

AVIATOR TAX TALK

CATERING TO THE UNIQUE TAX NEEDS OF THE AVIATION PROFESSIONAL

WINTER 2009-2010



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I hope everyone had a wonderful holiday season. It is hard to believe that April 15th is just around the corner again. This year my tax organizer and other forms will be available for download in PDF format. This is for those of you that would rather type your tax data instead of filling in the organizer by hand, or if you need another copy on short notice. I believe most clients will find it is still quicker and easier to provide me your information the old-fashioned, handwritten way, which is why I still provide you with a hard copy for your use. The online documents will be ready for download no later than January 15th. Navigate to www.AviatorTax.com, then select downloads from the top of my home page — the password required to download and open the documents is: 7502209

There are a couple of unique tax planning opportunities available in 2010, which I have highlighted in this issue. Please call my office if you wish to discuss these strategies available to maximize your tax benefits.

EXTENSION OF \$8,000 NEW HOME BUYER CREDIT & BRAND NEW \$6,500 REPEAT HOME BUYER CREDIT

In November, Congress passed The Worker, Homeownership, and Business Assistance Act of 2009, which established a tax credit of up to \$6,500 for qualified move-up/repeat home buyers (existing home owners) purchasing a principal residence after November 6, 2009 and on or before April 30, 2010 (or purchased by June 30, 2010 with a binding sales contract signed by April 30, 2010). The law defines a tax credit qualified move-up home buyer ("long-time resident") as a person who has owned and resided in the same home for at least five consecutive years of the eight years prior to the purchase date. For married taxpayers both spouses must qualify as long-time residents, with at least five years of principal residency for each. Repeat home buyers do not have to purchase a home that is more expensive than their previous home to qualify for the tax credit. The tax credit is equal to 10 percent of the home's purchase price up to a maximum credit of \$6,500. Purchases of homes priced above \$800,000 are not eligible for the tax credit.



Congress also extended the tax credit of up to \$8,000 for qualified first-time home buyers purchasing a principal residence. The tax credit now applies to sales occurring on or after January 1, 2009 and on or before April 30, 2010. However, in cases where a binding sales contract is signed by April 30, 2010, a home purchase completed by June 30, 2010 will qualify.

Both the first-time home buyer credit and the move-up/repeat home buyer credit amount is reduced for single taxpayers with a modified adjusted gross income (MAGI) above \$125,000 and \$225,000 for married taxpayers filing a joint return. The phase-out range for the tax credit program is equal to \$20,000. That is, the tax credit amount is reduced to zero for taxpayers with MAGI of more than \$145,000 (single) or \$245,000 (married) and is reduced proportionally for taxpayers with MAGIs between these amounts.

NO INCOME LIMITS FOR 2010 ROTH IRA CONVERSIONS

As the end of 2009 approaches, a significant opportunity awaits many individuals. Beginning in 2010, taxpayers will be able to convert their traditional IRA (and funds that have been rolled over from a qualified plan) to a Roth IRA, regardless of their income level or filing status. What's more, the tax on the taxable income generated from a 2010 conversion will be able to be deferred until 2011 and 2012. This new conversion option presents both tax planning opportunities and challenges for 2009, 2010 and 2011.

Continued 

QUESTIONS? CALL TOLL FREE 877.626.8299

All topics provide general information only. Contact a tax professional to see how they may apply to your tax situation.

2010 ROTH IRA CONVERSIONS — CONTINUED

Before 2010, only individuals with modified adjusted gross incomes (AGI) of \$100,000 or less could convert amounts in their traditional IRA to a Roth IRA. Moreover, married taxpayers filing separate returns have also been prohibited from converting their traditional IRA to a Roth IRA as well. However, beginning in 2010, the \$100,000 AGI limit on conversions of traditional IRAs to Roth IRAs is eliminated completely. This special treatment gives everyone regardless of his or her income level the opportunity to convert a traditional IRA to a Roth IRA. Additionally, filing status restrictions are also lifted, allowing married taxpayers filing a separate return to convert a traditional IRA to a Roth IRA.

It is important to understand that an IRA conversion is treated as a taxable distribution, taxed as ordinary income at your marginal tax rate. This in effect accelerates the taxable income that you would eventually pay on distributions from a traditional IRA once you retire, but does so in exchange for never taxing any future appreciation in the value of your account from what it is today. That is often a significant tax advantage. You should also note that unlike a withdrawal from an IRA, a conversion does not trigger any 10 percent early withdrawal penalty.

Although conversion to a Roth IRA does trigger immediate taxable income, Congress provided a special incentive in 2010 to jump-start Roth conversions under the new rules: In 2010 (and 2010 only), individuals will have the choice of recognizing their conversion income in 2010 or averaging it over 2011 and 2012. You must elect one option. This allows you to pay taxes on the converted amount ratably over two years, instead of recognizing it all as income in one year. You will be taxed at the rates in effect for 2011 and 2012.

For some taxpayers, their tax rate may rise after 2010 even if their income does not. President Obama has proposed, and Congress is expected to enact, legislation to restore the top two pre-2001 marginal income tax rates after 2010. This means that the top two brackets will be 39.6 percent and 36 percent after 2010 (up from 35% and 33%, respectively). Consequently, if you do not want to take the chance that your income tax rate will be higher in 2011 and 2012 than in 2010, you may want to elect to pay the full tax on the Roth conversion in your 2010 income tax return, at 2010 income tax rates.

Taxpayers are expected to convert their traditional IRAs to Roth IRAs for a variety of reasons. Roth IRAs have two major advantages over traditional IRAs:

- Roth IRA distributions are tax-free if they are qualified distributions. To be qualified, they must be made after a five-year holding period has passed and after the account holder reaches age 59 1/2, or on account of death, disability, or the qualified purchase of a first home.
- Roth IRAs are not subject to the required minimum distribution (RMD) rules that apply to traditional IRAs (as well as individual qualified plans). Therefore, a Roth IRA account holder who reaches age 70 1/2 does not need to begin taking distributions; instead, the funds can continue to grow tax free until they are needed or are passed on heirs.

The tax-free nature of qualified Roth IRA distributions may prevent individuals from being taxed in a higher tax bracket that would otherwise apply if he or she were withdrawing taxable distributions from a traditional IRA. Moreover, these distributions --unlike those from traditional IRAs-- do not effect the calculation of tax owed on Social Security payments and do not affect AGI-based deductions.

An IRA to Roth IRA conversion should be considered by individuals who:

- Can afford the tax on the converted amounts;
- Anticipate being in a higher tax bracket in the future than they are currently in; and
- Have a significant amount of time before reaching retirement to allow assets to grow tax-free and recoup dollars that may have been lost due to the conversion tax.

Note. For 2010, the AGI limits for maximum Roth IRA contributions is \$167,000 for married joint filers (up from \$166,000 in 2009), and will remain at \$105,000 for other filing statuses, including married individuals filing separately and single taxpayers. **While the \$100,000 AGI limit for rollovers has been lifted, the AGI limit for annual contributions has remained.**

There are a significant number of tax and financial considerations that come into play when determining whether to convert your traditional IRA to a Roth. If you have any questions about traditional IRA to Roth IRA conversions and the new 2010 planning opportunity, please contact my office.