

YEAR-END TAX SAVING IDEAS FOR INDIVIDUALS

There are a number of steps you might take by year-end to cut your 2009 tax bill, such as deferring income, accelerating deductions and capital gain planning.

Caution: If you expect to be subject to the alternative minimum tax (AMT), you may want to accelerate income and delay deductions. The AMT is expected to impact many more taxpayers in 2009 due to the decrease in the exemption amounts. Please contact us for more information.

Deferring Income

- If you are planning on selling an investment on which you have a gain, it may be best to wait until after the end of the year to defer payment of the taxes for another year (subject to estimated tax requirements).
- If you are due a bonus at year-end, you may be able to defer receipt of these funds until January. This can defer the payment of taxes (other than the portion withheld) for another year. Deferral of tax generally won't work where the bonus is contractually due in 2009.
- If your company grants stock options, it may be wise to wait until next year to exercise the option or sell stock acquired by exercise of an option. Exercise of the option is often but not always a taxable event; sale of the stock is almost always a taxable event.
- If you're self-employed, use cash basis bookkeeping, and can afford the delay in cash inflow, defer sending invoices or bills to clients or customers until the end of December.

Caution: Keep an eye on the estimated tax requirements.

Accelerating Deductions

- Pay a state estimated tax installment in December instead of at the January due date. However, the payment should be based on a reasonable estimate of your state tax.
- Pay your entire property tax bill, including installments due in year 2010, by year-end (not applicable to mortgage escrow accounts).

(continued on Page 2, Column 2)

YEAR-END TAX PLANNING IDEAS FOR BUSINESS

Here are some suggested tax moves to be taken no later than Dec. 31, 2009 for businesses on the calendar year that may save businesses income tax:

Purchase New Business Equipment

Expensing: The Section 179 Deduction for equipment purchases remains for 2009, businesses can elect to expense (deduct immediately) the cost of most new equipment up to \$250,000 (subject to a dollar-for-dollar reduction in that \$250,000 for such purchases over \$800,000).

Note: Many states have not matched these amounts and therefore, state tax may not allow for the maximum federal deduction. In this case, two sets of depreciation records will be needed to track the federal and state tax impact.

Timing: If you intend to purchase business equipment this year, the proper timing of purchases might, in some cases, actually increase the tax benefit you gain from depreciation of that equipment. Here's a simplified explanation:

Conventions: The tax rules for depreciation include "conventions" (rules) for determining how many months' worth of depreciation you can claim in the year you first place property in service. The conventions that come into play with equipment are...

1. **The half-year convention:** When the half-year convention applies, all property that you begin using during the year is treated as placed in service at the midpoint of the year. This means that no matter when you begin using the property, you treat it as if you began its use in the middle of the year.

Example: You buy a \$40,000 piece of machinery on December 15. If the half-year convention applies, you get one-half year's worth of depreciation on that machine.

(continued on Page 2)

TALK TO US ABOUT YOUR BUSINESS PAYROLL NEEDS

Streamline your payroll with our web-based, hassle-free payroll system. Direct deposit and electronic filing included. Call Neil or Cynthia for more information.

YEAR-END TAX PLANNING IDEAS FOR BUSINESS

(continued from Page 1)

2. **The mid-quarter convention:** The mid-quarter convention must be used if the cost of equipment placed in service during the last three months of the tax year is more than 40% of the total cost of all property placed in service for the entire year.

Purchase New Business Equipment

If the mid-quarter convention applies, the half-year rule is out the window, and you treat all equipment placed in service during the year as if it were placed in service at the midpoint of the quarter in which you began using it.

Example: You buy a \$40,000 piece of machinery on December 15. If the half-year convention applies, you get one-half year's worth of depreciation on that machine.

Tip: Don't neglect to bring any planned equipment purchases to our attention. A careful examination of the timing of planned equipment purchases will allow you to take full advantage of these tax rules.

OTHER YEAR-END MOVES

Income Delay or Acceleration. Depending on whether it's better for you, tax-wise, to delay or accelerate income, you can decide to bill clients or customers sooner (before year-end) or later (after the year-end) to accomplish your tax planning goals.

Partnership or S Corporation Basis. Partners or S corporation shareholders in entities that have a loss for 2009 can deduct that loss only up to their basis in the entity. However, they can take steps to increase their basis to allow a larger deduction. Basis in the entity can be increased by lending the entity money or making a capital contribution before the end of the entity's tax year.

