NEW YORK — Despite confusion created by recent and probable year-end tax legislation changes, the 2010 federal income tax environment is still quite favorable, noted Robin Christian, senior tax analyst for the Tax & Accounting Business of Thomson Reuters. "However, we may not be able to say that after 2010, therefore, tax planning actions taken between now and year-end may be more important than ever. Be careful though—Congress could change the ball game before the end of the year."

Following are seven planning ideas to consider while there is still time to act before the end of the year.

1. Accelerate Itemized Deductions into this Year. If your Adjusted Gross Income (AGI) will be more than $170,000 ($85,000 if you are married and file separately) next year, you may want to accelerate into 2010 your state and local tax payments that are due early next year. You may also want to prepay in 2010 some charitable donations that you would normally make in 2011. Why? Because for 2010, the phase-out rule that previously reduced write-offs for the most popular itemized deduction items (including home mortgage interest, state and local taxes, and charitable donations) is gone, but is scheduled to come back in 2011, unless Congress takes action to prevent it, which looks increasingly unlikely.

If the phase-out rule comes back as expected, it will wipe out $3 of affected itemized deductions for every $100 of AGI above the applicable threshold. For 2011, the AGI threshold will probably be around $170,000, or about $85,000 for married individuals who file separate returns. Individuals with very high AGI may have up to 80% of their affected deductions wiped out.

2. Think Twice Before Deferring Income into 2011. This strategy

"It may be wise to start now to identify ways you could accelerate some of your 2011 income into 2010, but wait to pull the trigger on them until later in the year when, hopefully, we will know more," said Christian.

3. Time Your Investment Gains and Losses and Consider Being Bold. As you evaluate investments held in your taxable brokerage firm accounts, consider the impact of selling appreciated securities this year instead of next year. The maximum federal income tax rate on long-term capital gains from 2010 sales is 15%. However, that low rate only applies to gains from securities that have been held for at least a year and a day. In 2011, the maximum rate on long-term capital gains is scheduled to increase to 20%. That will happen automatically unless Congress takes action, which currently seems unlikely.

To the extent you have capital losses from earlier this year or a capital loss carryover from pre-2010 years (most likely from the 2008 stock market meltdown),
selling appreciated securities this year will be tax-free because the losses will shelter your gains. Using capital losses to shelter short-term capital gains is especially helpful because short-term gains will be taxed at your regular rate (which could be as high as 35%) if they are left unsheltered.

What if you have some poor performing securities (currently worth less than you paid for them) that you would like to dump? Biting the bullet and selling them this year would trigger capital losses that you can use to shelter capital gains, including high-taxed short-term gains, from other sales this year. If you think your investments that are currently underwater are poised for a comeback, you can buy them back after taking a loss as long as you do not reacquire them within 30 days before or after the sale.

If selling many poor performing securities would cause your capital losses

to shelter both short-term gains and long-term gains recognized in those years, plus up to $3,000 of ordinary income each year—all of which may well be taxed at higher rates after 2010. This can also give you extra investing flexibility in future years because you will not necessarily have to hold appreciated securities for more than a year to get better tax results.

4. Maximize Contributions to 401(k) Plans. If you have a 401(k) plan at work, you can tell your company how much you want to set aside on a tax-free basis for next year. Contribute as much as you reasonably can, especially if your employer makes matching contributions. You turn down "free money" when you fail to participate to the maximum match.

5. Take Advantage of Flexible Spending Accounts (FSAs). If your company has heath or child care FSAs, before year-end you must specify how much of your 2011 salary to convert into tax-free plan contributions. You can then take tax-free withdrawals next year to reimburse yourself for out-of-pocket medical and dental expenses and qualifying child care costs (depending on the type of plan). Watch out, though, FSAs are "use-it-or-lose-it" accounts—you do not want to set aside more than what you will likely have in qualifying expenses for the year. And, starting in 2011, over-the-counter drugs (e.g., aspirin and antacids) will no longer qualify for reimbursement by health FSAs, so you may need to consider that when determining your 2011 contribution amount.

If you currently have an FSA, make sure you drain it by incurring eligible expenses before the deadline for this year. Otherwise, you will lose the remaining balance. For health FSAs, it is not difficult to drum up some items such as: new glasses or contacts, dental work you may have been putting off, or prescriptions that can be filled early. Also, for 2010, over-the-counter drugs still apply.

6. Adjust Your Federal Income Tax Withholding. If it looks

7. Make Energy Efficiency Improvements to Your Home. A great way to cut energy costs and save up to $1,500 in federal income taxes this year is to make energy efficiency improvements to your principal residence. Basically, if you install energy efficient insulation, windows, doors, roofs, heat pumps, furnaces, central A/C units, hot water heaters or boilers, or advanced main air circulating fans to your home during 2010, you may be entitled to a tax credit of 30% of the purchase price. However, the maximum total credit you can claim for 2009 and 2010 combined is limited to $1,500. Without Congressional action, the credit will not be available after 2010.

Taxpayers should consult with a personal tax advisor before applying these or other tax strategies.

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