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PERSONAL FINANCE

# Three tax changes to watch in 2010

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Among New Year's resolutions and the potential of a fresh start in 2010, many investors overlook important tax changes that chime in with the drop of the ball on Jan. 1. Some of these tax changes can save you thousands while other might cost you. Here are three changes are worth paying attention to.

1. Switching to a Roth can save you money in the future, and a recent 2010 tax change makes it possible for all retirement savers to convert to a Roth. Before 2010, individuals and couples had to earn below a certain amount to be eligible to convert from a traditional IRA or 401(k) to a Roth, but in 2010 those restrictions were lifted, opening up Roths to everyone.

Roths are beneficial because their holder pays taxes when they contribute, not when they withdraw, and if taxes rise in the future (they are expected to), you will save money by paying a lower tax rate today on the contribution, not the matured amount withdrawn. Converters will have to pay taxes on the amount they convert, but for 2010, they are allowed to pay half the taxes on the conversion in 2011 and pay the other half in 2012.

2. When a loved one dies, any property left to a family member other than a spouse is subjected to estate tax, but the repeal of the estate tax for 2010 eliminates this tax.

The House of Representatives attempted to reverse this decision at the last minute, but the estate tax will remain repealed in 2010 unless Congress takes further action. Beware the estate tax will come back with a vengeance in 2011 when individuals will have to pay up to 55 percent on all but the first $1 million of their estate. Also, be sure to revisit your estate documents this year to make sure what you intend will be executed accordingly.

3. Finally, keep in mind that current tax rates on qualified dividends and capital gains will disappear at the end of 2010.

In 2011, tax brackets change and if you fall within the new 36 percent to 39.6 percent tax brackets, you will be taxed at a higher rate. Withdrawals made from retirement accounts and annuities do not fall under these new tax rates taking effect in 2011.

Tax laws do change regularly and being aware of these changes and acting accordingly can help you protect your assets. Always consult a qualified financial professional before making any major change to your financial strategy.

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