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2008 YEAR-END TAX PLANNING

With our nation's economic markets in flux – and facing a new presidential administration in January that will undoubtedly result in changes to the tax code – the need for effective tax planning may never have been greater.

Year-end planning may take on increased importance for anyone who has had a change in circumstance during the past year. A marriage or divorce, birth or death of a family member, acquisition or sale of a business, promotion or loss of a job, or any other major event will probably impact your tax obligations.

The process of tax planning is concerned with the timing and method of reporting income and deductions. The basic philosophy is to defer the payment of tax. Accelerating deductions and postponing recognition of income items typically accomplish this.

Because of the nation's economic problems, many pundits are predicting an increase in tax rates regardless of the outcome of the election. If you believe that a substantial increase in tax rates will apply to 2009, then losses and deductions may be worth more in the future than currently.

However, we generally do not recommend that you accelerate tax obligations due to the time value of money and because of the uncertainty of what tomorrow's tax rules will bring. It is difficult to properly plan without knowing what the rules are.

Below are several ideas for both individuals and business taxpayers. Remember that all of these items may not be relevant to your specific situation. Therefore, it is a good idea to check with us before taking any significant steps.

*Observing
50 Years
of service to the
Omaha community!*

In 2009, Frankel Zacharia will observe 50 years of service. While we have grown and changed over the years, the quality of our work and the standards of our ethics hold strong.

Thank you for your continued patronage as well as your trust in us. We look forward to many more years of continued, uncompromising commitment to serving you.

Paul W. Reinsch, Jr.
Managing Partner

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INDIVIDUAL INCOME TAX CONSIDERATIONS

- **Bonuses and Salaries** – If your employer will defer the payment into January 2009, bonus and salary amounts will not be taxed on your return until next year. (Your employer may still be able to claim a deduction on its 2008 tax return.)
- **Stock and Bond Sales** – Gains and losses are determined on the trade date. You may want to consider not selling stock with a gain until January to defer recognition. Likewise, sell those stocks with losses before the end of the year to reduce any other gains you may have, including capital gain dividends. However, only \$3,000 of net losses from security transactions can be deducted currently. The balance of any loss will carry over to next year. You also need to be mindful of the length of time that you have held the investment – favorable long-term capital gain rates are applicable when you have held the property for more than one year. Don't spoil that favorable long-term capital gain rate with a short-term capital loss. If you do sell some stocks at a loss, be careful not to repurchase the same security within 30 days of the sale date.
- **Deductible Expenses** – Charge deductible expenditures on credit cards to get a current deduction even if payment of the charge will not be made until next year. Since taxpayers have the option of deducting the higher of state and local income taxes or state sales tax, it may be appropriate to defer or accelerate the payment of the fourth quarter state estimated tax payment to take advantage of a higher sales tax deduction in one year and state income taxes in the other.
- **Charitable Donations** – Make charitable donations with appreciated stock owned more than one year. The fair market value is used to measure the donation, and there is no tax on the difference between your cost and the fair market value. (If the fair market value is less than your cost, consider selling the item to recognize the loss and contribute the cash proceeds.) Remember that charitable contributions must be substantiated with bank records or receipts – the “miscellaneous” cash contribution is no longer allowed without a receipt.
- **Retirement Contributions** – Make the maximum contribution to retirement arrangements whether employer sponsored or an IRA (see chart page 4).
- **Medical Expenses** – Medical expenses are deductible only if they exceed 7½ percent of your adjusted gross income. You may want to reschedule and pay for procedures this year to get the benefit of a 2008 medical deduction – or reschedule to next year for a 2009 deduction. (If you pay more than one-half of the support of a parent or child, regardless of their qualification as a dependent, and you pay their medical expenses, it is deductible on your tax return.) Also includable as medical expenses are transportation, medical insurance premiums, certain long-term care premiums, prescription drugs and certain medically prescribed programs such as weight-loss. You may also be in a position to set up a health savings account provided you have high-deductible health insurance.
- **Flexible Spending Accounts** – For calendar year plans, flexible spending account balances may be used through March 15, 2009, instead of Dec. 31, 2008, without losing the account balance. (Make sure that your employer has amended its plan to allow this.)
- **Tax Basis** – Review your tax basis in partnerships or S corporations that may have a current-year loss. If the tax basis is insufficient to claim the loss, you may need to make a contribution to the capital of the business to deduct the loss.
- **Passive Activity** – Dispose of a passive activity with suspended losses. When a passive activity has suspended losses, those losses become deductible in the year the activity is sold.
- **Installment Sales** – Consider an installment sale of property rather than collecting all proceeds this year. You can defer part of the gain on the sale until you collect the cash.
- **Tax Liability** – Review your tax liability position and determine whether to reduce your payroll tax withholding or adjust any estimated tax payments. You don't want to be in a position where you will be penalized for underpaying taxes, nor do you want to give the government an interest-free loan.
- **Section 529 Plan** – Consider using a Section 529 plan for college funding. Many taxpayers set up “Uniform Gift to Minor Act” accounts for their children to help pay for college. The income on these accounts is taxed to the children. However, unearned income over \$1,800 could be taxable at the parents' higher tax rate (see kiddie tax below). Convert these accounts to 529 plans and avoid the tax on the earnings – as long as the amounts are used for education.
- **'Kiddie Tax'** – A dependent child under age 19 (or age 24 if a full-time student) may be subject to tax at the parents' higher marginal rate on unearned income in excess of \$1,800. In computing the parents' rate, all unearned income of children under 19, in excess of \$1,800, is added to the parents' taxable income. This could result in the childrens' income taxed at the highest rate of 35 percent while the parents' top rate may be lower.
- **Hybrid Vehicle** – If you purchase and take possession of a qualified hybrid motor vehicle in 2008, you may get a tax credit. If you are subject to the alternative minimum tax, no hybrid vehicle credit is allowed.

