

As the end of the year approaches, it is a good time to think of planning moves that will help lower your tax bill this year and possibly the next.

Factors that compound the challenge include the stock market's swoon, the difficult economic climate we're in right now, and the strong possibility that there will be tax changes in the works next year.

In fact, there might even be another economic stimulus package carrying tax changes enacted before the end of this year.



**MILLIGAN**  
Consultants & Certified Public Accountants

## 2008-2009 Tax Planning Guide

Year-round strategies to make  
the tax laws work for you

### Significant Developments for 2008

The 5% tax rate on *net capital gains* and *qualified dividend income* for tax year 2008 *drops to 0%* in 2008. This means that gains and dividends that otherwise would be taxed in the lowest ordinary tax brackets (10% and 15%) will not be subject to federal income tax. The 0% rate is scheduled to continue through tax years 2009 and 2010.

The *contribution limit for individual retirement accounts* (both traditional and Roth) *increases to \$5,000* for 2008. A "catch up" provision permits an additional contribution of up to \$1,000 by individuals who are at least age 50 in 2008.

*Distributions* from certain retirement plans *may be rolled over into Roth IRAs*, starting in 2008. Certain requirements apply.

The "*kiddie tax*" provisions now *apply to many college-age children* with investment income.

Eligible taxpayers may elect under Section 179 of the tax code to *deduct as a business expense the cost of new or used assets* placed in service in 2008, as opposed to claiming depreciation, *up to a maximum of \$250,000* (limit reflects estimated inflation adjustment).

*First time homebuyers* are eligible for a *refundable credit* of the lesser of \$7,500 or 10% of the cost of the home for purchases made after 4/9/08 and before 7/1/09 (AGI limitations apply).

Taxpayers who've had their *mortgage debt cancelled* may qualify under the mortgage forgiveness initiative to have the amount of the cancelled debt *excluded from their income*. This initiative is effective retroactively from 1/1/07.

*The indisputably good news we are certain of is that Congress has acted to "patch" the AMT problem for 2008, has retroactively reinstated a number of tax breaks (such as the option to deduct state and local general sales tax instead of state and local income tax and the above-the-line deduction for higher education expenses), and has created new tax breaks that go into effect for the 2008 tax year (including a tax credit for first-time homebuyers, a non-itemizers' deduction for state and local property tax and a non-itemizers' deduction for certain disaster losses).*

*For 2008, businesses enjoy tax breaks such as a beefed-up expensing option under Code Sec. 179, a 50% bonus first-year depreciation write-off for most new machinery, equipment and software placed into service this year, and a reinstated research credit.*

*We have compiled a checklist of actions based on current tax rules that may help you save tax dollars if you act before year-end. Not all actions will apply in your particular situation, but you will likely benefit from many of them.*

## ***BUSINESS FILERS***

- Businesses should consider making expenditures that qualify for the up to \$250,000 business property expensing option for assets bought and placed in service this year; the maximum expensing amount will drop to \$133,000 for assets bought and placed in service next year (higher expensing amounts apply to certain specialized assets). Businesses also should consider making expenditures that qualify for 50% bonus first year depreciation if bought and placed in service this year. This bonus write-off generally won't be available next year (some exceptions apply, such as for businesses affected by Presidentially declared disasters).
- If you are self-employed and haven't done so yet, set up a self-employed retirement plan.
- Substantial tax credits are available for installing energy generating equipment (such as solar electric panels or solar hot water heaters) to your home. The credits are available whether you spend the money this year or next, but if you're installing solar electric property, and will be spending more than \$6,667, the credit will be larger for expenses made in 2009 rather than 2008.
- Individual and business taxpayers who make qualifying cash contributions for disaster relief efforts in the Midwest could benefit from a recently passed law that suspends the percentage-of-income limits that would normally apply when taxpayers deduct the contributions on their 2008 federal tax returns. Under the Heartland Disaster Tax Relief Act, an individual taxpayer who itemizes deductions may choose to deduct qualifying cash contributions up to 100 percent of his or her adjusted gross income, reduced by deductions for other charitable contributions. Similarly, an electing corporation may deduct qualifying cash contributions up to 100 percent of its taxable income, reduced by deductions for other charitable contributions.
- If you own an interest in a partnership or S corporation you may need to increase your basis in the entity so you can deduct a loss from it for this year.
- Business-Bonus (accelerated) depreciation of 50% of adjusted basis is allowed for qualified property placed in service after 12/31/07 and before 1/1/09. MACRS depreciation is allowed after 179 and bonus depreciation.

