

# McCormick Braun Friman, LLC

Telephone: (312)466-0800 | Facsimile: (312)466-0808 | Online: [www.mbflegal.com](http://www.mbflegal.com)

2 North LaSalle Street | Suite 1250 | Chicago, IL 60602

December 18, 2009

Dear Client:

I know that 2009 has been a difficult year for many of my clients due to the economic downturn. Although there are signs of recovery, it is expected that a full recovery is still some years away. You may be surprised to learn that the Tax Code could help ease the impact of the recession on your individual tax liability. With tax season around the corner and year end coming up, I want to review some new tax strategies that may be of help as well as the traditional "tried and true" techniques to help minimize your tax liability.

**Income shifting.** The traditional year-end strategy of income shifting is still valuable this year but there is a twist. Under this strategy, you time your income and deductions so that your taxable income is about even for 2009 and 2010, therefore your tax bracket remains the same. If you anticipate being in a higher tax bracket for 2010, you may want to accelerate income into 2009 and defer deductions into 2010. Income can be delayed through setting up deferred compensation arrangements, postponing year-end bonuses, maximizing deductible retirement contributions, and delaying year-end billings. The twist is the uncertain future of the individual marginal income tax rates. Currently, the top two rates are 33 percent and 35 percent but they are temporary and will expire after December 31, 2010. The Obama Administration has proposed reinstating the 36 percent and 39.6 percent rates for higher-income taxpayers. Congress could allow the higher brackets to return after 2010 or make the higher rates retroactive to January 1, 2010. Our office will keep you posted on developments.

**AMT.** Another planning complication is the alternative minimum tax (AMT). As you know, the AMT was intended to ensure that very wealthy individuals did not evade taxation. Because the AMT was not indexed for inflation, and for other reasons, the AMT today encroaches on many moderate-income taxpayers, especially two-income married couples. Now is an opportune time to compute if you will be subject to the AMT for 2009 or 2010. Our office can explore whether certain deductions should be more evenly divided between 2009 and 2010 and whether certain deductions will qualify, or will not be as valuable, for AMT purposes. Congress is also expected to extend to 2010 a temporary AMT "patch" that insulates many moderate-income taxpayers from the AMT.

**Gains and losses.** Our office can also help you time the recognition of capital gains and losses to minimize net capital gains tax and maximize deductible capital losses. The process involves analyzing short-term and long-term gains and losses as well as other items and then determining how you might vary the mix before year-end to maximize existing losses and minimize existing gains. Many investors have excess capital losses from 2008 that they may now "carry over" to offset capital gains that would otherwise be taxable. We can help you coordinate your year-end trades with these computations.



# McCormick Braun Friman, LLC

**Life changes.** Marriage, divorce, the birth of a child, death, a job change or loss, and retirement are just some of the life events that trigger a special urgency for year-end tax planning. If you have had a life change, please contact our office so we can review how that change will impact your federal tax liability. After December 31, 2009, it will be too late to alter most of your bottom-line tax liability for 2009.

**First-time homebuyer credit.** A taxpayer who is a first-time homebuyer of a principal residence may claim a refundable credit equal to 10 percent of the purchase price of the residence (with a maximum credit of \$8,000 (\$4,000 for married couples filing separately)). The Worker, Homeownership and Business Assistance Act of 2009, signed into law on November 6, extends the credit for qualified taxpayers purchasing principal residences on or before April 30, 2010. If a taxpayer enters into a binding contract before May 1, 2010, to close on the purchase of a principal residence before July 1, 2010, the new law treats the credit as not expiring until July 1, 2010.

The new law also expands the credit to "long-time homeowners" who are buying replacement property but at a reduced amount of the credit. Individuals who have owned and used the same residence as their principal residence for any five consecutive year period during the eight year period ending on the date of the purchase of a subsequent principal residence may be eligible for a reduced credit of \$6,500 (\$3,250 for married couples filing separately).

Congress has also made the credit available to more individuals by increasing the modified adjusted gross income (MAGI) phaseouts for the credit. For purchases made after November 6, 2009, the credit begins to phase out for individuals with MAGI between \$125,000 and \$145,000, and for married couples filing joint returns with MAGI between \$225,000 and \$245,000.

**Making Work Pay Credit.** Many individuals are seeing a little more in their paychecks because of the Making Work Pay Credit. However, some taxpayers may be surprised to find that their refunds will be lower than expected next year or that they may owe tax. You may need to file a new Form W-4 with your employer if you do not want the Making Work Pay Credit to reduce your withholding more than the amount of the credit. For example, our office has been contacted by individuals with more than one job, who have discovered that both employers are reducing withholding for the credit. Married taxpayers whose combined income places them in a higher tax bracket may also want to file a new Form W-4. The credit may also impact your tax liability if you are self-employed or receiving a pension.

**Green incentives.** When considering home improvements, do not forget a variety of federal tax incentives that can help you save money. One of the more popular tax breaks is the residential energy property credit. The credit is 30 percent of the sum of expenditures for qualified energy efficiency improvements, including windows, furnaces, water heaters, heat pumps, and more, which are placed in service in 2009 and 2010. The credit is limited to \$1,500 for 2009 and 2010. The improvement must meet strict energy efficiency standards. If it does not, you cannot claim a credit. This is a common error and it can be a costly one.

The Tax Code also rewards taxpayers who purchase "green" vehicles, such as hybrid vehicles and soon to be available plug-in electric drive vehicles. As with home improvements, the vehicle must meet certain energy efficiency standards. The IRS has certified the eligibility of many hybrid vehicles for the alternative vehicle tax credit. Additionally, the alternative motor vehicle credit is



# McCormick Braun Friman, LLC

now treated as a nonrefundable personal tax credit. This means that it can be used to offset regular tax liability and AMT liability the same as other nonrefundable personal credits to the extent allowed. Do not forget that as a bonus for purchasing any new vehicle by the end of 2009, you may deduct the sales tax that you pay on up to \$49,500 of the purchase price, depending on the amount of your adjusted gross income.

In an attempt to save the environment and not waste paper, we ask that you visit our website at [www.mbflegal.com](http://www.mbflegal.com) for our 2009 Income Tax Guidelines and Organizer, Tax Preparation Checklist and Jessica's Tax Tips for Organizing. These documents will assist you in collecting and organizing your tax documents for an easy and speedy tax return preparation. However, feel free to contact us if you would like us to send you a paper copy. Please also visit our website every Tuesday, beginning January 5, 2010 for Tuesday Tax Tips.

Please contact our office if you have any questions about any of the provisions discussed in this letter or any other questions about year-end tax planning. I look forward to working with you this tax season to minimize your tax burden. The tax packages will be going out shortly and our web site will be much more interactive this year to assist in your preparation. I wish you the happiest of holidays.

Very Truly Yours,  
**MCCORMICK BRAUN FRIMAN, LLC**

Michael T. McCormick, JD, LL.M.



**McCormick Braun Friman, LLC**

