Most of the provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 are scheduled to expire at the end of 2010 unless new tax legislation is enacted. We have already seen major tax legislation passed this year, such as the Hiring Incentives to Restore Employment Act and the Health Care Reform Act. As existing tax laws expire and new tax laws are enacted, the need for effective tax planning is crucial. As we approach the end of 2010, consider these 10 tax tips and strategies that can help reduce your income tax bill for the current and future tax years.

- Early this month check the amount of 2010 tax you have prepaid through withholding and quarterly estimates. If you've underpaid, consider increasing your withholding before year-end. Withholding is considered to have been paid evenly throughout the year. This could prevent your being charged underpayment penalties for 2010.
- Avoid the marriage penalty. If a wedding or divorce is in your plans, be aware that your marital status as of December 31 determines your tax status for the whole year. Changing the dates of a year-end event may save taxes. Even though recent tax laws provided some relief from the marriage penalty, they did not eliminate it.
- Plan for losses. Check your tax shareholder basis in any S corporation in which you are a shareholder and where you expect a loss this year. Be sure you have sufficient basis to enable you to take the loss on your tax return.
- Use this year's annual gift tax exclusion. If you make annual gifts to family members or others, make sure you complete your gifts for 2010 by December 31.
- Estimate if your business is going to have net profit before 12/31/10. If you have an opportunity to purchase necessary additional equipment or pay any of your business expenses early, it may lessen your tax burden. Squeeze in planned equipment purchases before December 31. Taxpayers must usually deduct the cost of business property over several years. A special election allows taxpayers to expense up to $500,000 of property purchased and put into service in 2010. Check into the reinstated 50% bonus depreciation for new equipment purchases. Property such as machinery, equipment, and furnishings qualify. Be careful with special rules that apply to automobiles, personal computers, and cellular telephones.
- If you are an S-corporation, the IRS wants you to compensate yourself a reasonable salary. Remember to make your payroll payments prior to 12/31/10 so they get properly reported on a W-2 for 2010.
- Review your tax withholding and estimated tax payments. If you made a recent job change or have experienced a change in income, you may need to adjust your withholding or estimated tax payments. Other changes, such as a new home mortgage, forgiveness of a loan or a change in marital status or dependents, can also affect your tax status. As a general rule, tax payments should cover at least 90% of the taxes to be paid with your 2010 return, or 100% of the taxes reported on your 2009 return (110% if your 2009 adjusted gross income exceeded $150,000).
- Itemized deductions and personal exemptions will not be phased out for high-income taxpayers in 2010. The full deduction for itemized deductions was gradually restored under the 2001 tax law. Effective for 2010, high-income taxpayers will not have an income-based reduction in itemized deductions, and they will be entitled to the full $3,650 deduction for each personal exemption.
- The home energy credit is still available to homeowners for tax years 2009 and 2010. Installing insulation and replacing exterior windows and doors may help you qualify for a credit of 30% of the cost of the improvement, up to $1,500 for both years combined. Residential energy-efficient property tax credits are also available for larger items, such as solar or wind energy systems and geothermal heat pumps.
- A Section 529 plan can be a great way to save for a child’s education. As long as the plan satisfies a few basic requirements, federal tax law offers special tax benefits. Although contributions made to the plan are not deductible on your federal tax return, your deposits grow tax-deferred, and withdrawals made to pay for the beneficiary’s college costs are tax-free. Generally, there are no income or age limitations to participate, and contribution amounts can be substantial. A Section 529 plan can also be an estate-planning tool for families who wish to minimize their estate tax liabilities.
- Selling property or investments that have declined in value and donating the proceeds to charity can be a smart tax-planning strategy. You can deduct both the capital loss (subject to limits) on the sale and the

contribution to the charity. If you give the property or investment directly to the charity, the fair market value of the property is deductible as a charitable contribution, but you will not be able to deduct the capital loss. To offset a gain on the sale of investments, consider selling lower-performing stocks or mutual funds to realize a deductible loss. The stock can be reacquired after 30 days without creating a nondeductible “wash sale.”

- The first-time home buyer credit was extended for those who signed sales contracts prior to May 1, 2010. Home buyers have until September 30, 2010 to close on their home purchases and qualify for the $8,000 ($6,500 for existing homeowners) tax credit under a new extension bill passed by Congress and signed into law by the president.
- Some good planning strategies remain the same each year, like maximizing contributions to your retirement accounts. For 2010, the maximum contribution to a 401(k) plan is $16,500 for anyone under age 50. For those age 50 and older as of the end of the year, an additional “catch-up” contribution in the amount of $5,500 is allowed. The 2010 IRA contribution limit is $5,000 for those under age 50. An additional catch-up contribution in the amount of $1,000 is allowed for individuals age 50 and older as of the end of the year. You should consider the tax benefits of making contributions to a Roth IRA or 401(k) instead of a traditional IRA or 401(k). This may be a good time to convert your IRA to a Roth IRA. For conversions that occur during 2010, there is no income limitation as in prior years, and the payment of tax on the converted funds can be deferred until the 2011 and 2012 tax years.
- Gifts of up to $13,000 per individual per year, or $26,000 per year for spousal gift splitting, may be given without incurring the gift tax. Effective use of the annual gift exclusion can be an important wealth transfer tool in estate planning.
- Mortgage insurance premiums paid to buy, improve or build a primary residence are deductible as qualified residence interest in 2010. Certain phase-out limitations apply for higher-income taxpayers.
- Taxpayers who turn age 70 1/2 in 2010 may delay taking their first required minimum distribution until April 1, 2011. Taxpayers who turned 70 1/2 prior to 2010 must take their required minimum distribution by December 31, 2010. For Roth IRAs, there is no minimum distribution requirement.

Developing a smart tax-planning strategy can be challenging. With all of the changes this year and more expected to occur in the future, tax planning can seem like attempting to hit a moving target. Even in times of uncertainty, there are smart planning strategies you can use. The best tax-planning tip is to keep in touch with your tax advisor. A review of your tax situation is vital if you want to keep your tax bill under control. Smart tax planning has never been more important than it is right now.