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TAX NEWS & TIPS

YEAR-END 2008

Tax Time Is Coming!

Wow, what a year! We've seen an Economic Stimulus program, foreclosures in record numbers, a Federal bailout of much of the banking industry, and wild gyrations in the stock market. Now it's time to think about taxes, too! I'm writing this just before the elections. We now have a new President, and December changes are still possible. But, I'd like to help you control your taxes, and I've got news on last-minute law changes and suggestions on how to trim your tax bill. You still have a little time for savings before 2008 ends!

2008 Law Changes

Loads of changes. The economy looks weak. Congress enacted lots of changes to encourage people and small businesses to spend. A rash of disasters prompted more changes.

☑ **Stimulus Rebates.** You must report the rebate check you got, so dig out the amount. It's not taxable, but you may qualify for more based on your 2008 return. If you didn't file for 2007, or lost the rebate due to high income (or wrong kind of income), you'll have a "second chance" on the 2008 return.

☑ **Charity From Your IRA.** A part of the bailout program, Congress extended an old provision for 2008 and 2009. Folks over 70½ can make donations to charity from an IRA. The donation reduces your IRA distribution, and you don't claim a tax deduction. Your income drops, and you still use the standard deduction – a tax win. If you had planned to make the contribution anyway, it's a win-win deal. You must ask your trustee to send the check directly to the charity to use this tax break.

☑ **Non-Itemizer Breaks.** Most tax deductions only help if you have enough deductions to beat the standard deduction. Once you pass the standard deduction, your extra deductions are "gravy" and reduce your tax bill. Here are some changes that can help even if you use the standard deduction.

- **Real Estate Taxes**. For 2008 and 2009 you may deduct the first $500 of real estate taxes you pay. A couple may claim the first $1,000 spent. Any real estate tax qualifies, not just tax you pay on your home.
- **Disaster Losses.** We had tornadoes and hurricanes this year. If you suffered a loss in a Presidentially Declared disaster area, you have liberal rules for 2008 and 2009. Such a loss is normally limited. It is deducted only to the extent it exceeds 10% of your gross income. For these two years, this 10% "floor" is waived. In addition, the loss may be added to your standard deduction.
- **Tuition Deductions** were revived through 2009. Families may deduct the first $4,000 spent on college tuition and fees. This drops to $2,000 if income hits $65,000 ($130,000 for couples), and disappears if income reaches $80,000 ($160,000 for couples).

☑ **Sales Tax Deduction.** Another rule extended for 2008 and 2009. If you normally itemize deductions, you may deduct the larger of your state income tax payments or your sales taxes. In states with no income tax this is a big win. Even in states with income tax, the sales tax deduction might be larger. Tables give a figure based on your income. However, you can add any sales tax paid on a purchase of a new vehicle, boat, or airplane.

☑ **Other Changes.** Check the items below to know whether you are affected by any new rules.

- **Mileage Deductions** were increased mid-year. Through June it's 50.5¢ per mile. July through December – 58.5¢.
- **Energy Credits.** Extension for some residential credits. The credit is 10% of cost, with a limit. Gas or oil water heater or furnace - $150. Energy efficient improvements/cooling systems - $300. Advanced main circulating fans - $50.
- **Teacher Expenses** may be claimed on the first $250 spent on classroom materials. Revived for 2008 and 2009.
- **Alternative Minimum Tax** relief for 2008 in the form of increased exemption amounts.
- **Mortgage Insurance Premiums** remain deductible if income is below $110,000.
- **Credits** for research and two different jobs credits.
- **Businesses are** encouraged to buy new equipment with big increases in depreciation for the year 2008 only.

This Issue

Tax Traps

Watch Out For These! Here are some tax issues that can be a nasty surprise. If one of these affects you, please call me early, so that we can decide how to handle the issue.

Kiddie Tax. For 2008, your son or daughter under age 24 may need to pay tax at *your* tax rates. Youngsters with investment income over $1,800 are affected. Some exceptions apply, but please be safe rather than sorry. Warn the youngster *not* to file a tax return until you and I check this out.

