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Date: February 16, 2009  
To: Clients and Friends  
From: Jay R. Penney, CFP, CFA  
Re: Bite Back at The IRS!

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Dear Friends,

With 2009 already in full swing, tax season is right around the corner. If you are like me, you are already beginning the process of collecting 1099's, along with a lot of other important tax information. (And if you are really like me, I'm sure this is one of your "favorite" times, and its something you really look forward to year after year! Uhhh!)

In order to make it a little bit easier for you, I've enclosed with this Tax Report a sweet surprise for you. This may be the only way you can "bite back at the IRS"!

If you have any questions about the enclosed, or about any of the tax information we send you regarding your investments, as always, please feel free to give my offices a call.

Respectfully,

A handwritten signature in black ink that reads 'Jay Penney' in a cursive, flowing script.

Jay R. Penney, CFP, CFA

Enclosures

Date: February 19, 2009

To: Friends and Clients

From: Jay R. Penney, CFP, CFA

Re: How to Reduce Your Income Taxes

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Dear Friends,

As this is written, most of us are in the process of gathering information for our tax preparers and advisors, in anticipation of our 2008 income tax filings. Every year at this time, I am reminded of the incredible waste of American productivity allocated toward the preparation of these filings. But that's a subject for another report. For the purposes of this report, I'll focus on ways to make the time spent a bit more "profitable".

### **New Tax Laws During 2008**

Each year, it seems, a handful of tax issues require special attention by tax practitioners. The reasons vary, from particularly complicated new provisions in the Internal Revenue Code, to a new planning technique opened up by a new regulation or ruling, to the availability of a significant tax benefit with a short window of opportunity. Sometimes even a supposedly "simple" tax change may create a new set of tax problems, or pressure from Congress or the Administration puts more heat on certain "wealthy" taxpayers (you and me) while giving others (everybody else) more slack. Each year's changes create a unique mix of pitfalls and opportunities for taxpayers, and the past year has seen more than its share of these changes.

Many of 2008's new tax laws were geared primarily toward "stimulating" the U.S. economy. Consider the six major tax bills passed by Congress:

- Economic Stimulus Act of 2008
- Housing and Economic Recovery Act of 2008
- Heroes Earning Assistance and Relief Tax Act of 2008
- Heartlands Habitat Harvest Horticulture Act of 2008
- Emergency Economic Stabilization Act of 2008
- The Worker, Retiree, and Employer Recovery Act of 2008

**“The only thing that’s constant is change.”** No saying could be more accurate when reviewing the income tax laws for 2008 and 2009. A number of tax laws were slated to “sunset” (or expire) on December 31<sup>st</sup>, 2008, and many new provisions will take effect in 2009. In addition, a number of new tax laws are being proposed by the Obama Administration.

Believe it or not, it’s not too late to reduce your 2008 income taxes, and in this economy especially, we felt it was important to inform you of every possible way to save a few dollars! Please review the sections of this letter that look like they might apply to your situation, either directly or indirectly, and keep in mind that changes in tax laws often remake tax strategies. What worked in the past might not be appropriate today, and for other strategies, a delay until next year might be advantageous. **As a reminder, because individual tax situations vary and this material is intended for informational purposes only, please see a tax specialist regarding your individual tax situation.**

We will also report on those tax benefits that are adjusted each year due to inflation, many of which might affect you:

- The value of each personal and dependency exemption will be \$3,650 in 2009, up \$150 from 2008.
- The new standard deduction will be \$11,400 for married couples filing a joint return, up \$500 from 2008.
- Tax-bracket thresholds increase for each filing status. For a married couple filing a joint return, for example, the taxable-income threshold of the top of the 15% bracket will be \$67,900 in 2009, up from \$65,100 in 2008.

### **Economic Stimulus Act of 2008**

This legislation gave many qualifying individuals one-time payments of between \$300 and \$600 (and more if the taxpayer had children), and was intended to help stimulate the economy. Unfortunately, most of the recipients of this tax letter had incomes too high to qualify for this rebate last year.

Fortunately for those who did qualify, this rebate is not subject to income taxation in 2008; unfortunately, filers must use a complex 29-line worksheet to figure the right amount of the credit. This is bound to cause filing headaches in 2009 for taxpayers and tax preparers alike.

### **Housing and Economic Recovery Act of 2008**

This act was signed into law after months of negotiations between Congress and the White House over a comprehensive housing bill.

