

Life Plan

GUIDING YOU THERE

Tax Tips for 2010

March 2010

As the 2009 tax season comes to a close, we feel this is a great time to begin looking ahead to 2010. The following is an overview of the investment and income limits for tax advantaged programs available to you. We also address the 2010 capital gain and dividend tax rates and gifting limits. We conclude our letter with a few tax credit and deduction opportunities we don't want you to miss.

Retirement Contribution Limits:

In 2010 the maximum 401(k) and 403(b) employee contribution limits are \$16,500. Taxpayers who are 50 or older by the end of 2010 can increase their contribution by \$5,500, for a total investment of \$22,000.

For those who have a SIMPLE IRA program available through their employer, the maximum employee contribution is \$11,500. Taxpayers 50 and older can increase their contribution by \$2,500, for a total investment of \$14,000.

Traditional and Roth IRA Contributions:

You are eligible to contribute to a Traditional or Roth IRA if your modified adjusted gross income (MAGI) does not exceed \$167,000 for joint filers (partial contribution for MAGI up to \$177,000) or \$105,000 for single filers (partial contribution for MAGI up to \$120,000).

In 2010, the maximum contribution to a Traditional or Roth IRA is \$5,000. Taxpayers who are 50 or older can increase their contribution by \$1,000, for a total contribution of \$6,000.

Roth IRA Conversions – New Rules for 2010:

Beginning January 1 of this year, everyone can convert their IRA to a Roth IRA (in the past conversions were restricted by income limits, those that made too much could not do). The money you convert is fully taxable. So, to make the tax burden easier the IRS is allowing the option to pay half the tax in 2011 and half in 2012.

If you convert now, the amount you convert is added to your taxable income and you owe taxes at the current tax rates (for many, converting will push them into a higher tax bracket). Future withdrawals will be tax free and there will be no Required Minimum Distribution (RMD) requirements when you turn 70 ½.

The Roth conversion does not make sense for everyone. We will discuss this at our annual meeting to determine if converting is in your best interest.



Income Limits on Deductible IRAs:

If you are covered by a retirement plan at work, you can take a full deduction on your IRA contribution if your modified adjusted gross income is less than \$89,000 (married filing jointly) or \$56,000 (single or head of household).

Capital Gain Rates:

A capital gain is income from the sale of a capital asset, such as a stock or mutual fund. In 2010 you will *not* be subject to capital gain tax if you are in the 10% and 15% tax bracket. For those of you in the 25% and higher tax bracket, you are subject to a capital gain tax rate of 15%.

Dividend Rates for Stock and Other Investments:

When you own stock in a company, the company may pay some of their profits to shareholders, usually quarterly. When this occurs, you receive dividends and a tax bill. For 2010 you will *not* be subject to taxes on dividends if you are in the 10% and 15% tax bracket. If you are in the 25% or higher tax bracket, the old rules apply and you are subject to a tax rate of 15% on dividends.

Gifting Limits:

You can gift up to \$13,000 to an individual without paying gift taxes (married couples can give \$26,000; \$13,000 each). Gifting lowers the value of your estate and distributes your wealth while you are living. Gifting made to your heirs is not tax-deductible.

Education Savings Accounts (also known as Coverdell IRAs):

In 2010, you can contribute a total amount of \$2,000 to an Education Savings Account for each child you have. Your contribution is not tax deductible; however, earnings are tax free when withdrawn to pay for qualified education expenses. Qualified expenses can include primary education as well as college.

Coverdell contribution eligibility begins to phase out when your adjusted gross income reaches \$220,000 for married couples and \$110,000 for singles.

529 Plan College Savings Plans:

In 2010, up to \$13,000 (\$26,000 for married couples) per child can be contributed to a 529 plan without gift consequences. Withdrawals for qualified higher education expenses are free from federal tax. If you are a Michigan resident and choose to make your contributions to the Michigan 529 Plan (MESP) you are also eligible for a state tax deduction on contributions up to \$10,000. One time matching grants are also available for beneficiaries that are Michigan residents, are age 6 or younger and reside in a household with a family income of \$80,000 or less. See the MESP plan for more details.

There are no income limits with 529 plans. You can contribute no matter how much you earn.

Tax Credits and Deductions We Don't Want You to Miss!

Property Tax Deduction for Nonitemizers: For 2008 and 2009 homeowners who do not itemize their deductions get a limited increase in the standard deduction for their property taxes. The standard deduction is increased by \$500 (single filers) or \$1,000

(married filing jointly), but can't be more than the amount of property tax paid. Schedule L will need to be included with your return. No word yet on whether this will be extended to include 2010.

Credit for Energy-Saving Home Improvements:

The tax credit is equal to 30% of the cost of energy-saving home improvements, up to a maximum of \$1,500 (total amount for 2009 and 2010 combined). The credit applies to biomass fuel stoves, qualifying skylights, windows and outside doors, and high-efficiency furnaces, water heaters and central air conditioners. The dollar limit on a particular type of improvement, such as the \$200 cap on the credit for windows, has been repealed, so don't limit yourself to the old rules. Finally, there's also no dollar limit on the credit for qualified residential alternative energy equipment, such as solar hot water heaters, geothermal heat pumps and wind turbines. Your credit can be 30% of the total cost of such systems.

Home-Buyer Credit: President Obama signed legislation extending the \$8,000 first time home buyer tax credit and creating a new \$6,500 credit for longtime homeowners (those who continuously owned a home for at least five of the eight years leading up to the purchase of a new home). The new law also increases how much buyers may earn and still claim the credit. The phase-out zones--for both the \$8,000 credit and the \$6,500 credit -- are \$125,000 to \$145,000 for singles and \$225,000 to \$245,000 for married couples. Under the new law, the credit is available to qualifying buyers who sign a binding contract by April 30, 2010 and close by June 30, 2010.

We hope this information is beneficial to you. Please feel free to forward this information to your family and friends.

Please don't hesitate to call us should you have any questions or wish to discuss this in more detail.

This information is current as of 12/31/09, subject to legislative changes and is not intended to be legal or tax advice. Consult a qualified tax advisor regarding specific circumstances.



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