Foreclosures. If you lost a property during 2008, we have a tough job on our hands. This is true even if you used a "short sale" or simply signed the property back to the lender. I'll need detailed information on how the property was lost, the balance of all loans, as well as your borrowing history for the property. You could very well be taxed on the amount of any part of the loans forgiven by the lender. Please call me right away.

Capital Gains/Losses. I certainly hope you had only gains during 2008. But, the huge declines in the stock market in September and October say this is not likely. To calculate tax when there are capital transactions, we must *aggregate* all transactions to find your *overall* gain or loss.

Overall Gains. Assuming your gains are long-term, you've probably heard of the "zero-percent" rate on gains for 2008. This is deceptive. Your capital gains are deemed to be the uppermost dollars of your *taxable* income. You will only see this low rate on dollars not already in the 25% or higher tax brackets. Otherwise the rate will be 15%.

Overall Loss. Your loss for any year is limited to $3,000. If your overall loss is greater, the excess will carry to future tax years. If your losses are large, this will hurt, but there's no way to change it. A "loss" in your pension plan is a decline in value and is not deductible – it has not yet been "realized".

Other small changes will make this a very challenging year. During my busy "season" I need to make efficient use of my time. Please let me know as soon as possible if we will need to deal with any of the more difficult issues.

Shift in Home Sale Rules

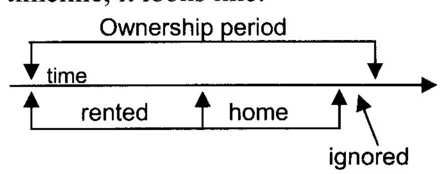
Since 1997 we have had very liberal rules for calculating tax when you sell your main home. The first $250,000 of gain is completely ignored (excluded), as long as you pass three tests. You must have

1. Owned the property at least 2 years in the prior 5 years.
2. Used it as your main home for 2 of the past 5 years, and
3. Not used the exclusion in the past 2 years.

Unintended Loophole. Under the law, you might own a home used as a rental. If you move into the property for 2 full years before selling, you are entitled to the full exclusion. A few Americans have already done this!

More reasonable. The law meant to favor homeowners, not landlords. Suppose a home was owned for 10 years, but used as your main home for only 2 years. It's reasonable to say 2/10 of the gain is a homeowner's gain – the exclusion may be used. The other 8/10 of the gain arises from a rental and should be taxed.

New Law. Beginning in 2009, we will eventually arrive at this position. To ensure homeowners are not penalized, the law begins to "track" usage of properties *after* 2008. On a timeline, it looks like:

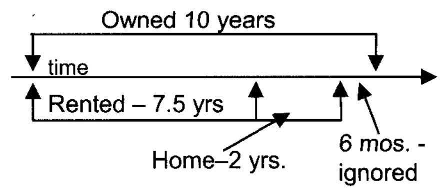


The time rented gives no exclusion. The time used as home, does. The time after leaving, but before selling, is ignored – this allows for the fact you might be deciding whether a job change is permanent, or whether you are comfortable in your new location.

Start in 2009. Any usage prior to 2009 is ignored! You will not be suddenly "hammered" by this law. Beginning next year, however, you must track your periods of usage. Eventually the law will cause an allocation of your gain between the part you may exclude as homeowner, and the part taxable because of your usage as a rental. Here's an example to help you see how this will work:

Example: Let's imagine a property you buy on July 1. You hold it for 10 years, then sell on June 30 at a profit of $200,000. For part of the time, the property was a rental. This means "gain from appreciation" is $200,000. If you took depreciation of $30,000 during the time of rental, you have an additional "gain from depreciation" of $30,000 and may *never* exclude this.

Now suppose you move into the property for 2 years, and then you take 6 months to sell the property. It might look like this:



We'll look at different dates:

Bought 7/1/2000. Your sale is on June 30, 2010. You lived in the home during all of 2008 and 2009. You have tracked no time after 2009 that counts against you. The entire $200,000 appreciation gain may be excluded. The $30,000 gain from depreciation is taxed.

Bought 7/1/2002. Your sale is on June 30, 2012. You lived in the home during all of 2010 and 2011. For the year 2009 it was a rental, which counts against you. That's one-tenth of your 10-year ownership. 1/10 of your gain is taxed (plus the $30,000 from depreciation). The other 9/10 of the gain is excluded.