Here is a quick summary of the key tax law changes in this new Act:

- **First-time homebuyers will have until mid-2009 to claim a new refundable tax credit for a qualifying home purchase in the U.S.** Unfortunately, the credit must be repaid in equal installments over 15 years, or earlier if the house is sold. Thus, it’s effectively an interest-free loan from Uncle Sam. This is worth \$7,500 or 10% of the purchase price of a home, whichever is less. However, there are certain rules that a taxpayer must comply with:

- The credit applies only to homes purchased after April 8<sup>th</sup>, 2008 and before July 1<sup>st</sup>, 2009 and must be used as a main residence.
- You cannot claim it if you owned a primary residence in the prior 3 years.
- The credit, which reduces your tax bill dollar for dollar, must be repaid in equal installments over 15 years, so it functions as interest-free loan.
- The credit, like the aforementioned tax “rebates”, is phased out as your adjusted gross income rises from \$150,000 to \$170,000 on a joint return, and from \$78,000 to \$95,000 on a single filer return.
- **Keep deductions for mortgage insurance.** If you bought your residence after 2006, and you made a down payment of less than 20%, you are probably paying for private mortgage insurance(PMI). If your Adjusted Gross Income (AGI) is \$100,000 or less, you can now deduct all of your private mortgage insurance premiums paid, or the cost of mortgage insurance that you purchased through the Veteran’s Administration or Rural Housing Administration. (The IRS added a separate line to the form 1098 from your lender that shows how much mortgage insurance you paid in 2008.) Unfortunately, this deduction phases out completely once your AGI exceeds \$110,000. This tax law is now extended through 2010.

Also, a new IRS ruling (IRS notice 2008-15) allows you to allocate premiums for qualified mortgage insurance through 2010 over an 84-month time period instead of the mortgage term, which will generally provide a much bigger deduction.

- **Maximum home-sale exclusion.** The home-sales gain exclusion offers one of the biggest income tax breaks. You can have a gain up to \$500,000 for a joint couple (\$250,000 for single filers) income tax-free on the sale of a house that you have used as your primary residence for at least 2 out of the 5 years before the sale.

In many circumstances you are also eligible for this exclusion even if you *have not* lived there in the last two years if the sale is due to change of employment, health, or unforeseen circumstances.

This is not a one-time election. You can still take this exclusion even if you have used it in the past.

Unfortunately, in the past, the full \$500,000 exclusion could be claimed only if a couple filed a joint tax return in the year they sold their home. So, if the surviving spouse sold the home a year after the death of the spouse, the spouse was limited to the smaller \$250,000 exclusion. This new tax law allows the surviving spouse to take the larger \$500,000 exclusion for a sale occurring within 2 years of the deceased spouse’s death (assuming the individual meets other tax law requirements).

- **State and local property taxes now deductible for non-itemizers.** For 2008 and 2009, a non-itemizer can deduct state and local property taxes in addition to claiming the standard deduction. The deduction is limited to the lesser of the property taxes actually paid or \$1,000 for joint filers (\$500 for single filers).

### **Heroes Earning Assistance and Relief Tax Act of 2008**

This is known as the HEART Act, and targets tax relief to individuals on active military duty, reserves called to active duty, military families, and veterans. The incentives are generous, totaling \$1.2 billion, and help military personnel not only when they are called to active duty, but also when they return home. There

are many different provisions, but they are targeted only to these individuals. Please see a specialist in this field if you need to get more details about this important new set of tax laws.

### **Heartlands, Habitat, Harvest, and Horticulture Act of 2008**

This is also known as the Farm Act, and is one of the largest pieces of legislation in recent memory. It is a massive overhaul of Government regulation of farming, including the contentious subject of farm subsidies. Since the \$300 billion farm act is primarily targeted to a specific group of benefactors, we suggest seeing a tax specialist in this area to give you the most accurate advice.

### **Emergency Economic Stabilization Act of 2008**

As part of a \$700 billion financial markets rescue package enacted in October, Congress enacted the Emergency Economic Stabilization Act of 2008, which includes extenders of prior tax laws, and changes in the Alternative Minimum Tax:

The Emergency Economic Stabilization Act of 2008 extends a variety of temporary tax incentives through 2009, including:

- Discharge, or forgiveness of debt is not necessarily taxable. In most cases, a discharge of debt constitutes taxable income, unless an exception applies. Generally, the taxable amount is the difference between the debt's principal balance and the amount used to satisfy the debt. For example, if a bank forecloses when you owe \$300,000 on your home and then sells the property for \$250,000 in full satisfaction of the debt, you would normally owe income taxes on the \$50,000 difference.

