

## 2010 YEAR END TAX MEMO FOR HEALTHCARE PROFESSIONALS

### CHECKLIST TO CUT YOUR 2010 TAXES

It's not too late to cut your 2010 tax bill. Prior to Dec. 31<sup>st</sup>:

- **Increase your 401(k) and 403(b) contributions** if you haven't been contributing at the maximum rate all year. This year you can put away up to \$16,500 (\$22,000 if 50 or older) into your 401(k) or 403(b) plan. If you're self-employed, consider setting up a Solo 401(k) by 12/31.
- **Take a look at your withholdings** and instruct your employer to withhold additional taxes if you haven't had enough taxes withheld during the year and might get hit with an underpayment penalty.
- **Consider selling your non-retirement investments that have decreased in value** since your capital losses can offset other capital gains realized during the year (including from your mutual funds), and then can be used to offset up to \$3,000 of wages and other income.
- **Send in your January 2011 mortgage payment early enough** so it will be processed prior to 12/31/10. By sending in your payment a few weeks early, you can deduct the interest portion of that payment a full year earlier.
- **Clean out your closets and donate your clothing and household items to a charitable organization** since "non-cash" contributions are deductible if you itemize. Don't forget to get a receipt. And make sure to make a list of the donated items, including each item's condition since only donations of clothing and household items in "good condition or better" qualify for a deduction.
- **For gifts of money**, making your donation by credit card before December 31<sup>st</sup> allows you to deduct the donation on this year's return, even if you don't pay your credit card bill until 2011. And **you always have the option of donating appreciated investments** to charities. You get to claim your donation based on the value of the assets donated, without paying any capital gains taxes on the appreciation.
- **Pre-pay your projected state tax shortfall** if you'll be itemizing your deductions and won't be subject to the alternative minimum tax.
- **Pre-pay or pay off your medical bills** if your total medical expenses exceed 7.5% of your income and you itemize.

### YEAR END PLANNING

*During December, you should evaluate whether you'll save any taxes by postponing 2010 income or deductions into 2011 or by accelerating 2011 income or deductions into 2010. While many factors should be evaluated prior to making your final decision, a few items to keep in mind are as follows:*

- *For 2010, a single person will itemize once allowable deductions exceed \$5,700 and a married couple will itemize once allowable deductions exceed \$11,400.*
- *A taxpayer is no longer subject to Social Security or self-employment taxes once wages and net self-employment earnings exceed and \$106,800 in 2010 and 2011.*
- *Miscellaneous itemized deductions, such as unreimbursed employee business expenses, are only deductible to the extent they exceed 2% of adjusted gross income (AGI). Items paid with credit cards are deductible in the year charged.*
- *Medical and dental expenses are deductible to the extent they exceed 7.5% of AGI, and are deductible in the year paid.*

*If you need assistance in determining whether you should either postpone or accelerate your income or deductions, or whether you'll be hit by the AMT, please give us a call.*

### DEDUCTING UN-REIMBURSED PROFESSIONAL EXPENSES

According to the IRS, to be deductible, an expenditure must be both "ordinary" and "necessary" in connection with your profession. The IRS defines "ordinary" as common and accepted in a particular profession and "necessary" as helpful and appropriate for a particular profession. Here's a list of 16 professional expenditures commonly incurred by young health care professionals:

*Automobile expenses \* Beepers and pagers \*  
 Books/library \* Cellular telephones \*  
 Computer purchases \* Education, examinations & licenses \*  
 Equipment & instruments \* Job search \*  
 Malpractice insurance \* Meals & entertainment \*  
 Parking & tolls \* Professional dues, journals & subscriptions \*  
 Psychoanalysis as part of training \* Supplies \*  
 Travel & lodging \*  
 Uniforms & cleaning*

Please note: Employees may not deduct professional expenses that are eligible for reimbursement from their employer.

**TO COMPLETE BY DECEMBER 31<sup>ST</sup>:**

**DECIDE ABOUT ROTH CONVERSION**

As of January 1, 2010, taxpayers with incomes exceeding \$100,000 finally have the opportunity to convert their traditional IRAs and other qualified retirement accounts into a Roth IRA. Plus, people who convert during 2010 can elect to report the income from the conversion over the following two tax years - 2011 and 2012.

