TAX OUTLOOK FOR 2010

On November 6, 2009, the Worker, Homeownership and Business Assistance Act was signed into law by President Obama and after a tumultuous 2009, taxpayers have reason to look forward to better times. Volatility in the financial markets, economic downturns, job losses, home foreclosures, rising medical costs and real estate devaluation caused much negativity in the past few years. Some tax law changes, recently signed into law or extended, have provided more hope for tax breaks, if not an economical stimulus on our road to recovery.

Homebuyer Credits

Much attention was given to first-time homebuyers in 2008 (refundable credits up to $7,500) and 2009 (refundable, non repayable credit up to $8,000), but the new "repeat homebuyer credit" provides up to $6,500 of refundable tax credits if the home was used as a primary residence for five consecutive years out of the previous eight year period before purchase date. Purchases of homes after November 7, 2009 until April 30, 2010 will qualify for the new credit, without requiring the buyers to sell their existing principal residence. The credit is still 10% of the purchase price, subject to income limitations of the taxpayers, and credits can be claimed on 2009 tax forms, even if the closing takes place in 2010.

Residential Energy Credits

Energy-efficient home improvements qualify for a credit of up to $1,500 (30% of improvement cost) on purchases made in 2009 and 2010. High-efficiency furnaces and air conditioners, hot water tanks, windows, insulation and roofing qualify for the credit, subject to specification limitations.

Education Credits

The American Recovery and Reinvestment Act of 2009 introduced the American Opportunity Credit (Hope Credit), which is expanded to cover the first four years of college. The credit can be as much as $2,500 and income phase-outs have been increased.

New Car Buyer Incentives

Besides the "cash for clunkers" program initiated in 2009, some additional tax breaks are still available. Sales tax paid on new vehicles purchases is allowable to all taxpayers, even those who don't itemize and take the standard deduction.

Roth IRA Conversions

Retirement plans are some of the most uncertain pieces to long-term estate and financial planning. New rules for 2010, that allow Roth IRA conversions from traditional IRAs, have given financial advisers more options to offer their clients. Conversions used to be limited to taxpayers with income less than

$100,000, but the removal of that cap, plus the provision to pay corresponding taxes on the conversion equally deferred to 2011 and 2012, gives investors a “don’t pay now but pay later” scenario. Roth IRAs become further attractive in that there is no required minimum distribution at age 70 ½.

Capital Gains/Dividend Tax Rates

The favorable tax rate on qualified dividends and long-term capital gains is extended to 2010. The maximum rate of 15% (0% if taxpayers are in the 15% or lower tax bracket) has encouraged many taxpayers to sell appreciated assets, thus locking in minimal tax impact and providing liquidity for other considerations.

With 2011 tax laws completely unknown at this time, we can only hope that these 2010 incentives will help soften the financial woes experienced by too many taxpayers.

Happy New Year and best wishes for renewed optimism!