## *INDIVIDUAL FILERS*

- There is now a standard deduction for paid property taxes for taxpayers who do not itemize deductions.
- Depending on your particular situation, you may also want to consider deferring a debt-cancellation event until 2009, electing to deduct investment interest against capital gains, and disposing of a passive activity to allow you to deduct suspended losses.
- If you are age 70 1/2 or older, own IRAs (or Roth IRAs), and are thinking of making a charitable gift before year-end, consider arranging for the gift to be made directly by the IRA trustee. Such a transfer can achieve important tax savings.
- Those facing a penalty for underpayment of federal estimated tax may be able to eliminate or reduce it by increasing their withholding.
- Consider extending your subscriptions to professional journals, paying union or professional dues, enrolling in (and paying tuition for) job-related courses, etc., to bunch into 2008 miscellaneous itemized deductions subject to the 2%-of-AGI floor.
- Realize losses on stock while substantially preserving your investment position. There are several ways this can be done. For example, you can sell the original holding, then buy back the same securities at least 31 days later. It may be advisable for us to meet to discuss year-end trades you should consider making.
- If you are thinking of buying a hybrid vehicle eligible for a tax credit, check to see if it's eligible for the credit, and, if so, purchase it before year-end.
- It may be advantageous to try to arrange with your employer to defer a bonus that may be coming your way until 2009.
- If you expect to owe state and local income taxes when you file your return next year, ask your employer to increase withholding of state and local taxes (or pay estimated tax payments of state and local taxes) before year-end to pull the deduction of those taxes into 2008.
- Postpone income until 2009 and accelerate deductions into 2008 to lower your 2008 tax bill. This strategy may enable you to claim larger deductions, credits, and other tax breaks for 2008 that are phased out over varying levels of adjusted gross income (AGI). These include IRA and Roth IRA contributions, conversions of regular IRAs to Roth IRAs, child credits, higher education tax credits, the above-the-line deduction for higher-education expenses, and deductions for student loan interest. Postponing income also is desirable for those taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances. Note, however, that in some cases, it may pay to actually accelerate income into 2008. For example, this may be the case where a person's marginal tax rate is much lower this year than it will be next year.
- Consider using a credit card to prepay expenses that can generate deductions for this year.
- If you're thinking of donating a used auto to charity, you may want to inquire whether the charity plans to sell the car or use it in its charitable activities; the latter may yield a bigger deduction for you.
- If you believe a Roth IRA is better than a traditional IRA, and want to remain in the market for the long term, consider converting traditional-IRA money invested in beaten-down stocks (or mutual funds) into Roth IRAs if eligible to do so. Keep in mind, however, that such a conversion will increase your adjusted gross income for 2008.

## *INDIVIDUAL FILERS — continued*

- Increase the amount you set aside for next year in your employer's health flexible spending account (FSA) if you set aside too little for this year. Don't forget you can set aside amounts to get tax-free reimbursements for over-the-counter drugs, such as aspirin and antacids.
- If you become eligible to make health savings account (HSA) contributions in December of this year, you can make a full year's worth of deductible HSA contributions for 2008.
- You may want to pay contested taxes to be able to deduct them this year while continuing to contest them next year.
- You can save gift and estate taxes by making gifts sheltered by the annual gift tax exclusion before the end of the year. You can give \$12,000 in 2008 to an unlimited number of individuals but you can't carry over unused exclusions from one year to the next.
- Estimate the effect of any year-end planning moves on the alternative minimum tax (AMT) for 2008, keeping in mind that many tax breaks allowed for purposes of calculating regular taxes are disallowed for AMT purposes. This includes the deduction for state property taxes on your residence, state income taxes (or state sales tax if you elect this deduction option), miscellaneous itemized deductions, and personal exemption deductions. Other deductions, such as for medical expenses, are calculated in a more restrictive way for AMT purposes than for regular tax purposes. As a result, in some cases, deductions should be deferred rather than accelerated to keep them from being lost because of the AMT.
- If you are thinking of making energy saving improvements to your home, such as putting in extra insulation or installing energy saving windows, postpone your move until 2009. A credit of up to \$500 may be available for such improvements if made next year (but not this year).

These are just some of the year-end steps that can be taken to save taxes. You can also give us a call to schedule a meeting where we can tailor a particular plan that will work best for you.

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