10 astute tax moves in 2010

To put the struggling economy back on track, Congress has passed several new tax laws in recent years. The good news is some tax breaks will still be around in 2010 while new ones are in the works. Here are 10 tax moves that could help you lower your IRS bill in the New Year.

1. **Buy a home.**

   The real estate market was a major economic drag, so lawmakers decided to jump-start it by offering first-time homebuyers a tax break. It seemed to work, so as 2009 wound down, Congress extended the first-time homebuyer credit and expanded it to folks looking to purchase move-up homes.

   First-timers -- individuals who haven't owned a residence in the last three years -- can claim up to $8,000. Current homeowners who've lived in their residence for five of the eight years before buying can get up to $6,500.

   You must have a contract in place by April 30, 2010, and the deal closed by June 30 to qualify for the credit.

   Even if your residential purchase is in 2010, you have the option to take the credit on your 2009 tax return or wait and claim it on your 2010 Form 1040. Run the numbers both ways to see which filing year will save you the most tax money.

2. **Watch out for Making Work Pay complications.**

   To get more money into taxpayers' hands, the American Recovery and Reinvestment Act included a new tax break, the Making Work Pay credit. Rather than being a separate rebate check, this credit started showing up in worker paychecks last April. By the end of 2009, eligible employees received an extra $400. Some workers, however, got more than they should have. This happened, for example, when a worker had two jobs. The new withholding rates meant that employee got $400 at each job, or twice the allowable credit amount. Similarly, a husband and wife who each had jobs could have received excess credit.

   This filing season, taxpayers will have to fill out the new Schedule M to reconcile any credit overages. You might want to fill out the form early to see just what kind of tax damage you might face.

   If you did encounter a Making Work Pay problem in 2009, consider adjusting your withholding early in 2010.

   Now about that 2010 payout. Even if you don't make any W-4 changes, you'll see more tax withheld from your paychecks than was taken out after the Making Work Pay credit went into effect last year. When the credit took effect, the full $400 amount was paid out over just the last nine months of the year. But with the credit being paid out over all 12 months of 2010, this year's per-paycheck bump will be smaller.

3. Convert your traditional IRA to a Roth.
With the arrival of 2010, anyone can now convert a traditional IRA to a Roth retirement account. Before, shifting tax-deferred traditional IRA money into a tax-free Roth plan was not available to folks with adjusted gross income of $100,000 or more. That income limit has been removed.

If you decide this is the right retirement move for you, note that you will have to pay taxes on the previously untaxed amounts you convert. The good news is you can opt to pay half the conversion costs on your 2011 taxes, with the remainder in 2012.

4. Improve your home's energy efficiency.
Thanks to another portion of last year's stimulus bill, the tax savings for energy-efficient home improvements were themselves improved.

Instead of a complicated patchwork of credit amounts, homeowners can claim up to 30 percent of the first $5,000 spent on qualifying residential energy upgrades, or up to $1,500 in tax credits. If you want to go even greener, for example by installing a solar home heating system, you could get even bigger tax credits.

The new credit format took effect last year, but is running through 2010. This might be the last year, though, so if you need to make home repairs, consider energy-efficient upgrades that could pay off at tax-filing time.

5. Hit the road in a hybrid.
Gas prices stabilized over the last year, but there's no guarantee they won't once again nudge the $4 mark. If you're concerned about it, consider a hybrid. Even better, these cars could pay off at tax time.

However, you have to shop carefully. The hybrid credit, which is available through 2010, was designed to phase out once an automaker sold 60,000 eligible vehicles. That happened years ago with popular Toyota and Honda hybrids. Other auto manufacturers, however, still offer an array of fuel-efficient cars, trucks and SUVs that could save you tax dollars.

6. Hire an estate tax attorney.
The estate tax died as scheduled in 2010, but look for a retroactive resurrection this year. Congress effectively has until September to approve a new law since estate tax returns aren't due until nine months after a taxpayer dies. Most lawmakers agree that a tax should be in place. The question is: How much of an estate's assets should be exempted? The congressional re-examination of the estate tax highlights how estate planning can be complex, confusing and costly. Don't follow Congress' bad example and put off dealing with your estate and potential tax ramifications. See

an estate tax professional and get your affairs in order sooner rather than later so that your heirs, not the IRS, are your ultimate beneficiaries.

7. Remember that RMDs are back.

Tax-deferred savings plans such as traditional IRAs or workplace 401(k)s are great ways to build a retirement nest egg. But the IRS won't wait for its cut of the account earnings forever. Once you turn 70½, tax law demands you start taking money out of these accounts via required minimum distributions, or RMDs.

In 2009, retirees didn't have to worry about RMDs thanks to a one-year waiver granted by Congress. In 2010, RMDs are back, so make sure you take out the requisite money or you could pay a stiff penalty.

8. Cash in on low capital gains rates.

The Bush administration tax cuts included reductions in capital gains tax rates based on taxpayer adjusted gross income. Currently, the highest rate is 15 percent for individuals in the 25 percent to 35 percent tax brackets. Taxpayers in the 10 percent and 15 percent tax brackets pay no capital gains.

That's scheduled to change in 2011. The top rate will return to 20 percent; the zero rate will revert to 10 percent. There's always a chance Congress could continue the current lower rates, but with the federal deficit, the top capital gains rate is likely to increase. If you are in a higher income bracket and could eventually face higher capital gains taxes, speak with your tax and investment advisers about whether cashing in now at the lower rates fits your portfolio plans.

9. Be aware of rising income tax rates.

Similarly, several other Bush administration tax cuts are set to expire at the end of 2010. As for income taxes, the top tax rate is scheduled to return to 39.6 percent from the current 35 percent and the 10 percent bracket would be eliminated.

Will this happen? Right now, it looks as if the 10 percent bracket is safe, but higher-income individuals might be facing increased taxes in 2011. If you could be affected, talk with your tax and financial advisers about what steps you can take to soften the tax blow.

There has been some talk that growing deficits could prompt rate hikes ahead of schedule. However, a still-sluggish economy and upcoming 2010 midterm elections make that less likely. So pay attention to Congress and to Bankrate for the latest on where personal income tax rates might go.

10. Keep an eye on health care.

President Barack Obama had hoped that health care reform would be resolved by now. But look for this debate to continue into the early part of 2010. If or when lawmakers reach an agreement, you'll need to pay attention to what modifications might take effect.

Many changes, such as an increase in the amount of medical expenses necessary to deduct them, wouldn't show up for several years. Others, however, are on a fast track. For example, the proposal to limit flexible spending account contributions to $2,500 a year would take effect in 2011. If that change comes to pass, you'll need to account for it in 2010 as you make decisions about your company health care benefits.