



IT'S TAX TIME AGAIN!

This letter was written and ready to go out when a new tax bill was signed into law last week – of course! On November 6, 2009, The Worker, Homeownership and Business Assistance Act of 2009 was signed into law. There are still quite a few details not sorted out yet on this new bill, but we will give you the highlights here, as we understand them:

■The First-Time Homebuyer Credit has been extended through April 2010 and expanded to cover homeowners who already own a home and have lived in it for at least 5 years. The income ceiling for being allowed to take this credit has been increased and additional documentation requirements have been added to protect against fraudulent use of this credit.

■Unemployment has been extended to allow up to 20 additional weeks of benefits, with the most weeks going to workers in states with the highest unemployed rates.

■The Net Operating Loss provisions put into place by an earlier law have been extended another year and expanded to include more businesses. This provision allows businesses to recover more prior tax paid sooner when in a current loss situation.

■It has been made mandatory (beginning in one year) for tax professionals to file all individual, trust and estate tax returns electronically.

2009 Tax Year Client Newsletter



EXPIRING PROVISIONS

Many of the tax breaks in recent stimulus tax bills will **expire** at the end of this year. At this point, Congress cannot be counted on to extend them for 2010 or beyond:

■For individuals, these expiring provisions include the itemized state and local sales tax deduction; the additional standard deduction for real property taxes; and the above-the-line \$250 teachers' classroom expense deduction.

■For businesses, bonus depreciation and enhanced "section 179 expensing," both designed to temporarily encourage business to make capital investments, likely will be headed for extinction at the end of 2009.

These are examples of the tax incentives set to expire. There are many more. As a result, accelerating qualifying expenses into 2009 to take advantage of these incentives, rather than

incurring them early in 2010, may make a significant difference in your overall tax bill.

CHECK YOUR WITHHOLDING

By now you've heard of the Making Work Pay Credit but may not be clear how the tax credit could affect you.

Most wage earners benefited immediately from the changes in the withholding tax tables with a larger paycheck. Some people may find that the changes built into the withholding tables result in less tax being withheld than they prefer.



If you're not eligible for the Making Work Pay Tax Credit, withholding changes could now mean a smaller tax refund. Some people, including those who usually receive very small refunds, could in some situations owe money rather than receiving a refund. There are those who should pay particular attention to their year to date withholding and may risk being under-withheld for 2009. Please call us if you think that could be the case for you and you'd like us to look at your

Federal withholding before year end.

TAX BREAKS FOR COLLEGE

The "American Opportunity Tax Credit" formerly the HOPE College



Credit, has been increased to \$2500 per eligible student, beginning in 2009 or 2010.

The new credit rate is 100% of the first \$2,000 of qualified tuition and related expenses and 25% of the next \$2,000 of qualified tuition and related expenses. The credit is available for the first four years of higher education. As with many credits, income limits apply and in this case, a portion of the credit is refundable.

BEYOND 2009

What is on the horizon, for 2010 and beyond, is also crucial to effective year-end tax planning:

■ In 2010, the opportunity to convert any IRA into a Roth IRA without the long-standing \$100,000 income restriction has many individuals already setting aside funds. Some individuals, however, may do better to convert to a Roth IRA before the end of 2009, when the value of their accounts, and the consequential income that must be recognized on conversion, are at historic lows.

■ Effective for 2011, there is a proposal to increase the income and capital gains tax rates on single individuals with incomes of more than \$200,000 and married couples with incomes exceeding \$250,000. For taxpayers in those

groups, trying to follow the traditional year-end planning maxim of deferring income into next year may not work well this year. Deferring too much income into 2010 could result in overloading income next year if you are looking to accelerate income into 2010 to escape the expected higher rates in 2011.

QUICK THOUGHTS

Year-end tax planning is not only about what is happening in Congress and at the IRS. Addressing the changed circumstances in your life has always been a large part of year-end tax planning. What you planned for at the beginning of 2009 may not be what you are faced with now. Changes in your employment status, family, investments, or retirement plans raise new tax issues:

■ Self-employment, severance pay, sign-on bonuses, unemployment benefits, stock options, moving expenses, and COBRA health benefits, to name a few employment-related events, all present unique challenges.

