

**FOUR GREAT TAX SAVING
TIPS
FOR YOUR CLIENTS**

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Tax Break Number 1

The underpayment of estimated tax
penalty!

What is it really? In reality it is nothing more than an interest calculation based upon taxes that the IRS requires you pay during the year. This year the interest rate will be 7% or less.

Underpayment of estimated tax.

While many believe it is a penalty, it is, as shown, nothing more than an interest calculation. Therefore why would a taxpayer take money from investments or a business that is earning more than 7% and use it to pay the government?

Certainly there are situations where one should prepay, as is the case where there is a very large anticipated income increase in an immediately subsequent year. But other than that I can see no real reason why the estimate should be paid.

Moreover, I never include the calculation of the penalty on my return but rather allow the IRS to calculate the penalty for me and have found that they generally err in my favor.

Point number 2

Roth IRA conversions.

- **Roth conversions--plan now for 2010** -- Currently, individuals with modified adjusted gross income (MAGI) over \$100,000 and married individuals filing separate returns are unable to make Roth conversions. Starting in 2010, these limitations will be removed. And, for Roth conversions in 2010 only, any amount includible in income as a result of the conversion will be averaged over 2011 and 2012. Individuals who would like to contribute to a Roth IRA, but don't qualify because of MAGI limitations, might benefit from making nondeductible contributions to a traditional IRA today, and converting the funds to a Roth IRA in 2010.

Roth IRA conversions

It is widely anticipated that regardless of who is in the White House come January, 2009 tax rates are going to increase. These increases will probably occur in 2009. (*You always want to get the bad news out of the way first --- see Machiavelli.*)

Therefore if possible this year while the rates are at the maximum 35% you may want to consider options that will allow you to defer income to 2009 or 2010 so as to allow you to fit under the \$100,000 if that is possible.

Roth IRA conversions.

The best examples are to form a regular corporation and not draw as much salary as you may be able to so as to stay under the \$100,000. Another example may be to enter into a deferred compensation agreement.

Tax savings idea number 3.

Purchase of Pennsylvania Film Makers credit.

Currently Pennsylvania permits film makers to sell certain tax credits that they receive for making motion pictures in the Commonwealth. Generally these film producers generate little or no taxable income in the Commonwealth, however the credits they are given for film production can become quite substantial.

Credit for film production.

As part of the package of enticements given to film producers for the production of films produced in Pennsylvania the recipients of these credits are permitted to sell them to other Pennsylvania taxpayers. These credits can directly offset Pennsylvania income taxes.

These credits are normally sold at a discount of up to 7% or 8% and after fees and costs can amount to a savings of over 5% for Pennsylvania taxpayers.

Tax saving idea number 4.

Watch for the AMT. Representative Rangel has promised to eliminate the AMT for those making under \$75,000 and to increase the maximum tax rate to 44% for wealthy taxpayers.

Practically the only safe accelerated deduction available for taxpayers itemizing deductions is the charitable contribution. It is not added back when calculating AMT.

Watch for the AMT.

See the Alternative Minimum Tax form, which is a separate handout.

Review the interrelationship between AMT & charitable contributions and the ROTH IRAs with the proposed increases in income tax rates and why you will not be able to wait. However, we may be able to combine ROTH conversions with some really interesting charitable planning (i.e., Lead trusts, etc.)

Thanks for attending.