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## *Tax Planning 101: Step Five*

Step Five in the Tax Planning Process will be examining current **TAX CREDITS** available to the individual taxpayer. Tax Credits differ from itemized deductions in that they decrease your tax liability dollar for dollar. Itemized deductions, on the other hand, simply reduce your taxable income by the amount of the deduction. As a result, tax credits that you qualify for can make a considerable difference to the bottom line of the individual taxpayer's return at the end of the year.

While many of the tax credits available apply to businesses with varied interests (which are beyond the scope of our individual tax planning series), there are credits available to the individual and, therefore should be investigated to determine if any apply to your return.

Tax Credits are subject to change or vary from year to year; therefore it is important to stay on top of the tax credits to determine their applicability to your tax return for the current year.

Unfortunately, the decision to allow, deny, modify or sunset certain credits, often times, does not occur until late in the year. As a result, the only certainty the taxpayer has through the year are those tax credits that were available at the end of the previous year with sunset provisions that allow their deductibility in the current year as well. For that reason, we will look at key individual tax credits in place at the end of the 2010 tax year (allowable for this year) and then address any new individual tax credits that have passed legislation for the current 2011 tax year.

Because the provisions and limitations of individual tax credits are varied and complex, a detailed discussion of each credit is beyond the scope of this newsletter. Our discussion will be limited to which tax credits may be available and who they may apply to. Please contact your tax advisor for more detailed discussion.

Tax credits fall into two categories:

Non-Refundable

## Refundable

Most of the tax credits fall under the Non-Refundable category. A non-refundable tax credit is a credit that is available up to the limit of the taxpayer's tax liability. Once your tax liability reaches zero, any remaining credit is lost and most do not carry forward to the following and subsequent years. The following are the key individual non-refundable tax credits available to qualified taxpayers carried forward to the current tax year.

Child and Dependent Care Credit	A credit for daycare expenses so the taxpayer can work or go to school.
Credit for the Elderly or Disabled	A credit for taxpayers over 65 and taxpayers under 65 who retired on permanent and total disability with low incomes.
Child Tax Credit	A credit for qualified children under age 17. Certain taxpayers may qualify for Additional Child Tax Credit which is refundable.
Mortgage Interest Credit	A credit for the low income taxpayer only if a qualified mortgage credit certificate (MCC) was issued by a state or local government unit or agency under qualified mortgage credit certificate program.
American Opportunity (formerly Hope) or Lifetime Learning Education Credit	An education credit for tuition and related expenses to qualified taxpayers or dependents.
Retirement Savings Contributions Cr.	A credit for eligible contributions to IRA's and Retirement Plans for taxpayer with incomes under \$27,750 (\$55,500 MFJ).
Non-business Energy Property Credit	A credit for building envelope components such as doors, windows, insulation, and heat resistant roofs; and heating, air conditioning, stoves, and water heaters.
Residential Energy Efficient Property	A credit that applies to solar and wind power property, and geothermal heat pumps.

There are some other non-refundable tax credits available to the individual taxpayer (i.e. Foreign Tax Credit, Electric Vehicle Credit, Alternative Motor Vehicle Credit and Alternative Fuel Vehicle Refueling Property Credit) but because their applicability is very limited in scope, we will not discuss them here. Refundable Tax Credits are allowable up to the limit of the tax credit not your tax liability. In other words it is possible to get a tax refund even if you had no tax liability whatsoever. The following are the refundable tax credits that are available to qualified taxpayers:

Earned Income Tax Credit	A refundable credit for low-income earners. There are very strict guidelines on who may qualify for
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the EIC.

Health Coverage Tax Credit

A refundable credit of 80% of qualified health insurance payments of qualified taxpayers. Eligibility for the health coverage tax credit is determined on a per month basis and is for qualified taxpayers who are not covered by or eligible for coverage under any employer-sponsored health insurance plan.

First-Time Homebuyer Credit

This tax credit expired in 2010.

Making Work Pay Tax Credit

This tax credit expired in 2010 and was replaced in 2011 by a direct 2% reduction in Social Security withheld on employed taxpayers.

Tax

## **New For 2011**

Adoption Tax Credit

A credit designed to offset adoption expenses. While the Adoption Tax Credit is not a new credit The Affordable Care Act increased the amount of the credit and made it refundable for 2011.

Existing 2010 Tax Credits

All of the tax credits discussed above were in place at the end of 2010 and were extended at least through the end of 2011 (and some beyond that).

In general, no new tax credits have been issued this year (up to date). The only changes for 2011 were for temporarily extending some existing tax credits at the end of 2010 with the late year passage of the TAX RELIEF, UNEMPLOYMENT INSURANCE REAUTHORIZATION, and AND JOB CREATION ACT OF 2010.

It is suspected that very little, if any, additional tax legislation will pass this year (other than possibly extending some tax provisions set to expire at the end of this year).

This edition concludes our series on tax planning techniques for the current tax year. Next month we will begin to focus on things to do to wrap up preparing for the 2011 tax filing season.

Till Next Time,

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