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2010 Year-End Tax Moves: Some Dos and Don'ts

Don't forget to take required minimum distributions from IRAs and retirement plans. When you reach age 70½, you're generally required to start taking required minimum distributions (RMDs) from any traditional IRAs or employer-sponsored retirement plans you own. In an unusual move, however, RMD requirements were suspended last year--meaning you didn't have to take an RMD for 2009. Normal RMD rules apply once again for 2010, though, and you'll want to make sure you comply. The penalty is steep (50% of the amount that you should have withdrawn, but didn't) for failing to take an RMD by the date required--the end of the year for most individuals.

Do consider a Roth conversion

Special rules apply to 2010 Roth conversions: If you convert funds in a traditional IRA or an employer plan like a 401(k) to a Roth in 2010, you can report half the income that results from the conversion on your 2011 federal income tax return, and half on your 2012 federal income tax return. Or, you can elect to report all of the income that results from the conversion on your 2010 federal income tax return. Roth conversions aren't right for everyone, but if you're thinking about doing a Roth conversion, it's worth considering pulling the trigger before year-end to take advantage of the special rules.

Don't forget about the tax credit for energy-efficient home improvements

A 30% tax credit is available in 2010 for the cost of energy-efficient improvements (e.g., insulation, qualifying windows and doors) that you make to your principal residence, and for the cost of certain energy-efficient equipment that you install, including furnaces, water heaters, and central air conditioning units. The credit was available for 2009 as well, however, and an aggregate cap of \$1,500 applies for both 2009 and 2010. So, if you claimed the full \$1,500 in 2009, you won't get any benefit from the credit in 2010. If you haven't utilized the full credit, though, it's something to consider as the end of the year approaches.

Do stay up-to-date on late-breaking developments

Legislation passed in late September extended special depreciation rules, allowing businesses and self-employed individuals an additional 50% first-year depreciation deduction for qualifying property purchased and placed in service by the end of 2010 (the legislation also increased the maximum amount that can be expensed under Internal Revenue Code Section 179 for both 2010 and 2011). Among the other changes made by the legislation: special rules for qualified small business stock acquired at original issue by individuals after September 27, 2010, and before January 1, 2011 (subject to certain limits, there will be no federal tax owed upon the sale of the stock if it is held for at least five years).

The point is, it's not easy keeping track of changes. And this year the odds that we'll see late-breaking legislation are extremely high. A financial professional can help keep you informed of changes, and how they might affect you.

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