Individuals who have *mortgage* debt forgiven in 2007, 2008, or 2009 may be able to claim special tax relief under the Mortgage Forgiveness Debt Relief Act of 2007. The Emergency Economic Stabilization Act of 2008 extends this through 2012.

Under the new law, the first \$2,000,000 of mortgage debt forgiveness on your principal residence is income tax-free if the debt is secured by a *principal residence* and if the money was used to buy, build, or substantially improve your home. You must reduce the amount of your basis in the home by the excluded amount, but not below zero. This new tax exclusion does not apply if the discharge is not directly related to a decline in the property's value or your financial condition.

Debt forgiven on second homes, personal property, business property, credit cards, or car loans does not qualify for the new tax-relief provision.

- The new bailout law also extended and modified several energy-saving and research tax incentives for businesses and individuals. Many of these extensions go beyond the usual two-year limit for other tax breaks. Please see your tax preparer to determine which credit you might be eligible for.
- State and local sales tax deductions, which had expired on January 1, 2008. This new law reinstates the optional deduction:

Instead of deducting state and local *income taxes*, you can elect to deduct the state and local *sales tax* you paid during 2008. You can either total up all of the taxes that you paid on your family's purchases during 2008 or, alternatively, you can base your deduction on state-by-state tables approved by the IRS. Even if

you use the IRS tables, you can tack on “extra” sales taxes paid for certain big-ticket items, such as purchasing a new car or boat last year, so you are not necessarily limited to the standard amount.

This tax break is especially important for taxpayers in states that have state or local sales tax but don’t have state income tax – Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington and Wyoming. Please note that this deduction is only allowed if you itemize your deductions.

- Charitable contribution of IRA proceeds, which had expired December 31, 2007, the details of which are covered later in this report.

### **Alternative Minimum Tax**

The Alternative Minimum Tax (AMT) is similar to a flat tax, with only a few deductions. It has just 2 tax rates: 26% on the first \$175,000 of AMT income, then 28% on the excess above \$175,000. Many “traditional” write-offs are not allowed in this calculation – personal exemptions, standard deduction, state and local income taxes, sales taxes and real estate taxes. You pay the AMT to the extent that it *exceeds* your regular tax bill, and it is often triggered by taking large capital gains.

The AMT was originally created to make certain that high-income earners, who might otherwise be able to find deductions that would limit, or even eliminate their tax liability, would pay taxes commensurate with their income. Unfortunately, the law’s exemption amounts weren’t properly indexed over the years, and many middle income taxpayers (not the law’s intended “targets”) have found themselves paying AMT in recent years. Luckily, Congress passed a one-year AMT “patch” as part of the bailout to prevent an estimated 20 million taxpayers from having to pay the Alternative Minimum Tax for 2008. The three key provisions are:

1. The exemption amounts for 2008 increased to \$69,950 for joint filers and \$46,200 for single filers.
2. Individuals can use non-refundable personal credit to offset AMT liability.
3. AMT liability stemming from the exercise of Incentive Stock Options (ISOs) before October of 2008 is wiped off the books.

Taxpayers who face an Alternative Minimum Tax liability might be eligible for a Minimum Tax Credit (MTC), which is a future tax credit against an individual’s regular income tax liability. This new law allows the taxpayer to immediately collect 50% of any unused AMT credits generated in pre-2005 years on his or her 2008 income tax return. Please consult your tax preparer if you have paid any AMT in the last few years—your credits may be refundable!

Credits for low-income housing and fixing up old buildings are now eligible to offset the AMT. (This rule applies to projects that are put in service after 2007, and to rehabilitation expenses after 2007.) Also, interest on more categories of tax-free municipal bonds is now exempted from the AMT – specifically the ones used for municipal financing of low-income housing, and mortgages for veterans and low-incomers. This easing only applies to *new* bonds issued after Bush signed the measure into law on October 3, 2008.

For 2008 and beyond, the phase-out rule for higher-income taxpayers is eliminated. As you can see, this tax law can be quite confusing, so please review it in detail with your tax preparer.

