relief in 2010. Stay tuned.
5. **Charitable IRA Rollovers**. In 2007-2009, clients have been allowed to make "direct charitable rollovers" from their IRAs to charities. Congress is discussing extending this favorable tax treatment for 2010, but again, we do not have final word on this point.