TAX CONSIDERATIONS FOR THE SELF-EMPLOYED

- **For cash-basis method businesses**, send out invoices late in December so that collections will not be made until January.
- **Establish a retirement plan** before the end of the year. The deduction is allowed on the current-year return even if funded just before you file the return next year. (See retirement plan limit chart.) While many plans can be funded in 2009 for a 2008 deduction, only a SEP plan can be established next year. Other plans need to be established this year.
- **Establish a medical insurance plan** or convert to or establish a high-deductible health plan.
- **Employ your minor children** to perform administrative tasks and avoid Social Security taxes on the wages – this shifts income to a lower bracket. (The children may establish Roth IRAs to gain significant benefits for the future.)
- **Review your meal and entertainment expenditures** to make sure you have proper substantiation.
- **Consider your eligibility for home office expenses.**

TAX CONSIDERATIONS FOR BUSINESS ENTITIES

- ✓ **New Equipment** – Acquire and place equipment into service before the end of the year to take advantage of the immediate deduction of up to \$250,000. Limitations may apply if total expenditures exceed \$800,000. In addition, for other property placed in service in 2008, an additional 50 percent bonus depreciation allowance is available.
- ✓ **Inventory** – Look at adopting the LIFO (last in, first out) inventory method if higher costs were incurred and prices are likely to increase again.
- ✓ **Domestic Production Activity** – Evaluate the deduction for domestic production activities of up to 6 percent of qualified activities.
- ✓ **Retirement Plan** – Establish a retirement plan before the end of the year. The deduction is allowed on the current-year return even if funded just before you file the return next year. (See retirement plan limit chart.) Only a SEP plan can be established and funded after the end of the year.
- ✓ **Roth Benefits** – Offer additional benefits such as a Roth option to existing 401(k) plans.
- ✓ **Trade-Ins** – Trade in fully depreciated business assets instead of selling at a gain. If a trade-in value is less than net book value, sell instead of trade to get the benefit of the loss.
- ✓ **Estimated Tax** – Consider the status of any final estimated tax payment requirements. A penalty for underpayment of taxes can be costly.

GIFT AND ESTATE TAX

If your estate is large enough to be subject to the estate tax, the rates are higher than the income tax rates. The top estate tax rate is 45 percent. It makes sense to ensure that the largest amount possible ends up with your heirs and not with the federal or a state government.

The federal annual exclusion for gifts is \$12,000 to any individual. If you are married and your spouse consents, the effective annual exclusion can be \$24,000 per donee. This provides a good opportunity to transfer income-producing assets to heirs who may also be in a lower income tax bracket. In addition, it is possible to transfer an additional \$1 million of gifts without incurring a current gift tax payment.

If you are making gifts to limit or reduce future estate tax and you have reached the annual exclusion, be aware that payments of tuition and medical expense for an individual are not subject to gift tax. There is an unlimited exclusion of amounts paid directly to educational organizations for tuition (not books, fees, etc.) and healthcare providers for medical expenses.

RETIREMENT PLAN LIMITS

The maximum compensation to be taken into account for plan limits is \$230,000 for 2008.

Type of Plan	Contribution Limit	Additional Catch-up Contribution for Age 50 and Older
IRA	\$5,000	\$1,000
SIMPLE	\$10,500	\$2,500
401(k)	\$15,500	\$5,000
SEP IRA	\$46,000	--

REMEMBER THAT WE ARE HERE TO HELP YOU.

Give us a call to review your year-end strategies and plans for the next year.

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To ensure compliance with requirements imposed by the IRS, we inform you that any tax advice contained in this communication is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties assessed under the Internal Revenue Code.

ALTERNATIVE MINIMUM TAX THE BEST LAID PLANS OF MICE AND MEN

More and more taxpayers have become subject to the alternative minimum tax (AMT) in recent years.

Once considered a tax on the wealthy by virtue of its construction, the AMT is catching more and more individuals. Those who happen to have significant deductions – those living in a state with a relatively high personal income tax rate and high real estate taxes – are vulnerable. The AMT makes year-end planning difficult and potentially dangerous if done in a vacuum.

Reducing regular tax liability through deductions, deferral and overall rate reductions has increased the AMT liability exposure. All planning must consider multiple years to be truly effective. While a credit for prior-year AMT may be available against regular income tax in a subsequent year, there is no guarantee that the AMT will ever be recovered.

The recently signed 2008 Emergency Economic Stabilization Act increases the exemption amount previously scheduled to expire. It increases the AMT exemption amounts for 2008 to \$46,200 for singles and heads-of-household, \$69,950 for joint filers and surviving spouses, and \$34,975 for married persons filing separate returns.

Currently, these exemptions are scheduled to decrease in 2009, which may have the effect of increasing next year's tax.