

1040 Tax Tips

You don't want to pay more in tax than you have to. That means taking advantage of every deduction and credit that you're entitled to. You also need to recognize potential opportunities to save. So here are a few things to keep in mind this filing season.

There's still time to contribute to an IRA

You generally have until the due date of your federal income tax return (April 18 this year) to make contributions to either a Roth IRA or a traditional IRA for the 2010 tax year. That means there's still time to set aside up to \$5,000 (\$6,000 if you're age 50 or older) in one of these retirement savings vehicles. It's worth considering, in part because contributing to an IRA can have an immediate tax benefit. That benefit comes in the form of a potential tax deduction--with a traditional IRA, if you're not covered by a 401(k) or another employer-sponsored retirement plan, you can generally deduct the full amount of your contribution. (If you're covered by an employer-sponsored retirement plan, whether or not you can deduct some or all of your traditional IRA contribution depends on your filing status and income.)

It's a little different with a Roth IRA; if you qualify to make contributions to a Roth IRA (whether you can contribute depends on your filing status and income), the contributions you make aren't deductible, so there's no effect on your 2010 taxes. Nevertheless, a Roth IRA may be worth considering because qualified Roth distributions are completely free from federal income tax.

Individuals with lower incomes may also be able to qualify for a tax credit of up to \$1,000 when they contribute to a traditional or Roth IRA.

Decision time on 2010 Roth conversions

If you converted funds from 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. Good deal, right? Sure. But in some cases, you might be better off making an election to claim the entire amount on your 2010 return instead. This could be true if, for example, your 2010 taxable income is significantly lower than you think it will be in 2011 and 2012, or if you've got unusually high deductions for 2010.

Other considerations for 2010 returns

For the first time in many years, itemized deductions and dependency exemptions will not be reduced for high-income individuals.

If you claim a large number of dependency exemptions, deductible medical expenses, state and local taxes, or miscellaneous itemized deductions, you're more likely to be subject to the alternative minimum tax (AMT), essentially a

parallel federal income tax system with its own rates and rules.

If you purchased a new home in the first half of 2010, check to see if you meet the timing, purchase price, and income requirements to qualify for the first-time homebuyer tax credit, worth up to \$8,000. Even if you weren't a first-time homebuyer, it's still possible to qualify for a tax credit of up to \$6,500 if you maintained the same principal residence for five out of the eight years preceding the purchase, and meet all other requirements.

If you made energy-efficient improvements to your home in 2010 (e.g., new windows, a new furnace), you might be entitled to a 30% tax credit, up to \$1,500. Check the requirements closely, though, and note that if you claimed the full \$1,500 credit in 2009 you can't claim the credit for 2010.

Legislation in late December extended a host of expiring tax credits, deductions, and provisions, so it could pay to take a little extra time to carefully review IRS instructions this year. And as always, if you have questions, discuss your situation with a tax professional.

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