## **The Worker, Retiree, and Employer Recovery Act of 2008**

This act, signed into law by President Bush on December 21, 2008, suspends Required Minimum Distributions (RMDs) from retirement accounts for 2009 only. (Many retirees were hoping RMDs would be suspended for 2008, but no such luck.) This should reduce the income tax bite for most retirees; but, as we might expect, the tax relief is accompanied by the usual complications for retirees and plan beneficiaries.

So now the choice is yours—should you take a distribution during 2009, or leave your money in the retirement account? I'd suggest preparing a tax projection to determine if it still makes sense to take a distribution. If your tax projection indicates that you might actually have a negative taxable income for 2009 (which is often the case when the retiree/taxpayer has more deductions than income, such as in the event of significant medical bills), you might want to take your 2009 distribution as normal. Remember, the tax on "negative" taxable income is zero, just as it is for zero taxable income. Therefore, it's always best to bring your taxable income from a negative amount at least up to zero, and if you don't need the income, the best way to do this, in most circumstances, is through a *partial Roth IRA conversion*. There are other situations in which you might want to take a distribution in 2009, so please consult your tax preparer.

Below are a list of the more common questions and answers regarding these new withdrawal rules:

Q: Do I have to make up the waived 2009 Required Minimum Distribution (RMD) the following year?

A: No, you will not have to add any skipped payouts to what you have to withdraw for 2010. Your 2010 payout will be based on your age then and your December 31, 2009 retirement account balance.

Q: What if I reached 70½ in 2008 and delayed my payout to 2009?

A: You must still take it by April 1, 2009. That is because the distribution you deferred is for the 2008 tax year. You can skip the withdrawal for 2009, but you won't have to take two payouts this year.

Q: What do I do if I turn age 70½ this year?

A: You do not need to take any distribution for 2009 if you don't want to.

Q: Will I qualify for relief if I inherited an IRA?

A: Absolutely. Inherited IRAs get the same tax break, so heirs do not need to take RMDs from them in 2009. A similar rule applies to heirs stuck with the mandatory 5-year payoff, which occurs when an estate is named as the beneficiary of a plan or an IRA. In that case, the 5-year period is determined without regard to 2009. So, if an IRA owner died in 2007, heirs used to have until the end of 2012 to distribute 100% of the IRA. Now, the heir has until December 31, 2013 to do so.

Q: Can an IRA owner or beneficiary still elect a Qualified Charitable Distribution (QCD)?

A: Congress reenacted this law in 2008, but only for two years, 2008 and 2009. The transfer from the IRA *directly to a qualified charity* would satisfy the RMD for the year. As noted above, an RMD is not required for 2009. However, you can still make a charitable contribution with IRA funds, with the distribution not being included in your income and no charitable deductions allowed either. Just remember that you must be age 70½ or older in order to make a charitable contribution to a QCD.

## **Tax Strategies for IRAs**

1. **Make your 2008 IRA contributions as late as April 15<sup>th</sup>, 2009.** There is still time to trim those 2008 income taxes by contributing to a tax-deductible IRA. Assuming you are not an Eligible Participant in an Employer-Sponsored Retirement Plan, you can contribute up to \$5,000 (or \$6,000 if you are 50 or older) until the time you file your income tax return, but no later than April 15<sup>th</sup>.

Even if you participate in a retirement plan at work, you can still deduct some or all of your IRA contributions on your 2008 income tax return *if* you are married and your joint AGI is \$105,000 or less, or if you are single and your adjusted gross income is \$63,000 or less.

2. **Make a deductible contribution to a spousal IRA.** If you do not participate in a workplace-based retirement plan but your spouse does, you can deduct some or all of your IRA contributions on your 2008 income tax return, as long as your adjusted gross income does not exceed \$169,000.
3. **Make a contribution to a Roth IRA.** Contributions to Roth IRAs are not tax deductible, but the earnings on them may be withdrawn totally income tax-free in the future as long as you comply with all of the technical rules and requirements. Contribution limits are the same as traditional IRAs, except the maximum contribution for *both* Roth and traditional IRAs is still limited to \$5,000 or \$6,000 for persons age 50 or older. Regardless of whether you're covered by an employer plan, to qualify for a Roth, your AGI cannot exceed \$169,000 if you are married or \$116,000 if you are single. You can also make a spousal Roth IRA contribution, subject to the same phase-outs, for a non-working spouse.
4. **Consider “re-characterizing” your Roth IRA back to a traditional IRA if you converted from a traditional IRA to a Roth during 2008.** (We're talking about conversions here, not contributions.)