■ In your personal life, marriage, divorce, a larger or smaller family, and child care or eldercare expenses arising in 2009 can impact your tax situation.

■ Investments, too, generally benefit from year-end tax strategies. You can take steps to balance out gains and losses. You also should take a year-end tally of dividends and interest to make certain that you are paying the correct estimated tax.

INCREASING DEDUCTIONS

One way to reduce your 2009 tax liability is to look for additional deductions. Here's a list of suggestions to get you started:

■ Make Charitable Gifts of Appreciated Stock - If you have appreciated stock that you've held more than a year and you plan to make significant charitable contributions before year-end, keep your cash and donate the stock (or mutual fund shares) instead. The strategy varies depending on the current value of the stock compared to its basis, so it's worth a consult on this if it's a strategy you're considering implementing.



■ Maximize the Benefit of the Standard Deduction - For 2009, the standard deduction is \$11,400 for married taxpayers filing joint returns and \$5,700 for single taxpayers. Currently, it looks like these amounts will be about the same for 2010. If your total itemized deductions are normally close to these amounts, you may be able to leverage the benefit of your deductions by bunching deductions in every other year. This allows you to time your itemized deductions so that they are high in one year and low in the next. You claim actual expenses in the year they are bunched and take the standard deduction in the intervening years. For instance, you might consider moving charitable donations you normally

would make in early 2010 to the end of 2009. You can also accelerate payments of your real estate taxes or state income taxes otherwise due in early 2010. But, watch out for the AMT, as these taxes are not deductible for AMT purposes.

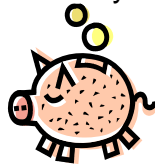
■ **Bunch Deductions Subject to an Adjusted Gross Income Limit** - Miscellaneous itemized deductions (such as unreimbursed employee business expenses) are deductible to the extent they exceed 2% of your Adjusted Gross Income (AGI). Medical expenses are deductible only to the extent they exceed 7.5% of AGI. To lessen the effect of these AGI limitations, try to bunch your miscellaneous and medical expense deductions into every other year (the years you itemize).

■ **Purchase Certain Big Ticket Items in 2009** - Thanks to expiring temporary tax breaks, it may pay to purchase certain new big-ticket items before the end of the year. Taxpayers may take a deduction for state and local sales and excise taxes paid on the purchase of certain new big ticket items bought between Feb 17, 2009 through Dec 31, 2009. This deduction is available whether or not a taxpayer itemizes. The deduction is limited to the taxes and fees paid on up to \$49,500 of the purchase of an eligible vehicle. There are reductions in the deduction for high income taxpayers.

IDEAS FOR INVESTMENTS

Harvest Capital Losses - If you are sitting on some investments that have dropped in value since you

acquired them, now might be a good time to dump part or all of them to cut your tax bill. You can deduct capital losses up to the amount of any capital gains that you'll have for the year. Also, you can claim up to an additional \$3,000 of losses (\$1,500 if you're married but filing a separate return) against your other income. Any losses in excess of these amounts carry over to next year. There are other strategies and rules to consider if you're selling less than your entire interest in an investment and we are happy to discuss those with you.



Take Advantage of 0% Capital Gains Rate before It Is Too Late

- For 2009, the federal income tax rate on long-term capital gains and qualified dividends is 0% when they fall within the 10% or 15% regular federal income tax rate brackets. This will be the case to the extent your taxable income (including long-term capital gains and qualified dividends) does not exceed \$67,900 if you're married and file jointly (\$33,950 if you're single). This 0% rate will likely continue to apply in 2010, but is scheduled for repeal in 2011.

Giving away stocks that pay dividends

- As long as the gift recipient is in the 0% or 15% regular tax rate bracket, the dividends will be federal-income-tax-free. Watch out though, if during 2009 you give away assets worth over \$13,000 to an individual gift recipient, the excess will generally eat into your \$1

million lifetime federal gift tax exemption and your \$3.5 million federal estate tax exemption. Also, if you give securities to someone who is under age 19 or a dependent, full-time student under 24, the Kiddie Tax rules could potentially cause some of the resulting investment income to be taxed at the parent's higher rates instead of at the gift recipient's lower rates.

