Tax Planning in an Ever-Changing Environment

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Capital Gains
Capital Gains Rates

- Only two rates exist
  - 5% for 15% tax bracket and lower
  - 15% for tax brackets 25% and greater
What Counts

- Applies to long term gains
  - One year and a day
- Also qualified dividends
  - U S stock corporations
  - Had to pay income tax to the U S
Zero Tax Rate

- 5% becomes 0%
  2009, 2010
Take Advantage

- Sell stocks with built up gains and repurchase
- Dividend paying stocks look even better
- May be time to sell the duplex
Planning

- Space sales out over two year period
- Double the advantage of “doubling up”
- If losses exist in portfolio
  - Sell and repurchase after 31 days
  - Lowers taxable income allowing more room in lower bracket for other gains
Harvesting Losses

- When selling losses
  - No investment 30 days prior or after sale
  - Watch for identical holding in another account
- Sell 100% of XYZ stock, purchase ABC stock and hold for 31 days
- Sell 100% of ABC stock and repurchase XYZ stock
Harvesting Losses Advantages

- Captures your investment loss
- Avoid Capital Gains Distributions
- Buys someone else’s loss potential
- Plays into Roth Conversion
Roth Conversions

To Do or Not to Do
General Rules

- Adjusted Gross Income < $100,000
  - Single or Married Filing Joint
- Tax is paid on converted amount
  - Pro-rata if basis exists
- No 10% additional tax
- 5 year holding period for 10% tax
2010 Rules

- $100,000 limitation is lifted
- 2 year Installment for tax
  - Pay in 2011 and 2012
  - Can elect out (report in 2010)
- All other conversion rules apply
Why Convert?

- Tax deferred becomes tax free
  - $25,000 IRA realizes 7% annual return for 10 years
  - Tax assessed on total $49,179 value
  - If converted at $25,000 tax on $24,179 of growth is avoided
- No RMD (required minimum distribution)
  - Heirs would be subject to RMD
  - No tax
4 Considerations

- Tax Bracket with Conversion
- How to pay Tax Due on Conversion
- Time to Recover Tax Loss
- I Love my Heirs
Considerations

- Conversion year tax bracket
  - Bracket less than 25% preferred

- Tax Bracket in distribution years
  - Hard to know this one

- Conversion tax needs to be paid from other than converted money
Considerations Continued

- Respect the 5 year hold rule
  - Short time frames will not be efficient
- Potential use of IRA prior to 59 1/2
  - Early retirement
  - College Funding
  - Second home purchase
  - Inheritance
Planning

- Know your goals for the IRA
- Consider splitting over a number of years
  - Controls conversion tax bracket
- Be cautious of social security taxability
- DOES NOT satisfy RMD
- Beware of AMT
Education Credit
American Opportunity Tax Credit

- $2500 max credit
  - 100% of first $2000 + 25% of next $2000
  - Includes tuition and books
  - 40% refundable
  - Phase from $160,000 to $180,000 of AGI
First Time Home Buyer Credit II
$8000 Credit Possibility

- 10% of purchase price
- No home ownership last 3 years
- November 30th close
- Now extended to June 30, 2010
  - General rules unchanged
  - Binding contract by May 1, 2010
New Home Buyer Credit III

- Now adds $6500 credit
- Definition of “New Home Buyer” changed
  - Same residence 5 out of past 8 years
  - Testing period ends day of purchase
  - Not required to sell old residence
  - Purchase after November 6, 2009
- Purchase price must be less than $800,000
New Home Buyer Credit III

- Adjusted Gross Income phase out
  - Before November 6, 2009
    - $150,000 to $170,000
  - After November 6, 2009
    - $225,000 to $245,000
- Applies to both homebuyer credits
New Home Buyer Credit III

- Purchase from a relative
  - Before November 6, 2009
    - Purchase from spouse’s relative okay
  - After November 6, 2009
    - Neither spouse can be related to seller
Energy Credit
Energy Credit is Back

- $1,500 Energy Credit for 2009 & 2010
- Increased from 10% to 30%
- Changes are effective for eligible property placed in service after 12/31/08 and before 01/01/11
- For specific details visit www.energystar.gov
Tax Credit Details

- HVAC, biomass stoves, and non-solar water heaters is 30% of the total cost up to $1,500
- Solar water heaters, solar panels, geothermal heat pumps, wind energy systems, and fuel cells is 30% of the total cost with NO upper limit
Are installation costs covered?

- Installation costs ARE COVERED for:
  - HVAC (heating, ventilation and air conditioning)
  - Biomass stoves
  - Water heaters (including solar)
  - Solar panels
  - Geothermal heat pumps
  - Fuel cells
Are installation costs covered?

- Installation costs are NOT covered for:
  - Windows
  - Doors
  - Insulation
  - Roofs
Trusts and Estates

- What will happen to inheritance tax levels after 2010?
  - Still anybody’s guess
  - Should still exist but maybe around $3 MM.
- What can you do about it?
Estate Planning

- Use of the “B” Trust
  - Pass up to exemption amount inheritance tax free
  - Balance to “A” Trust
Considerations

- If money will not be needed, why wait?
  - Allowed $1 MM lifetime gift
  - Fund Trust while still living
Considerations

- What to fund trust with?
  - Mutual Funds
  - Municipal Bond Ladder
  - Annuity
  - Insurance
Questions