



# Tax Planning Letter



## New Year 2009

Dear Clients and Friends,

With an economy struggling to recover from the financial woes of 2008, we are all hoping that 2009 will be a better year. A new administration in Washington means we're certain to have changes to the tax code in 2009, but the shape and timing of these changes will depend on our economic situation.

The financial turmoil may have you wondering whether you'll have enough money to send your children to college, to pay for your own retirement, or to meet your other financial goals. This *Tax Planning Letter* is intended to stimulate your thinking about tax strategies that can leave more money in your pocket to spend or invest.

Effective tax planning is a year-round, lifelong activity, and though constantly changing tax law can make planning a challenge, making it a priority will pay off with lower taxes. We are committed to working with you to find the tax strategies best suited to your individual circumstances. If you have questions about anything in this *Letter* or about your tax-cutting options, please call. And if you have friends or associates who might be interested in tax planning information, feel free to share this *Letter* with them.



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# Last year's tax breaks may bring 2009 tax savings

**W**hen it comes to your personal finances, 2008 may be a year you'd rather forget. But a little reflection on last year's tax changes could be the springboard you need to save taxes in 2009.

## ■ ■ ■ New tax rules for homeowners

Last October, with passage of the *Emergency Economic Stabilization Act of 2008*, Congress extended several important tax provisions that were set to expire. For example, a homeowner tax break in the *Mortgage Forgiveness Debt Relief Act of 2007* would have ended after 2009, but instead remains in effect through 2012. This rule allows you to exclude from taxable income up to \$2 million of forgiven mortgage debt, such as that resulting from home foreclosure or loan restructuring. Now there is no longer any tax-driven pressure to restructure your loan before the end of 2009.

■ **HOME PURCHASE CREDIT.** If you are looking to buy a house in 2009, there is still time to take advantage of last year's home buyer tax credit rule. You can receive a tax credit of 10% of the purchase price (up to \$7,500) if you buy your home before July 1, 2009. There are a few catches, however. There are income limits, and you cannot have owned a principal residence during the previous three years. And after two years, you must begin paying the credit back, interest-free, over 15 years. In essence, this tax break acts like a low-cost loan.

■ **PROPERTY TAX DEDUCTION.** If you already own a home, but usually do not have enough deductions to itemize on your tax return, there is good news for you, too! Congress extended through 2009 a rule allowing nonitemizers to deduct up to \$1,000 (\$500 for single filers) in real estate property taxes in addition to the regular standard deduction amount.

■ **HOME SALE CHANGE.** In 2009, the tax treatment changes for vacation homes converted to personal residences. Beginning this year, the popular \$250,000/\$500,000 taxable gain exclusion for sales of personal residences won't apply for gain

attributable to periods during which the home was used as a vacation home or a rental property. The adjustment to the amount of gain that can be excluded is based on "nonqualified use periods" beginning January 1, 2009.


## ■ ■ ■ College and charity tax breaks

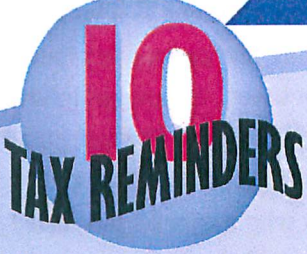
■ **TUITION DEDUCTION.** The *Emergency Economic Stabilization Act of 2008* also extended the tax deduction for higher education costs. As much as \$4,000 in tuition and fees incurred by the taxpayer, spouse, or a dependent can be written off from taxable income. However, if your adjusted gross income exceeds \$130,000 filing jointly (\$65,000 filing single), the deduction is reduced.

■ **IRA TO CHARITY.** Remember the charitable IRA rollover for taxpayers 70½ years old or older? It's back! Congress reinstated the rule that allows older taxpayers to donate to charity up to \$100,000 directly from their IRA. The withdrawal is not included in taxable income, and it does not qualify as a deductible contribution to charity. However, the charitable rollover satisfies the required minimum distribution rules, making this a tax-advantaged way to benefit your favorite charity.

Businesses as well have an added incentive to make charitable contributions in 2009. Enhanced deductions will again be given to businesses that donate qualified food to charities or books and computer equipment to schools.







**FILING DEADLINES** → The filing deadline for 2008 tax returns for individuals and partnerships is April 15, 2009. The deadline for calendar-year corporations is March 16, 2009. Extension requests can be filed, giving individuals and corporations an additional six months to file (but not to pay taxes owed); partnerships can request an additional five months to file.