Bought 7/1/2004. Your sale is on June 30, 2014. You lived in the home during all of 2012 and 2013. For the years 2009, 2010, and 2011 it was a rental, which counts against you. That's 3/10 of your 10-year ownership. 3/10 of your gain is taxed (plus the $30,000 from depreciation). The other 7/10 of the gain may be excluded.

And So On. Eventually 75% of the gain will be taxable, since 7.5 of the 10 years are for rental. For the next few years, the impact will be small. If you have such a property, we can discuss your own options and the likely tax impact. Call me.

January – Time To Get Ready!

Preparing your tax information is quick and easy if you spend a few minutes weekly. Start collecting the records and keep them in a special place. Review them each week.

Many tax records show up in your January mail. IRS gets a copy, too, so don't miss any of these!

W-2s. Read them carefully. Contact employer if there is a problem, or if one is missing after January. If you can't find employer, you'll need to collect your pay stubs.

1099s. You should get a 1099-INT or 1099-DIV for each account which pays interest or dividends. Even tax-exempt interest is reported.

Other 1099s. Real estate sales yield a 1099-S. Stock sales – 1099 B. Pensions - 1099-R. Foreclosures & debt consolidation – look for 1099-A and/or 1099-C. There are others. Look for "Important Tax Information Enclosed" on the envelope.

Form 1098. That's your mortgage interest if paid to a bank. With a private loan, you need the payment book or a statement from lender to verify the amount.

Other Income. Look for other reports of income. You may see forms for state tax refunds, unemployment income, prizes, gambling wins, or rents you collect. Read each of these carefully.

Your Records. Check your records carefully for income and deductions. Look back on the year. Calendars or check registers will help your memory. I'd prefer you have receipts for all expenses, but if you recall paying a deductible expense, claim it. Contributions are different – you *must* have receipts.

Start compiling the information right away. Don't wait until the day before you give the information to me. Make careful lists of missing items. Write down any questions you might have for me.

Take a few minutes each week to review your information. Short reviews help you remember items you might miss. Your subconscious mind will dig up things you forgot. It's your money at stake here – it's up to you to protect it!

Need To Send 1099s?

You may need to send Form 1099 to someone else. There are two cases:

- Business/Rental. You must report payments for services.
- "Nominee" amounts. If you are named as receiving income, but part or all of the income really belongs to someone else, you are a nominee.

You must send Form 1099 to the other party by February 2. IRS wants their copy by March 2. You pay a penalty for not sending them!

Business/Rental. If you paid $600 or more to anyone during 2008 you may need to issue the form. Look at "business" expenses only. Expenses in your personal life are not reported. Nor are payments to a corporation.

Some bills show both labor and materials. If *any* part of the payment was for services, report the *total* amount on Form 1099. Paying for merchandise alone doesn't count. Rent you pay to an agent instead of a landlord is also excepted. Look for repairs, painters, consultants, builders and the like.

You need name, address, and Tax I.D. Number for these people. Call them or send Form W-9 to request the information. If someone uses their own name, they should give you their Social Security Number (like 555-55-5555). If they give a business name, you should see an Employer I.D. Number (like 55-5555555).

Nominees. If you get a payment in your name, then pay $10 or more to another, you must file the form. You file the same 1099 as you received, but you file as a "middle man".

Getting the Forms. I can help, or you can get forms from IRS. If you need my help, please call early! My tax season is hectic and the deadline comes quickly. You can get forms from IRS at 1-800-829-3676. Or you can download them at www.irs.gov. You need Form 1099-MISC and Form 1096 as a cover sheet.

Got it All?

Here's a list of items frequently missed. Check it against your list.

☑ **Refinances.** I need to see the settlement statement. Maybe it's best to bring all the paperwork.

☑ **Child Care Expenses**. I need full name, address, telephone and I.D. number of care providers.

☑ **Estimated Tax Payments**. Find date and amount for payments. Look near April 15, June 15, and Sept. 15 of 2008, and January 15 of 2009. A January 2008 payment was used on your 2007 return.

☑ **Sales of Property**. The most important thing is the settlement statement. Bring all the paperwork.

