

## End of Year Planning 2009

Written by John D. Buerger, CFP®

Thursday, 10 December 2009 18:09 - Last Updated Thursday, 17 December 2009 00:57

---

**John Buerger** the Wealth Coach

**Tax Tips for Everyone**

I can't think of a time when tax laws have been in greater flux than they are today. I also can't think of a time when good tax planning is more important than it is **this year!**

This is a time where a little effort can end up saving you thousands of dollars in taxes. That is money that, when saved over time can amount to tens of thousands of dollars in additional net wealth in your future.

A little effort now can mean a much more secure future for your family.

The purpose of our last few blog posts of the year is help you do that tax planning AND still have time to enjoy your family and friends and the spirit of the holidays. This is a tough bill to fill, but we're up for the challenge.

**[Know Where You Are](#)**

**[Tax Planning Tip #1 - Earned Income Management](#)**

**[Tax Planning Tip #1b - Investment Income Management](#)**

**[Tax Planning Tip #2 - Harvesting Gains Today Anyway](#)**

**[Tax Planning Tip #3 - Deferring Income - Qualified Accounts](#)**

**[Tax Planning Tip #4 - Giving](#)**

**[Tax Planning Tip #5 - Get 'er Done](#)**

It all starts with the same old rule ...

**KNOW WHERE YOU ARE**

I'm starting to sound like a broken record, but every successful planning venture (from financial planning to planning a trip to building a new house) starts with a clear understanding of "where you are." Your tax planning efforts will be wasted if you cannot or choose not to take care of this first step.

There are lots of resources on the web to learn about taxes and tax laws - and we don't have time for that here. I know it seems daunting to break down your income between regular earned income, dividend income and capital gains ... but they are all treated differently and must be understood in order to be managed and planned around.

If you don't want to do this, hire a tax professional to help you. It is worth up to 2% of your income to spend it on professional help - they can save you more than that in taxes due.

**Tax Planning Tip #1a - Earned Income Management**

This one is easier for business owners and independent contractors than W-2 wage earners, but it is one of the most powerful and easiest ways to manipulate your tax bite. If you made more this year in earned income than you usually will make (and more than you expect to make next year), it is worth the effort to try and get some of that income to show up in 2010 rather than 2009.

**Tax Planning Tip #1b - Investment Income**

Management

Even if you can't manage your earned income, you might be able to control your investment income. ♦ If you need less income this year, don't sell appreciated stock (long term gains) until 1/3/2010. ♦ If you already sold some appreciated stock, then look to harvest some losses to offset your gains.

Meanwhile if your overall income is lower than usual, then this might be a good time to harvest some capital gains. ♦ Doing so will be taxed at a lower rate (the capital gains rates are 5% and 15% depending on AGI) and will allow you to raise the underlying basis for future investment gains.

**Tax Planning Tip #2 - Harvesting Gains Today Anyway**

It could be a good move on your part to harvest some capital gains today, even if you don't have offsetting losses to balance them out. ♦ If there was one place where tax laws could be changed quickly, it is on capital gains which are already highly favored by current tax law (remember the 5% and 15% brackets compared to 15%, 25% and 28% on earned income).

It is likely that some form of tax increases are in your future. ♦ While earned income taxes will probably go up, that process is a long slow slog and is never done retro-actively. ♦♦ If there is a tax increase on earned income (wages and salaries), we will likely know what it is and have plenty of time to react.

But the history on capital gains is a bit more murky. ♦ You only have to go back to the mid-90's when capital gains rates were changed quickly and that change was implemented retro-actively.

If they were to decide to bump capital gains back up to where they were 10 years ago, you will likely not have time to liquidate your holdings and capture those capital gains at the lower, more favorable rates. ♦ In fact the government would be stupid to give you that opportunity.

That is why we are recommending people harvest their biggest long term capital gains sooner than later, reset their basis to a higher amount and capture historically favorable tax rates on the transaction.

**Tax Planning Tip #3 - Deferring Income - Qualified Accounts**

Last week we discussed the [3 Bucket System](index.php?option=com_content&view=article&id=191:tax-fiction&catid=13:blog&Itemid=69) for diversifying your retirement accounts and how that can add 5% (or more actually) to your net wealth in the future. ♦ There IS still a great case to make sure that you are putting some money into your qualified account for this year.

Putting money into your IRA-type account will give you a tax deferral on income for 2009 (useful for Tip #1a) and could keep you in a lower tax bracket for this year. ♦ The money will grow with no tax consequences until you take it out. ♦ Most qualified retirement accounts are invisible to most creditors and predators including college financial aid applications.

If you work for a company that has a matching program with their 401(k), you should take advantage of that match. ♦ It is free money. ♦ If you are self-employed, you can use a SEP-IRA or a Solo(k) plan to save more than the \$5000/\$6000 limit for a traditional IRA.

## End of Year Planning 2009

Written by John D. Buerger, CFP®

Thursday, 10 December 2009 18:09 - Last Updated Thursday, 17 December 2009 00:57

---

style="font-family: verdana,geneva;"/>In other words, you have lots of options. Use them.

**Tip 4** Tax Planning Tip #4 - Giving

'Tis the holiday season - a time when we're all thinking about being grateful and thankful and about giving back to those we love. You can take the holiday spirit to the next level by actually making a donation to a needy cause ... and getting a tax deduction for your efforts.

**Better** - Tax deductible gifts to non-profit organizations can be small (a few dollars) or big (millions). You can be generous to one organization or spread the wealth among many.

If you want a tax deduction, the gift has to be to a qualified non-profit organization. These are often referred to as 501(c)3 corporations (since they operate under that section of the IRS code). They should be able to provide you with a non-profit Tax ID number.

**Bigger** - If your income for 2009 was more substantial, you might want to look into more advanced philanthropic endeavors including endowments, family foundations, charitable remainder trusts or donor advised funds like community foundations. If this is your desire, you had better get crackin' because these take time to set up and execute.

**Tip 5** Tax Planning Tip #5 - Get 'er Done

While you can make a 2009 contribution to your qualified IRA-type account as late as the date you file your 2009 taxes (April 15 for most of us), special accounts like the Solo(k) or Defined Benefit Plans must be established by 12/31/2009 in order to qualify and receive your contribution.

Most everything else we talked about here also has the 12/31/2009 deadline. Harvesting gains and losses must be done by the end of this year. Charitable deductions are only good on gifts made during the year. Income and deductible expense management (like section 179 purchases) are transactions that revolve around the New Year.

Get your data together this week. Go see your tax professional. Schedule an appointment with your financial planner. Don't wait until next week. Just do it today.

Of course, I will still expect to hear from people in the week between Christmas and New Years and we will do what we can to make things happen, but you put yourself in jeopardy of missing out on thousands of dollars in tax savings just by putting it off.

[Share This Article on Facebook](http://www.facebook.com/share.php?u=<url>)