You may have converted part or all of your traditional IRA to a Roth IRA during 2008. The tax liability for the conversion is based on the value of your account on the conversion date. Unfortunately, the value of your account may have dropped since then. A strategy to avoid paying higher taxes than necessary is to convert your Roth IRA back to the traditional IRA so you will not be taxed on the higher value of the account at the time of the conversion. There is no tax due on this “re-characterization”. The deadline on doing a 2008 Roth IRA conversion back to your traditional IRA is October 15, 2009.

This strategy offers the potential for significant tax savings. For example, let us assume your traditional IRA was worth \$250,000 when you converted it to a Roth IRA on January 2, 2008. Let us assume that all the funds consisted of deductible IRA contributions and tax-deferred earnings. If you are in the 35% income tax bracket, the conversion would cost you \$87,500 in income taxes ( $\$250,000 \times 35\%$ ).

Suppose that you re-characterized this Roth back into a traditional IRA and then converted it back to a Roth again in 2009 (a “re-conversion”). At that time, let us assume your IRA is worth \$150,000, thanks to our economy, so the tax on the re-conversion is only \$52,500 ( $\$150,000 \times 35\%$ ). This re-characterization strategy saves you \$35,000 in income taxes in this example ( $\$87,500 - \$52,500$ ).

Please note: You can convert a traditional IRA to a Roth IRA only in a year in which your AGI is \$100,000 or less (before the conversion). However, this dollar cap will be removed in 2010 and there will be no limit to your earnings starting next year in order to qualify to do a Roth IRA conversion. Please also note that a Roth IRA conversion does not have to be all or nothing. If you convert or reconvert a traditional IRA to a Roth IRA in 2010, the resulting income tax liability is spread out over the next two years – 2011 and 2012.

5. **Do not overlook the Retirement Savers Tax Credit.** Lower-income taxpayers, such as young workers and retirees who work part-time, can reduce their tax bill by claiming the Retirement Savers Tax Credit. This tax credit, which has been made permanent, is worth up to \$1,000 if you contribute \$2,000 to a traditional or Roth IRA, 401(k), or other retirement plan at work. In order to claim the credit, you must be at least 18 years old and not a student, and you cannot be claimed as a dependent by anyone else. For 2008, you are eligible if you are single with an AGI of \$26,500 or less; head of household with an AGI of \$39,750 or less; or married filing jointly with an AGI of \$53,000 or less. This credit is *in addition to* the tax deduction that would otherwise apply with respect to the contribution.
6. **Make your business retirement plan contribution for 2008 as late as September 15<sup>th</sup>, 2009, for calendar-year corporations.** The maximum retirement plan contribution will vary depending on the type of retirement plan you have established.
7. **Have your business establish and fund a Simplified Employee Pension (SEP) IRA.** Your business can still establish one in 2009 for 2008 until the extended due date of its tax return, provided it has no other pension plan. The extended due date for calendar year corporations is September 15, 2009 and October 15, 2009 for partnerships and self-employed individuals.

The maximum deductible contribution you can make to an individual's SEP account is the same as the limit for other defined contribution plans. For 2008, you can contribute up to the lesser of these 2 amounts:

- \$46,000 or
- 25% of your salary compensation up to \$230,000 for 2008 or 20% of your self-employment income if you have business.

Please note that contributions are discretionary, meaning you are not locked into a particular figure for the year. You can change contributions for any reason or you can make no contribution at all. However, you must contribute the same percentage for each participant.

8. **Working taxpayers can put away more money for retirement in 2008.** The 401(k) plan maximum contribution rose to \$16,500 in 2009 (a \$1000 increase). Employees who are over 50 can also contribute an additional \$5,500, for a total of \$22,000. These contribution limitations apply to 403(b) and 457 plans as well.

Defined Benefit Retirement plan contributions can be based on up to \$230,000 of salary.

9. **Employers must permit non-spousal IRA rollovers beginning in 2010.** Legislation approved by Congress in 2008 clears up the confusion that was caused when the IRS said companies could decide whether or not to let non-spousal heirs move balances in inherited 401(k)s to IRAs. Employers that banned such rollovers now have until the end of 2009 to bring their plans into compliance.
10. **Know when penalty-free retirement account withdrawals are allowed.** Taxpayers of any age who inherit retirement benefits are entitled to penalty-free withdrawals. Penalty-free withdrawals are also allowed in other cases, such as disability and military service. For all specific exceptions, please see IRS publication 575, Pension and Annuity Income.

