

YEAR-END UPDATE:

Tax Saving Moves for the Rest of 2008

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.



THE INDISPUTABLY GOOD NEWS we are certain of is this: Congress has acted to “patch” the AMT problem for 2008, retroactively reinstating 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-itemizer deduction for state and local property tax, and a non-itemizer 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 writeoff 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. We can narrow down the specific actions that you can take once we meet with you to tailor a particular plan. In the meantime, please review the following list and contact us at your earliest convenience, so that we can advise you on which tax-saving moves to make:

- ☑ 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.
- ☑ You can make a full year's worth of deductible HSA contributions for 2008, if you become eligible to make health savings account (HSA) contributions in December of this year.



Your Most Trusted Business Advisor.

ADELMAN KATZ & MOND LLP
ACCOUNTANTS AND CONSULTANTS

212.382.0404
www.akmcpa.com

YEAR-END UPDATE:

Tax Saving Moves for the Rest of 2008

- ✔ **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.
- ✔ **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 converting traditional-IRA money invested in beaten-down stocks (or mutual funds) into Roth IRAs,** if you believe a Roth IRA is better than a traditional IRA, want to remain in the market for the

long term, and are eligible to do so. (Keep in mind, however, that such a conversion will increase your adjusted gross income for 2008).

- ✔ 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 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.
- ✔ Consider **using a credit card to prepay expenses** that can generate deductions for this year.
- ✔ 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.
- ✔ Those facing a **penalty for underpayment of federal estimated tax** may be able to eliminate or reduce it by increasing their withholding.
- ✔ You may be able to save taxes this year and next by **applying a bunching strategy** to “miscellaneous” itemized deductions, medical expenses and other itemized deductions.
- ✔ **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 those 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.

THE RETROACTIVE CHANGES ENACTED BY CONGRESS COULD BE INSTRUMENTAL IN REDUCING YOUR '08 TAXES.

- 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).
 - 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 equipment, and will be spending more than \$6,667, the credit will be larger for expenses made in 2009 rather than 2008.
 - If you are thinking of buying a hybrid vehicle eligible for a tax credit, check to see if it's eligible for the credit—if so, [purchase it before year-end](#).
 - You may want to pay contested taxes, to be able to deduct them this year while continuing to contest them next year.
 - 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 writeoff generally won't be available next year (some exceptions apply, such as for businesses affected by Presidentially-declared disasters).
- You may want to [settle an insurance or damage claim](#) in order to maximize your casualty loss deduction this year.
 - If you are self-employed and haven't done so yet, [set up a self-employed retirement plan](#).
- 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 gift \$12,000 in 2008 to an unlimited number of individuals, but you can't carry over unused exclusions from one year to the next.
 - 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 are age 70½ 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.
 - If you are receiving Social Security benefits, there are a number of steps you can take to [reduce or eliminate tax on your benefits](#).
 - Consider [extending your subscriptions](#) to professional journals, paying union or professional dues, enrolling in (and paying tuition for) job-related courses, etc., in order to bunch into 2008 miscellaneous itemized deductions subject to the 2%-of-AGI floor.
 - 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.

These are just some of the many year-end steps that can be taken to save taxes. Again, by contacting us, we can tailor a particular plan that will work best for you.

WHAT IF YOU COULD GET MORE FROM YOUR CPA RELATIONSHIP?

Every year we prepare thousands of tax returns for our clients—business returns, personal returns, nonprofit returns and sales tax returns. Add a few dozen audits, some estate filings and some financial accountings and you've got a lot of paper.

But where's the real value for our clients?

That question is at the core of everything we do every day. And the answer is the reason why a select group of closely-held businesses, high net worth individuals, leading nonprofits and complex trusts consider AKM their most trusted business advisor.

We invite you to get to know us, and determine how you will benefit from a more valuable CPA relationship.

ADELMAN KATZ & MOND LLP

Your Most Trusted Business Advisor

230 West 41st Street, 15th Floor
New York, NY 10036-7207
212-382-0404
fax: 212-382-2686
www.akmcpa.com

Partners:

Alan R. Adelman, CPA
Lawrence Katz, CPA, CFP®, PFS
David E. Mond, CPA
Jack E. Gold, CPA
Stuart J. Hammer, MBA, CPA
Warren M. Bergstein, CPA, AEP
Craig L. Venokur, CPA

The AKM family of companies aims to be our clients' most trusted business advisor. To earn that trust, we work hard to improve on our own expertise, which has been honed over 40 years. And to cover all the bases, we build successful collaborations with other professionals – including attorneys, bankers, investment managers and insurance brokers. We invite you to find out more about the benefits of having us as your most trusted business advisor.

© Adelman Katz & Mond LLP. All rights reserved.