Caution: Remember that by increasing basis you're putting more of your funds at risk. Consider whether the loss signals further troubles ahead.

Retirement Plans. Self-employed who have not yet done so should set up self-employed retirement plans before the end of their individual tax year 2009. Plan set-up dates vary by type.

Dividend Planning. Dividends you cause your corporation to pay qualify for the reduced 15% (or 5%) rate in the hands of stockholders, including you as a stockholder. Such a dividend may reduce the risk of a tax on accumulated corporate earnings or an IRS claim that compensation to company executives was excessive and so partly nondeductible. This tax rate may be increased in future years to ordinary rates.

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YEAR-END TAX PLANNING IDEAS FOR BUSINESS

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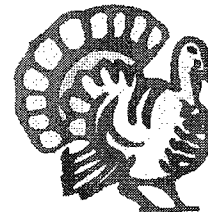
Budgets. Although the need for a business budget may seem obvious, many companies overlook this critical business planning tool. Therefore, a brief reminder may be in order at year-end. A budget is extremely effective in making sure a business has adequate cash flow and, thus, in ensuring a business's financial success.

That's why every business, from the smallest to the largest, should have a budget. Once the budget has been made up, then monthly actual revenue amounts can be compared to monthly budgeted amounts. If actual revenues fall short of budgeted revenues, expenses must generally be cut.

Tip: Each year-end, business owners should get together with their accountants and budget (project) revenues and expenses for the coming year. Amounts can be broken down to cover monthly or even weekly periods, depending on the business's needs.

SUMMARY

These are just a few of the year-end planning tax moves that could make a substantial difference in your tax bill for 2009. As stated above in regard to individual tax planning, do not act on these suggestions without consulting us first. They are general in nature, and your specific tax or financial situation may require special planning. ☺ ☻



YEAR-END TAX SAVING IDEAS FOR INDIVIDUALS

(continued from Page 1)

Accelerating Deductions

- Try to bunch "threshold" expenses, such as medical expenses and miscellaneous itemized deductions. (Threshold expenses are deductible only to the extent they exceed a certain percentage of adjusted gross income.) By bunching these expenses into one year, rather than spreading them out over two years, you have a better chance of exceeding the thresholds, thereby maximizing your deduction. For example, you might pay medical bills and dues and subscriptions in whichever year they would do you the most tax good.

(continued on Page 3)

YEAR-END TAX SAVING IDEAS FOR INDIVIDUALS

(continued from Page 2)

Accelerating Deductions

Caution: In most cases, credit cards charges are considered paid in the year of the charge regardless of when you pay on the card. This, however, does not apply to store revolving credit cards. If you charge expenses on a Wal-Mart store credit card, the deduction can not be claimed until the bill is paid.

In the case of tax benefits that are phased out if you have more than a certain level of adjusted gross income (AGI), a strategy of deferring income and accelerating deductions may also allow you to claim larger deductions, credits, and other tax breaks for 2009. The latter benefits include Roth IRA contributions, conversions of regular IRAs to Roth IRAs, child credits, higher education tax credits and deductions for student loan interest.

Tip: Deferring income into 2010 is an especially good idea for taxpayers who anticipate being in a lower tax bracket next year, generally because of much-reduced income or much-increased deductible expenses, and for those moving to a "no income tax" jurisdiction.

Tip: It may pay to accelerate income into 2009 if your marginal tax rate is much lower this year than it will be next year.

Tip: If you have a sum of income coming in that is not covered by withholding taxes, increasing your withholding before year-end can avoid or reduce any estimated tax penalty that might otherwise be due.

Tip: Sales tax paid on new vehicles may be deducted if you do not itemize, starting in 2009.

On the other hand, the penalty could be avoided by covering the extra tax in your final estimated tax payment and computing the penalty using the annualized income method. Call us for additional support regarding estimated taxes.

Caution: Alternative Minimum Tax no longer just impacts the wealthy! Do not overlook the effect of any year-end planning moves on the alternative minimum tax (AMT) for 2009.

Due to recent tax policy, the AMT will impact many more taxpayers than ever before due to the reduction in the exemption amounts. The problem is that the tax is not indexed to inflation, and, as a result, growing numbers of middle-income taxpayers have been finding themselves subject to this higher tax.

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YEAR-END TAX SAVING IDEAS FOR INDIVIDUALS

(continued from Column 1)

Accelerating Deductions

Items that may affect the AMT include the deductions for state property taxes and state income taxes, miscellaneous itemized deductions, and personal exemptions. Please call us for more information.

