

May 14, 2009

If you have claimed the standard deduction in the past, you may be surprised to discover that by accelerating certain deductions into the current year, you are able to itemize deductions and decrease your tax liability. Even if you are not able to itemize, you may benefit from an additional standard deduction for state and local real property taxes and net disaster losses available for the 2009 tax year. An additional standard deduction is also allowed for motor vehicle taxes when qualified motor vehicles are purchased on or after February 17, 2009 and before January, 2010.

Although you may have itemized deductions in past years, you may not be aware of some opportunities that are available to maximize these deductions. We hope to provide you with tax planning options that will assist you in achieving the greatest tax savings possible.

Successful tax planning involves bunching expenditures into the tax year that offers the greatest tax benefit, especially deductions that are subject to a threshold. By finding ways to reduce adjusted gross income (AGI), you not only decrease taxable income, but increase the amount of allowable itemized deductions, because the threshold amounts are reduced.

For example, if you already incurred significant medical expenses and major dental work is scheduled for January of next year, by moving up and paying for your dental work in December, your deductions and tax savings for the current year are increased. If you decide to make an IRA contribution for the current year, the medical expense threshold amount is reduced, and the amount of your allowable medical deduction is increased for the year.

However, you should know that through 2009, higher-income taxpayers are required to reduce their allowable itemized deductions. In addition, the alternative minimum tax (AMT) negates personal exemptions and many itemized deductions. For this reason, a failure to take the AMT into account could jeopardize your tax-planning strategy.

Although maximizing your itemized deductions is an important aspect of tax planning, there are other issues that you may need to consider in light of your overall tax scenario. Please contact our office at your earliest convenience to make an appointment to discuss your tax planning options.

Sincerely yours,

Austin Associates, PA, CPAs