

Smart Moves Can Cut Your 2009 Income Taxes

Year-end tax planning always makes sense, but this year it's especially vital. So you should review your taxes before it's too late.

"Too often, I can't do anything for people who come to me in February," says Douglas Stives, an accountant with Curchin Group in Red Banks, N.J.

Here are areas especially relevant now.

Unemployment Benefits: Alas, these are subject to income tax. But this year, there is an exemption of \$2,400 per individual. Still, many unemployed taxpayers receiving benefits may need to estimate and pay quarterly taxes or risk penalties when they can least afford them. Internal Revenue Service spokesman Eric Smith points out that all recipients can choose to have 10% of their benefits withheld by the payer. "That should protect many," he says.

New Car Purchases: Taxpayers who buy a new car before Jan. 1, 2010, may deduct sales and excise taxes and other fees on as much as \$49,500 of the purchase price. This provision has generous phase-outs: between \$250,000 and \$260,000 of modified adjusted gross income for married couples and \$125,000 and \$135,000 for singles and coupled filing separately.

Retirement Savings: Have you just started a job? Remember that you can still put in an entire year's 401(k) contribution, which is \$16,500 (\$22,000 if you're 50 or older). "Some workers who begin a job in the last quarter arrange to have an entire paycheck or two go into the plan," says Melissa Labant, an attorney with the American Institute of Certified Public Accountants.

Charitable Gifts: Unless Congress acts, this will be the last year for taxpayers over age 70½ to make a charitable contribution directly from an individual retirement account. Without this provision, the donation would have to be withdrawn from the IRA, claimed as income and then deducted as a donation. That will raise your income and can trigger deduction limits or jack up Medicare premiums in the future.

Medical Expenses: This is normally among the least useful deductions out there, because the taxpayer must spend more than 7.5% of adjusted gross income to start claiming a deduction. But rising insurance costs and diminishing coverage may qualify more people for this deduction.

In general, taxpayers may deduct all unreimbursed medical expenses recognized by the IRS. This category includes after-tax dollars spent on insurance premiums, Medicare Part B and D premiums, and co-payments for drugs and treatments. It also extends to costs that insurance almost never covers such as weight-loss plans (if prescribed for a medical condition), lead abatement, bandages, wigs after chemotherapy, acupuncture, and medical travel (24 cents per mile). But it typically doesn't cover expenses for over-the-counter drugs such as aspirin or antihistamines, which some flexible spending accounts reimburse.

LONG-DISTANCE SHORTCUTS

Much like dial-up Internet service, telephone landlines could be turning into 20th century relics. Data suggest that wireless-only households are slowly becoming the norm.

But there are some holdouts. And many of those callers who refuse to part with their home phone altogether face higher costs to call outside their local area. Customers looking to save on long-distance calls while keeping their landlines can try a few ideas:

The simplest way to save on long-distance calls is to strip out long-distance service from a landline and make those calls by cell phone instead. Most cell phone plans include long-distance domestic calls, so making those calls is effectively free if you don't go over your minutes.

Calls abroad are another story. Using a cell phone to make international calls is expensive, but you can mitigate those costs by adding an international service. For example, AT&T Wireless customers who add AT&T World connect to their plans can call Germany for as little as nine cents a minute.

Google launched its phone service, Google Voice, earlier this year. The service allows users to funnel all calls through a single phone number that forwards to an office, home or cell phone. Last week, Google announced that people could use the service with existing cell phone numbers; previously, users had to obtain a new number from Google.

For long-distance users, all calls to U.S. locations (except Hawaii and Alaska) and Canada are free (if you're using a cell phone, they count toward plan minutes). However, frequent international callers might not find Google Voice as cost-effective as other services. Rates vary based on the country being called, and the call is to a landline or mobile phone.

Right now, Google Voice is available by invitation only. Those interested can request an invitation (search "Google voice invite") or ask a friend with an account to send them one.

Another strategy for those attached to their landlines is to keep a basic, no-frills phone service (no call waiting, no long distance) at a cost of about \$10 to \$12 a month and make outgoing calls using a VoIP service, which allows you to make calls via computer.