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**AMT PATCH** → The latest "patch" to the alternative minimum tax raised the exemption amounts for 2008 to \$46,200 for singles and \$69,950 for couples.

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**BUSINESS BREAKS REINSTATED** → The business research tax credit, the fast 15-year write-off for restaurant and leasehold improvements, and enhanced charitable deductions for donations of food, books, and computers were reinstated for 2008 and 2009.

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**SALES TAX DEDUCTION** → The option to deduct state and local sales taxes in lieu of deducting state and local income taxes was reinstated for 2008 and 2009.

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Any capital losses left over from 2008 can be carried forward to offset capital gains in 2009.



### A silver lining to the economic downturn

■ **CAPITAL LOSSES.** Did last year's economic woes hammer your portfolio or business? Capital losses resulting from the sale of assets such as stocks and bonds can be used to offset capital gains and up to \$3,000 of ordinary income per year. Any capital losses left over from 2008 can be carried forward to offset capital gains in 2009 – something to think about if the stock market rebounds this year.

■ **NOLs.** Small business owners who incurred a net operating loss (NOL) in 2008 can offset those losses against business income. In fact, an NOL can be carried back to a previous profitable year's tax return, providing a more immediate tax refund.



### Incentives to go green

■ **ENERGY.** Congress reinstated several laws in 2008 that provide tax breaks to individuals and business owners who purchase energy efficient equipment. Most taxpayers stand to benefit from the rule that provides as much as \$500 in tax credits for energy saving home improvements such as qualified insulation,

exterior windows, or doors. Businesses that invest in energy efficient commercial buildings could also reap tax savings.



### The tried and true

Some solid tax-cutting strategies remain the same from one year to the next. Maximizing your 2009 retirement plan contribution is a good place to start. The annual 401(k) or 403(b) elective deferral limitation increases from \$15,500 to \$16,500 this year. Those who have reached age 50 by the end of 2009 may contribute an additional \$5,500.

If your employer provides a health savings account or a flexible spending account, review your 2008 health or dependent care expenses to make the most of these tax-advantaged plans for 2009. Otherwise, you might be leaving money on the table.

Now is also a good time to review your income tax withholding or estimated tax payments. Anticipated changes to your dependents, income, or deductions might call for an adjustment to your tax withholding. Failure to make these changes now may result in tax penalties if you come up short, or unnecessarily tie up cash if you overpay.



### Get an early start

The earlier you begin your 2009 tax planning the better. With Congress and a new President expecting to make major changes to the tax code, it's important that you take taxes into account before making financial decisions in your personal and business affairs this year. For tax-cutting guidance under the ever-changing rules, give us a call. □



**PLAN FOR THE "KIDDIE TAX" →** If you have children with investment income that subjects them to the kiddie tax,

**5** consider making changes early this year to keep the tax from applying. For 2009, the tax applies on unearned income over \$1,900 if your child is under age 19, or under age 24 if the child is still a student.

**CHARITY RECORDKEEPING →** The IRS is a stickler when it comes to required recordkeeping for charitable contributions. For example, cash contributions under \$250 require a bank record such as a cancelled check or credit card record or a receipt from the charity. For donations of \$250 or more, a receipt from the charity must be obtained before filing your return.

**STIMULUS PAYMENTS →** Remember the rebate checks authorized by the *Stimulus Act of 2008*. Qualifying taxpayers had to file a 2007 return by October 15, 2008, in order to get a check. People who didn't file by then and who are entitled to a payment can claim a credit this year by filing a 2008 income tax return. For details, check the IRS Web site at [www.irs.gov](http://www.irs.gov).

**MAJOR ESTATE TAX CHANGE →** The exemption amount for estate taxes increases in 2009 to \$3.5 million, up from \$2 million in previous years. The top estate tax rate remains at 45%. Next year (2010), the tax is eliminated completely, and the following year (2011), it is restored to pre-2001 levels. Watch for Congress to pass legislation changing these rules.

**ROTH CHANGE COMING →** Start planning now if you want to switch your traditional IRA to a Roth IRA but don't qualify because your income is too high. Starting in 2010, the \$100,000 income limit for converting a traditional IRA to a Roth ends.