Secure a Deduction for Nearly Worthless Securities

- If the dismal economy has left you with securities that are all but worthless with little hope of recovery, you might consider selling them before the end of the year so you can capitalize on the loss this year. You can deduct a loss on worthless securities only if you can prove the investment is completely worthless. Thus, a deduction is not available, as long as you own the security and it has any value at all. Total worthlessness can be very difficult to establish with any certainty. To avoid the issue, it may be easier to just sell the security if it has any marketable value. As long as the sale is not to a close family member, this allows you to claim a loss for the difference between your tax basis and the proceeds (subject to the normal rules for capital losses and the wash sale rules restricting the recognition of loss if the security is repurchased within 30 days before or after the sale).

ENVIRONMENTALLY FRIENDLY



Both individuals and business can take advantage of new and/or

expanded tax benefits for costs associated with reducing energy use or creating new energy sources. Here's a rundown of some of the new provisions:

▪Residential Energy Property Credit -- Taxpayers can now get a generous credit for making energy efficient improvements to their existing homes equal to 30 percent of the cost up to \$1,500 for 2009 and 2010 combined. The credit applies to improvements such as adding insulation, energy efficient exterior windows and energy-efficient heating and air conditioning systems.



Note: For information on efficiency standards and what type of equipment qualifies for the credit, you can go to the government's information website at <http://www.energystar.gov>.

▪Residential Energy Efficient Property Credit – This nonrefundable energy tax credit will help individual taxpayers pay for qualified residential alternative energy equipment, such as solar hot water heaters, geothermal heat pumps and wind turbines.

▪Plug-In Vehicles – Taxpayers may take a new 10%, nonrefundable credit for qualifying vehicles bought after February 17, 2009 and before January 1, 2012. The maximum credit amount is \$2,500.

ALTERNATIVE MINIMUM TAX
It is also important to be on the

alert for the Alternative Minimum Tax (AMT).

▪Individuals must compute their income taxes under two systems—the regular tax system and the AMT system—and pay the higher of the two amounts. When introduced many years ago, the AMT targeted and normally only applied to high-income taxpayers who, in Congress' opinion, benefited too much from certain tax breaks. Today, however, virtually no taxpayer can ignore AMT, and AMT tax planning takes some strategic work.

▪Who is at the highest risk for AMT? - Many taxpayers can fall into AMT, but those who deduct a significant amount of state and local taxes or miscellaneous itemized deductions or claim multiple dependents are especially vulnerable. Those who recognize large capital gains or exercise incentive stock options during the year are also vulnerable.

If you suspect AMT might be an issue, please contact us so we can plan accordingly.

IDEAS FOR SENIORS

If you're age 70½, or older, there are a couple of temporary tax saving opportunities you might want to take advantage of this year.



▪First, you can arrange to transfer up to \$100,000 of otherwise taxable IRA money to the public charity of your choice. The distribution is federally income

tax free. You don't get to claim it as an itemized deduction, but the tax-free treatment equates to a 100% write-off, without the need to itemize your deductions.

▪Secondly, although you are normally required to withdraw a minimum amount out of your retirement accounts each year, a temporary tax law change made in late 2008, waives this requirement for 2009. So, if you haven't already received your required distribution during 2009 and you do not need the funds, you can just leave them in your retirement account for another year. If you have already received the distribution and now wish you hadn't, you may be able to roll the funds back into your retirement account, even if the normal 60-day rollover period has already expired. **However, this may require action before 11/30/09**, so if this situation applies to you, please give us a call ASAP.

OWN A BUSINESS?

If you own your own business and have plans to buy office furniture, equipment, or other tangible business property, you might consider doing so before year-end to take advantage of the temporarily increased Section 179 deduction and the temporary 50% bonus depreciation. For 2009, the maximum Section 179 deduction is a whopping \$250,000 (assuming property purchases for the year don't exceed \$800,000). You can also claim first-year bonus depreciation equal to 50% of the cost of most new (not used) equipment and software placed in service during 2009.