Note: AMT Exemption Amounts For 2009

- \$46,700 for single and head of household filers;
- \$70,950 for married people filing jointly and for qualifying widows or widowers, and
- \$35,475 for married people filing separately.

Tax Credit To Aid First Time Homebuyers

First-time homebuyers should know that this tax credit was amended in 2009 to provide further support for the purchase of a new home.

The tax credit was increased:

- To a maximum credit of \$8,000, from \$7,500.
- To apply to home purchases **before December 1, 2009**.
- Reduces a taxpayer's tax bill or increases his or her refund, dollar for dollar. Is fully refundable, meaning that the credit will be paid out to eligible taxpayers, even if they owe no tax or the credit is more than the tax that they owe.
- The 2009 legislation eliminated the repayment requirements for homes purchased on or after January 1, 2009. Homeowners, however, who sell the house within three years of purchase must repay credit back in full. There have been limited modifications to this program through April 2010.



MAKE CHARITABLE CONTRIBUTIONS

You can donate property as well as money to a charity. A deduction is usually available for the fair market value of the property. However, for certain property, the deduction is limited to your cost basis. While you can also donate your services to charity, you may not deduct the value of these services. You may also be able to deduct charity-related travel expenses and some out-of-pocket expenses.

Tip: Contributions of appreciated property (i.e. stock) provide an additional benefit in that you avoid paying capital gains on any profit.

(continued on Page 4)



YEAR-END TAX SAVING IDEAS FOR INDIVIDUALS

(continued from Page 3)

Make Charitable Contributions

Note: A written record of charitable contribution is required in 2009. A donor may not claim a deduction for any contribution of cash, a check or other monetary gift made on or after January 1, 2007, unless the donor maintains a record of the contribution in the form of either a bank record (such as a cancelled check) or a written communication from the charity (such as a receipt or a letter) showing the name of the charity, the date of the contribution, and the amount of the contribution.

Investment Gains And Losses

Minimize taxes on investments by judicious matching of gains and losses. Where appropriate, try to avoid short-term gains, which are usually taxed at a much higher tax rate (up to 35%) than long-term gains (15%). You might consider, where feasible, trying to reduce all capital gains and generate short-term capital losses up to \$3,000.

Tip: If you have a large capital gain this year, consider selling an investment on which you have an accumulated loss. Capital losses are deductible up to the amount of your capital gains plus \$3,000.

Tip: If you have losses, you might consider selling securities at a gain and then immediately repurchasing them, since the 30-day rule does not apply to gains. That way, your gain will be tax-free, your original investment is restored and you have a higher cost basis for your new investment (i.e., any future gain will be lower).

Tip: After selling securities investment to generate a capital loss, you can repurchase it after 30 days. (If you buy it back within 30 days, the loss will be disallowed.) Or you can immediately repurchase a similar (but not the same) investment, e.g., another mutual fund with the same objectives as the one you sold.

Note: The maximum long term capital gains tax rate is currently 15%. This is set to rise to 20% in 2011. This potential change in rate is something to think about in your long term investment planning. Rhode Island taxes long-term capital gains at ordinary rates starting in 2010.

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YEAR-END TAX SAVING IDEAS FOR INDIVIDUALS

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Mutual Fund Investors

Before investing in a mutual fund, determine whether there will be a dividend at the end of the year or a dividend that will occur early in the next year but be deemed paid this year. The year-end dividend could make a substantial difference in the tax you pay.

Example: You invest \$20,000 in a mutual fund at the end of 2009. You opt for automatic reinvestment of dividends. In late December of 2009, the fund pays a \$1,000 dividend on the shares you bought. The \$1,000 is automatically reinvested.

Result: You must pay tax on the \$1,000 dividend. You will have to take funds from another source to pay that tax because of the automatic reinvestment feature. The mutual fund's long-term capital gains pass through to you as capital gains dividends taxed at long-term rates, however long or short your holding period.

The mutual fund's distributions to you of dividends it receives generally qualify for the same tax relief as long-term capital gains. If the mutual fund passes through its short-term capital gains, these will be reported to you as "ordinary dividends" that don't qualify for relief.

Tip: Wait until after the dividend to buy the shares. (The share net asset value will drop after the dividend is paid.) Alternatively, buy the shares in 2009, but opt to take the dividend in cash instead of having it reinvested.