☑ **Student Loans**. Form 1098-E reports interest. I need this plus information about the type of loan.

☑ **College Tuition**. Form 1098-T lists college tuition paid. I need the form and full details on who took the courses. This may help you get valuable tax credits or deductions.

☑ **Sales of Stock.** Brokers send Form 1099-B to show sale price. I need date and cost of the original purchase. Find the "buy" slip.

☑ **Business Records.** Please separate purchases of major equipment from other supplies.

☑ **Employer Reimbursements**. If your employer reimburses any of your expenses we need records to insure we claim only the excess.

☑ **Partnership Information.** Schedule K-1 from partnerships always seem to be late. Don't worry. Let's do the rest, and be ready to go when the K-1 arrives.

☑ **Social Security Benefits.** Be sure you have the actual Form 1099-SSA. We must declare the GROSS amount you were paid, not your net monthly benefit.

☑ **Special Accounts.** Do you contribute to an IRA, Roth IRA, or Health Savings Account? These and others can cut your taxes.

☑ **Complex Transactions.** Please call early if you have an unusual or difficult transaction. Foreclosures, sales of property, real estate exchanges, casualties, and the like can take a lot of extra work. We may need to schedule a special meeting, and I may need additional time. Please – help me to help you.

Tips For You

Social Security – Big Increases. Benefits will increase by 5.8% in January. This is the largest increase in more than 25 years. Even better – you'll see all this in your check, because the Medicare B premium will not rise – it stays at $96.40.

Medicare B Surcharge. Premiums are higher in 2009 for folks with high income. Adjusted Gross Income from your 2007 tax return is used. Here are premiums for single and married filers (couples filing separately use other rules).

Your 2007 AGI (in thousands): Single	Joint	Your Premium
$85 or less	170 or less	$ 96.40
$85-$107	$170-$214	$134.90
$107-$160	$214-$320	$292.70
$160-$213	$320-$426	$250.50
Over $213	Over $426	$308.30

First-Time Homebuyers – New "Credit". If you did not own a home for 3 years before buying a new home, there may be a tax credit waiting for you. This will apply for homes bought between April 9, 2008 and June 30, 2009. The credit starts to phase out for those with income above $75,000 ($150K for a couple). The credit is 10% of the cost of the home, but is limited to $7,500. The credit is "refundable", thus you collect it even if your tax bill is smaller. The only problem is this "credit" is really a no-interest loan. You must pay it back in equal installments over 15 years. Payback begins in the second year after you buy the home and collect the credit. The remaining balance is payable as soon as you no longer use the property as your main home.

Brokers To Track Stock Basis. You may have heard a new law will force brokers to report your gain or loss to IRS. At present, they report only your sales – calculating gain or loss requires knowing about your purchase. Brokers commonly tell you this information. However, they can do this only if the stock was purchased within the account. Items transferred from another broker or account cannot be reported, since the broker lacks the information.

The new law starts in 2011. Plus, it is only for purchases made in 2011 and later. Until all earlier assets are sold, it's still your job to track costs.

Pension Contributions Increase. If you're trying to "sock away" the largest possible amounts into your pension, there's good news for 2009. Higher amounts are allowed: Here's a listing of the maximum allowed contributions for various types of retirement plans:

Plan Type	Maximum Contribution	50 & up, may add
401(k),403(b), or 457	$ 16,500	$ 5,500
SIMPLE	$ 11,500	$ 2,500
SEP	$ 49,000	N/A
Keogh	$ 49,000	N/A
IRA, Roth	$ 5,000	$ 1,000

Happy New Year!

Over the years you have come to seem more like members of my family.

As 2008 draws to a close I offer the same wishes as for family and close friends. I hope 2009 will bring peace, contentment, and prosperity to both you and your loved ones.

Happy 2009!

Your Tax Calendar

Dec 31	A check mailed today counts for 2008. Last chance for deductions!
	State estimated tax paid today is deductible on 2008 Federal return.
Jan 15	4th quarter estimated tax payments due.
Feb 2	Employers – Quarterly payroll & FUTA due.
	W-2's and 1099's due to recipients.
March 2	W-2's and 1099's due to IRS.
April 15	2008 tax returns due. Last day for 2008 IRA or Roth contributions.