

Some tax news for you to consider for this year and the next.

CHARITABLE CONTRIBUTIONS. When one can give for the Lord's work and enjoy tax savings at the same time, it's good to take notice. With those thoughts in mind, here are three tax-saving ways to donate to your favorite church/charity:

1. Donate appreciated stock. If you've owned the shares for over a year, you can deduct the full value and not pay tax on the appreciation. Whereas if you sell the appreciated stock and donate the cash, the profit is hit with capital gains tax.
2. Don't donate stock that has decreased in value. If you do, you can't deduct the loss on your return. The better strategy is to sell the stock that decreased in value and then donate the proceeds.
3. If you are over age 70½ and own one or more Individual Retirement Accounts (IRAs), special legislation extended through 2009 allows you to transfer up to \$100,000 tax-free without charitable deduction limits. Such a transfer does not have to be included in income. The legislation permitting direct IRA transfers to charity is due to expire on December 31, 2009, though we are hopeful that it will be extended into the future.

PENSION 403(b) PLANS. Those with 403(b) plans, take notice. The IRS plans to survey thoughts of 403(b) plans sponsored by schools to find out whether the plans are made available to all workers who are eligible to participate.

UNUSED LEAVE CAN BE TRANSFERRED TO A 401(k) OR PROFIT-SHARING PLAN. This can help employees who have leave that can't be carried over (Rev Rul 2009-31).

ROTH IRAs. Starting in 2010, the existing \$100,000 income test for converting a traditional IRA to a Roth IRA will no longer apply. This is especially good for those who take mandatory distributions from their IRA. With a Roth, there is no mandatory withdrawal rule allowing you more time to accumulate tax-free or provide a tax-free inheritance. Also, with a ROTH IRA, those past 70½ who are still working can make contributions as long as they meet the income limits for ROTH IRA contributions. That's not true with a regular IRA. Talking about required minimum distributions, for 2009 there are none. That means that any withdrawals from a traditional IRA in 2009 can be used to fund a ROTH IRA. That isn't true in years where there is a required minimum distribution.

But remember, such conversions are taxable. Those who convert to a ROTH IRA can have half of the converted amount taxed in 2011 and the other half taxed in 2012. However, watch the tax rates. Year 2010 is the year the lower tax brackets end. If you wait until 2012 to pay taxes on your ROTH conversion, you could pay the higher tax rates. And do not pay taxes out of your current IRA. First, if you're under 59½, you're

facing a 10% penalty on the amount you withdraw, and second, the amount you take out to cover the taxes will lose the chance for tax-free compounding going forward.

If you convert to a ROTH IRA and then withdraw in the first five years after the conversion, you may owe penalties even if you take out funds you converted from the IRA tax free. If under 59½, you can be hit with a 10% penalty even if you take out previously taxed funds. Normally only earned funds are subject to the 10% penalty, but IRS regulations say the entire payout is subject to the 10% penalty unless you've turned 59½, are disabled, or have elected to take a series of substantially equal distributions from the ROTH.

You have until October 15, 2011, to undo a 2010 conversion that has gone down in value and avoid having to pay income tax on that portion of the conversion.

FIRST TIME HOMEBUYERS. The credit is extended through April 30, 2010. Binding sales contracts must close by June 30, 2010, to qualify. Homes purchased after November 6 can claim the full \$8,000 credit if the home cost \$80 more and their adjusted gross income (AGI) is \$225,000 or less for married and \$125,000 for singles. Partial credit is available for married earning up to \$245,000 and single earning up to \$145,000.

CURRENT HOMEOWNERS QUALIFY FOR THE HOMEBUYERS CREDIT. If current buyers owned a home for five out of eight years, purchase another principal residence home after November 6, 2009, and before May 1, 2010, they may qualify for a \$6,500 credit. Homes costing over \$800,000 don't qualify. No credit is allowed for purchasing a home after November 6 from in-laws. Dependents cannot claim the credit nor can taxpayers under age 18. Filers must attach a signed copy of the settlement statement to their tax returns or claim for refund.

ENERGY SAVING HOME IMPROVEMENTS MUST BE MADE BEFORE 2009 YEAR END. You can take a credit for 30% of cost for high efficiency home heating and air-conditioning systems, water heater, and biomass stoves. The credit is capped at \$1,500. The credit is also available for storm windows, storm doors, and skylights.

There is no cap on the 30% of cost for installing alternative energy solar electric systems, fuel cells, solar hot water heaters, geothermal heat pumps, and wind turbines. The credit for fuel cells is limited to \$500 per one-half kilowatt of power capacity.

MOTOR VEHICLES. Sales tax paid on up to \$49,500 of the cost of vehicles purchased before 2010 can be deducted whether or not you itemize. If you do itemize, add the sales tax on the vehicle to your state income tax. This break phases out for married with AGIs over \$250,000, over \$125,000 single. If you elect to deduct sales tax instead of income tax, you do not get extra because you would already be claiming the vehicle sales tax.

EDUCATIONAL TAX CREDITS.

American Opportunity Tax Credit – Up to \$2,500. Available in 2009 and 2010 for the first four years of college. Limited to joint incomes between \$160,000 and \$180,000 for joint filers and \$80,000 and \$90,000 single. If a parent's income is above the phase-out range, the student can take the refundable credit provided the parent agrees to forego the dependency exemption. Parents subject to the Kiddie Tax for student with income of less than half of his or her total support are not eligible for the refund. Scholarships for tuition are tax free, but that tuition cannot then be used to generate a tax credit. It may be better to allocate scholarship monies to room and board. Although that will lead to taxable scholarship income, the refundable tax credit could be more than the tax liability for taxable scholarships.

Lifetime Learning Credit – Up to \$2,000. Available for all years of postsecondary education and for courses to acquire or improve job skills. Can only be used for tuition and fees. May claim a tax credit for 20% up to \$10,000. Phase out for married is between \$100,000 and \$120,000; for single between \$50,000 and \$60,000.