

MVFG ADVISOR

M A R T H A ' S V I N E Y A R D F I N A N C I A L G R O U P

W W W . M V B A N K . C O M

Happy Holidays and welcome to the December issue of MVFG. At this busy time of year I want to thank everyone for their business and support during 2009. For me its been a very exciting year as I joined the Martha's Vineyard Financial Group in May. I have had the pleasure of meeting many of you and the opportunity of meeting many new friends. Working on Martha's Vineyard has been a wonderful and gratifying time for me.

As we close out the year with little new tax reform (as of 12/1/09) I share with you on page two a number of year end tax planning strategies I hope you find helpful. Should there be tax reform at year end we will be sure and include in our January newsletter. Also, should there be a financial topic you would like us to write about please do not hesitate to call or email me directly. I view this monthly newsletter as your space to learn about new investment products and strategy.

As the largest money manager on Martha's Vineyard we stand ready to assist our clients in protecting their assets and planning for their retirement. As you have entrusted your financial assets to us we never forget that we are in business to serve you and take that charge very seriously. Our team of experienced professionals are always available to meet with you to review your account and to discuss new products and services available.

As always, we appreciate your referring new customers to us as there can be no greater compliment. Each day we will continue to earn your trust as you have choices where you place your assets.

Thank you for your business and best wishes for the holidays!

Bob Ripley, Executive Vice President rripley@mvbank.com



**Martha's
Vineyard**

FINANCIAL GROUP

For more information on our investment services or to schedule a confidential visit, please contact the Financial Group at 508-693-8850.

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2009 Year End Tax Planning Strategy

- ⇒ **Accelerate deductions and defer income.** Deferring tax is a cornerstone of tax planning. Generally this means you want to accelerate deductions into the current year and defer income into next year. There are plenty of income items and expenses you may be able to control. Consider deferring bonuses, consulting income or self-employment income. On the deduction side, you may be able to accelerate state and local income taxes, interest payments and real estate taxes. But beware of the alternative minimum tax, which can affect timing strategies. Also, this strategy assumes that tax rates will be the same in 2009 and 2010, as current law provides.
- ⇒ **Bunch itemized deductions.** Many expenses can be deducted only if they exceed a certain percentage of your adjusted gross income (AGI). Bunching itemized deductible expenses into one year can help you get over these AGI floors. Consider scheduling your non-urgent medical procedures into one year to get over the 7.5 percent AGI floor for medical expenses. To get over the 2 percent AGI floor for miscellaneous expenses, bunch professional fees like legal advice and tax planning, and unreimbursed business expenses such as travel and vehicle costs.
- ⇒ **Maximize “above-the-line” deductions.** Above-the-line deductions are especially valuable because they reduce your AGI. Many valuable tax benefits are limited based on your AGI. Common above-the-line deductions include traditional Individual Retirement Account (IRA) and Health Savings Account (HSA) contributions, moving expenses, self-employed health insurance costs, alimony payments and any bank penalties you may have had to pay for early account withdrawals. If you are thinking about a new car, consider buying it before the end of the year to take advantage of the above-the-line deduction for state and local sales taxes scheduled to expire after 2009.
- ⇒ **Consider charitable contributions carefully.** Think about giving appreciated property to charity so you can deduct the full value without paying capital gains taxes. But don't donate depreciated property. Sell it first and give the proceeds to charity so you can take the capital loss and a charitable deduction. If you're 70½ or older, consider making charitable donations directly from any traditional IRA distributions so the gift/distribution will not be included in your AGI. As always, double-check the limits and substantiation rules before making any contributions.
- ⇒ **Make up a tax shortfall with increased withholding.** Remember that taxes are due throughout the year. Check your withholding and estimated tax payments now while you have time to fix a problem. If you're in danger of an underpayment penalty, try to make up the shortfall through increased withholding on your salary or bonuses. A bigger estimated tax payment can still leave you exposed to penalties for previous quarters, while withholding is considered to have been paid ratably throughout the year.
- ⇒ **Leverage retirement account tax savings.** It's not too late to maximize contributions to a retirement account. Traditional retirement accounts like 401(k)s and IRAs still offer some of the best tax savings in the Code. Contributions reduce taxable income at the time you make them, and you don't pay taxes until you take the money out at retirement. The 2009 contribution limits are \$16,500 for a 401(k) and \$5,000 for an IRA (not including catch-up contributions for those 50 and older).
- ⇒ **Roll over into a Roth account.** “Roth” versions of traditional retirement accounts, such as 401(k)s and IRAs also provide a great savings opportunity. You don't get a tax break when you put money into a Roth account, but the money grows tax-free and is never taxed again if distributions are made properly. Rolling over into a Roth account now may make sense. Tax rates are low, and the value of many accounts has been depressed by the downturn. Paying tax on the rollover now could save you if tax rates go up and your account recovers. The \$100,000 AGI limit on these rollovers is also scheduled to disappear in 2010.
- ⇒ **Jump-start a 529 plan for education.** Think about using a 529 plan to save for future college expenses. Contributions are made after tax, but the accounts grow tax-free and distributions are tax-free if used to pay qualified higher education expenses.
- ⇒ **Don't forget to use annual gift tax exclusion.** If you may eventually have to pay estate taxes, consider establishing a gifting program for your children and grandchildren to take advantage of the annual gift tax exclusion. Gifts of up to \$13,000 per donee (\$26,000 for married couples) are generally excluded from gift tax in 2009 and will be removed from your estate, with no limit on the number of donees.
- ⇒ **Watch out for the “kiddie tax.”** The “kiddie tax,” which requires a portion of a child's unearned income to be taxed at the parents' marginal rate, has been expanded to apply to full-time students under the age of 24 whose earned income does not represent at least one-half of their support. Be careful transferring income-producing assets to your kids.

As with all tax issues you should consult your tax professional as tax strategy differs from individual to individual. If we can assist you please call us at 508-693-8850. We look forward to working with you in 2010!