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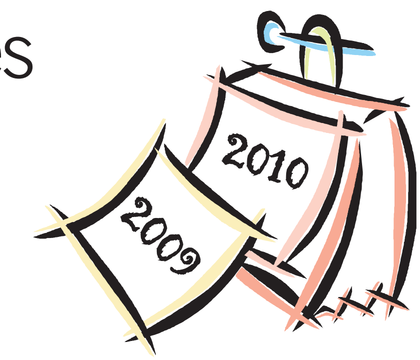
HOLTZ RUBENSTEIN REMINICK ADVISER

Year-End Tax Planning Strategies



After the federal government spent $787 billion to stimulate the economy and increased the deficit to $1.4 trillion, who is going to pay the check? You, of course. The government is going to have to raise revenues unless they stop spending money. But there are things you can do (now!) to minimize your tax liability.

Federal income tax rates may rise in 2011 to as high as 39.6% (up from 35%) for those earning more than $373,650. The House of Representatives' version of the health reform bill sets an additional 5.4% surtax on adjusted gross income for high-income individuals. If Congress does not act, long-term capital gains rates will go up to 20% in 2011, up from 15% today. Short-term capital gains will remain taxable at ordinary income rates. Note that favorable tax treatment for long-term capital gains is for assets held more than one year. There is also a possibility that long-term capital gains will be taxed at a 25% or 28% tax rate in 2010 or 2011.

Note that New York State also raised its income tax rates on individuals this past year. (For more, see our article in the May/June 2009 HRR *Adviser*, at www.holtzrubenstein.com/adviser/newsletter_May_June_09.pdf.)

What can you do?

We recommend that you accelerate income into 2009 and defer your tax deductible expenses until 2010. If you anticipate having capital gains in the next few years, your capital loss carry forwards may be more valuable for offsetting future capital gains if tax rates increase. Taxpayers can deduct up to $3,000 annually of capital losses that exceed capital gains to reduce ordinary income and you can carry forward an unlimited amount of excess losses to offset gains in following years. However, it may be advantageous for you to recognize your capital gains in 2009 to offset your capital losses or to take advantage of the lower tax rate.

If you have an interest in pass-through entities such as partnerships, LLCs treated as partnerships for tax purposes, and S-Corporations, this is a great time to take advantage of the opportunity to accelerate income into 2009 and delay the business expenses for the entity until 2010, before tax rates increase. The tax savings could be significant.

Exercising and selling "non-qualified" stock options may be another way to capitalize on lower rates. The spread between the option's strike price and its market value when exercised is considered compensation and taxed as ordinary income. If you think your stock is not going to be a rapid appreciator or if you intend to exercise the option and hold the shares, it would be a good time to do it now, particularly if the stock option is expiring in the next couple of years.

AMT

Taxpayers who pay alternative minimum tax ("AMT"), generally have earnings in the range of $150,000 and $500,000. Under AMT, medical expenses, personal exemptions, and state and local taxes are not deductible in the AMT calculation. Individuals and families who live in states with high tax rates (like New York) are more likely to pay AMT.

Taxpayers affected by the alternative minimum tax should calculate how much income they can move into 2009 or 2010 before reaching higher tax brackets of 33% or 35%.

Year-end tax planning and a tax projection would be beneficial in helping to maximize your tax savings. For more information, contact Senior Tax Manager Sidney W. Leibowitz at 631-719-3265, SLeibowitz@hrrllp.com.

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