In spite of these tax consequences, it may be a good idea to buy shares right before the fund goes ex-dividend. For instance, the distribution could be relatively small, with only minor tax consequences. Or the market could be moving up, with share prices expected to be higher after the ex-dividend date.

Tip: To find out a fund's ex-dividend date, call the fund directly.

Year-End Giving To Reduce Potential Estate Tax

For many, sound estate planning begins with lifetime gifts to family members, gifts which reduce the donor's assets subject to future estate tax. Such gifts are often made at year-end, in the holiday season, in ways that qualify for exemption from federal gift tax. Your gifts to any donee are excludable (exempt) from gift tax up to \$13,000 a year per donee.

(continued on Page 5)



YEAR-END TAX SAVING IDEAS FOR INDIVIDUALS

(continued from Page 4)

Year-End Giving To Reduce Potential Estate Tax

Caution: An unused annual exemption doesn't carry over to later years. To make use of the exemption for 2009, you must make your gift by December 31.

Husband-wife joint gifts to any third person are exempt from gift tax up to \$26,000 (\$13,000 each). Though what's given may come from either you or your spouse or from both of you, both of you must consent to such "split gifts".

Gifts of "future interests" assets which the donee can only enjoy at some future time (certain gifts in trust, for example) generally don't qualify for exemption. But gifts for the benefit of a minor child can be made to qualify.

Tip: Consider adopting a plan of lifetime giving to reduce future estate tax.

Cash or publicly traded securities raise the fewest problems. You may choose to give property you expect to increase substantially in value later. Shifting future appreciation to your heirs keeps that value out of your estate. But this can trigger IRS questions about the gift's true value when given.

You may choose to give property that has already appreciated. The idea here is that the donee, not you, will realize and pay income tax on future earnings, and built-in gain on sale.

Gift tax returns for 2009 are due the same date, April 15, 2010, as your income tax return. Returns are required for gifts over \$13,000 (including husband-wife split gifts totaling more than \$13,000) and gifts of future interests. Though you are not required to file if your gifts do not exceed \$13,000, you might consider filing anyway as a tactical move to block a future IRS challenge about gifts not "adequately disclosed".

Tip: Call us if you're considering making a gift of property whose value isn't unquestionably less than \$13,000.

Income earned on investments you give to children or other family members is generally taxed to them, not to you. In the case of dividends paid on stock given to your children, they may qualify for the reduced 5% dividend rate.

Caution: In 2009, investment income of a child under age 19 (or full-time students through age 23) is taxed at the parent's top rate, where in excess of \$1,900 in 2009.

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YEAR-END TAX SAVING IDEAS FOR INDIVIDUALS

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OTHER YEAR-END MOVES

Retirement Plan Contributions. Maximize your retirement plan contributions. If you own an incorporated or unincorporated business, consider setting up a retirement plan if you don't already have one. (It need not be actually funded until you pay your taxes, but allowable contributions will be deductible on this year's return.)

If you are an employee and your employer has a 401(k), contribute the maximum amount (\$16,500 for 2009 and 2010, plus an additional \$5,000 if age 50 or over, assuming the plan allows this much and income restrictions don't apply).

If you are employed or self-employed with no retirement plan, you can make a deductible contribution of up to \$5,000 a year to a traditional IRA (deduction is sometimes allowed even if you have a plan). Further, there is also an additional catch up contribution of \$1,000 if age 50 or over.

Health Savings Accounts. Consider setting up a health savings account (HSA). You can deduct contributions to the account, investment earnings are tax-deferred until withdrawn, and amounts you withdraw are tax-free when used to pay medical bills. In effect, medical expenses paid from the account are deductible from the first dollar (unlike the usual rule limiting such deductions to the excess over 7.5% of AGI). For amounts withdrawn at age 65 or later, and not used for medical bills, the HSA functions much like an IRA.

To be eligible, you must have a high-deductible health plan (HDHP), and only such insurance, subject to numerous exceptions, and must not be enrolled in Medicare. For 2009, to qualify for the HSA, your minimum deductible in your HDHP must be at least \$1,150 (single coverage) or \$2,300 (family). For 2010, the minimum deductible for an HDHP increases to \$1,200 for self-only coverage and \$2,400 for family coverage.

SUMMARY

These are just a few of the steps you might take. Please contact us for help in implementing these or other year-end planning strategies that might be suitable to your particular situation. . ☺ ☻