**HEALTH SAVINGS ACCOUNTS →** One option to keep medical costs in check may be a health savings account (HSA). An HSA combines high-deductible health insurance with a tax-sheltered savings account. For 2009, singles can take a tax deduction for contributing up to \$3,000 to an HSA; married couples can contribute up to \$5,950. Those 55 and older can contribute an extra \$1,000. HSA funds can be used tax-free to pay unreimbursed medical expenses.

# What's **2009** New

Every year, changes to the tax code and IRS inflation adjustments give taxpayers new numbers to use in their tax planning. Here are some of those changes you'll see in 2009. A new administration in Washington means we're almost certain to have major tax legislation in 2009, so be aware that the numbers given here could change during the year.

Provision	2009	2008
Standard mileage rate for business driving	55¢ a mile	50.5¢ (1/1-6/30) 58.5¢ (7/1-12/31)
Mileage rate for medical and moving expense deductions	24¢ a mile	19¢ (1/1-6/30) 27¢ (7/1-12/31)
Mileage rate for charitable driving	14¢ a mile	14¢ a mile
Adoption credit	\$12,150	\$11,650
Maximum wages subject to social security tax	\$106,800	\$102,000
Social security earnings limit		
• Under full retirement age	\$14,160	\$13,560
• Year full retirement age reached	\$37,680	\$36,120
• Full retirement age	No limit	No limit
Top estate tax rate	45%	45%
Amount exempt from estate tax	\$3.5 million	\$2 million
Annual gift tax exclusion (per donee)	\$13,000	\$12,000
Maximum retirement plan contributions		
• IRA for those under age 50	\$ 5,000	\$ 5,000
• IRA for those 50 and over	\$ 6,000	\$ 6,000
• SIMPLE plan for those under age 50	\$11,500	\$10,500
• SIMPLE plan for those 50 and over	\$14,000	\$13,000
• 401(k) plan for those under age 50	\$16,500	\$15,500
• 401(k) plan for those 50 and over	\$22,000	\$20,500
"Kiddie tax" threshold	\$1,900	\$1,800
"Nanny tax" threshold	\$1,700	\$1,600
Personal exemption	\$3,650	\$3,500
Standard deduction		
• Single	\$ 5,700	\$ 5,450
• Joint returns and surviving spouses	\$11,400	\$10,900
• Married filing separately	\$ 5,700	\$ 5,450
• Head of household	\$ 8,350	\$ 8,000
• Additional for elderly or blind (married)	\$ 1,100	\$ 1,050
• Additional for elderly or blind (single)	\$ 1,400	\$ 1,350

**Contact us.** As you do your planning for 2009, stay informed about changes in the tax law. See us prior to making business and financial decisions so that current rules and pending changes can be considered. We're here to help you make the choices that will minimize the taxes you pay.

## Basis reporting will be required soon

In just a few short years, brokers will be required to report basis information to the IRS for stocks, bonds, and other financial instruments.

Do you know how basis is determined for investments and other assets? Here's a review of the basics on basis.

Cost "basis" is fundamental to how gains and losses are figured on your income tax return. Knowing what basis is, and how it is calculated, can help you save taxes.

In its simplest form, basis is what you pay for something. It normally comes into play when you sell an item of value, such as a house or business equipment. The

sales price, less the basis, is usually your taxable gain or loss. But basis is often different from the original purchase price. For instance, if you've deducted depreciation on the item, your basis is reduced by the amount of depreciation taken.

Basis can be adjusted by other means, too. Making major improvements to an asset can increase its basis. Expenses incurred to acquire an asset, such as sales commissions or settlement costs, also add to basis.

What do these rules mean to the average taxpayer? Plenty. Homeowners should maintain a record of their home's purchase price, plus improvements, in case gain on a future sale exceeds the \$250,000/\$500,000 exclusion amount. Stock and mutual fund investors need to track their investment costs, including commissions and reinvested dividends. Stock splits should also be recorded.

Some assets have basis, even if they cost you nothing. The basis of property given to you is generally the same as the basis of the donor. However, inherited property usually has a basis equal to its fair market value at the time of the owner's death, though special rules apply to certain inherited assets.

Back to the upcoming basis reporting requirement for investments. Reporting begins for stock purchases in 2011, for mutual fund purchases in 2012, and for other security purchases in 2013. □



**NEW  
YEAR  
2009**

**NOTE:** This newsletter is issued annually to provide you with information about minimizing your taxes. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.