The decision to convert existing retirement accounts to a Roth IRA carries tax ramifications that not only affect you now and down the road, but also impact your beneficiaries who someday stand to inherit your retirement accounts. If you have existing IRAs (traditional IRAs, rollover IRAs, SEP-IRAs, SIMPLE IRAs) and/or 401(k) or 403(b) accounts held with a former employer (or a current employer that allows in-service distributions), and are considering converting some or all of those assets to a Roth IRA, please contact our office so we can help you work through a detailed analysis prior to your making a final decision.

**FINALIZE ENERGY EFFICIENT HOME IMPROVEMENTS FOR A \$1,500 TAX CREDIT**

You only have through December 31, 2010 to purchase energy efficient improvements for your home and qualify for a lucrative tax break. The maximum credit is equal to 30% of the first \$5,000 spent on high-efficiency heat pumps, air conditioners, and water heaters, or energy-efficient windows, doors, insulation materials, and certain roofs. You can also claim the credit for certain types of asphalt roofs and for stoves that burn biomass fuel.

Even if you claimed the \$500 tax credit a few years back for energy efficient improvements made to your home, you can still claim the full \$1,500 tax credit for 2009 and 2010 as long as you make \$5,000 worth of qualified energy efficient expenditures during that two year period.

Please note that the new rules did increase the standards for an energy efficient purchase to qualify for this tax credit. Check out the products listed at [www.energystar.gov](http://www.energystar.gov) to see if the energy efficient purchases you made qualify for this tax credit.

For more information about this tax break, download the instructions to Form 5695 at [www.irs.gov](http://www.irs.gov).

*Keep up with the continually evolving Tax Code at:*

**[www.mdtaxes.com](http://www.mdtaxes.com)**

**NO INCREASE TO RETIREMENT PLAN LIMITS FOR 2011**

Last month, the IRS announced the cost of living adjustments applicable to the various retirement plan limitations. Unfortunately, for the second straight year, the bulk of the retirement savings limits will not increase from 2010.

According to the October 28th announcement made by the IRS on Pension Plan Limitations for 2011, "The limitations that are adjusted by reference to Section 415(d) generally will remain unchanged for 2011. This is because the cost-of-living index for the quarter ended Sept. 30, 2010, while greater than the cost-of-living index for the quarter ended Sept. 30, 2009, is less than the cost-of-living index for the quarter ended Sept. 30, 2008, and, following the procedures under the Social Security Act for adjusting benefit amounts, any decline in the applicable index cannot result in a reduced limitation."

**RETIREMENT PLAN LIMITS FOR 2011**

<i>Savings Opportunity</i>	<i>Maximum Contribution for 2011</i>
401(k) or 403(b) Deferrals	\$16,500 in 2011
Roth and Traditional IRAs	\$5,000 per person
Self-employed Retirement Plans	SEP or Keogh - \$49,000/yr Solo 401(k) - \$49,000/yr SIMPLE - \$23,000/yr
529 Plans	\$13,000 per donor (up to \$65,000 in one year)
Education Savings Accounts	\$2,000 per child

*If you'll be 50 or older by December 31, 2011, you can contribute an extra \$5,500 into your 401(k), Solo 401(k), or 403(b) plan, an extra \$2,500 into your SIMPLE, and an extra \$1,000 into your IRA.*

**USE UDoGood APP TO TRACK DONATIONS OF CLOTHING AND HOUSEHOLD GOODS**

Properly valuing your donated clothing and household items has become more important these days. If you ever get audited, there is a good chance that the IRS will use the new "good or better" standard as a way to greatly reduce the deduction they will allow you to claim. To help you put a value on the donated goods, we recommend that you use UDoGood, an easy (and fun) App for the iPhone and iPod touch that helps you document, photograph and record your charitable donations of clothing and household goods, available at <http://itunes.apple.com/us/app/udogood/id351975132>.