### **Seven Tax-Savvy Tips for Small Business Filers**

With a little effort, you can maximize the tax benefits for your small business. Here are a few examples:

1. **Speed up equipment write-offs.** Under section 179 of the tax code, you can elect to “expense”, or currently deduct, up to \$250,000 of equipment costs and other business assets placed in service. The section 179 deduction is very favorable because you can take an immediate deduction for equipment, instead of depreciating them over a period of years. The limit was increased from \$125,000 in 2007 to \$250,000 for 2008.

You can still deduct up to \$25,000 for a heavy sport utility vehicle (SUV) placed in service. In comparison, the maximum first-year depreciation deduction will vary. Please see your tax preparer for more details.

In order to qualify for this \$25,000 deduction, these vehicles are required to have a gross vehicle weight rating of between 6,000-14,000 pounds and must be used more than 50% for the business. This applies to new vehicles only.

2. **Cash in on bonus deductions.** In most cases, you can deduct bonuses on your corporation’s tax returns in the year that you pay them. However, an accrual basis company operating on a calendar tax year still can deduct bonuses in 2008 so long as they are paid by March 17, 2009. Assuming your business uses accrual-based accounting, if you haven’t already done so, pay year-end bonuses now (by this deadline) so you can still deduct them on your company’s 2008 tax return.

Please remember that bonuses generally are taxable to employees in the year received – in this case, 2009 – even if you deduct them on the corporation’s 2008 tax return.

3. **Recheck the standard mileage rate since these deductions have been changed from 2007.** Business driving is 55 cents per business mile (plus related tolls and parking fees) for 2009, a drop of 3½ cents for the rate in effect for the final 6 months of 2008.

New standard mileage rates for calculating the deductible cost of operating a motor vehicle for business are as follows:

- 50.5 cents per mile for business miles driven during January 1 – June 30, 2008 and 58.5 cents per mile driven during July 31 – December 31 2008, compared to 48.5 cents for 2007.
- 19 cents per mile for moving purposes driven during January 1 – June 30, 2008 and 27 cents per mile driven during July 31 – December 31, 2008, compared to 20 cents per mile in 2007.
- 14 cents per mile when driven in service of charitable organizations during 2008, unchanged from 2007.
- 19 cents per mile during January 1 – June 30 and 27 cents per mile during July 31 – December 31 for medical travel.

4. **Take “extra” tax credits this year.** The Works Opportunity Tax Credit (WOTC) for hiring certain disadvantaged workers (which was passed in 2007) was broadened to include disabled veterans and more high-risk individuals. The revamped WOTC extends through August 31, 2011.

There are many new and different tax credits available. It is best to compute each credit separately and then claim it under the general business, including carry-backs and carry-forwards.

5. **Increase your home office deductions.** If you are self-employed, and use part of your home exclusively as your principal place of business (or exclusively as a place to meet or deal with clients, customers or patients in the normal course of business) you are entitled to deduct home office expenses. For example, you can claim a depreciation allowance plus write-offs for a portion of your home utilities, insurance, etc. It is best to attach form 8829, which is Expenses for Business Use of Your Home, to your return.

6. **Take a small business deduction.** You can deduct up to \$5,000 of the expenses you incur in starting up a new or sideline business, but only in its first year.

7. **Recheck your depreciation calculation.** It generally takes a long time – 39 years to be exact – to write off the cost of most building improvements. Recently, Congress authorized a faster 15-year write-off period for qualified restaurants and leasehold improvements and applies to expenditures by leaser and lessees. In 2008, the bailout law extended this tax strategy through 2009.

Amended tax returns to claim past tax deductions you may have overlooked generally can only be filed 3 years back (IRS revenue procedure 2002-9 and 2004-11), but the good news about these overlooked deductions for faster-depreciable assets is that you can go back *any* number of years and deduct them *all* on your 2008 income tax return without having to file any amended tax returns. However, you may *want* to file amended tax returns 3 years back if you or your company was in a higher income tax bracket during those years. If you claimed a loss carry-back refund in that period, filing the amended income tax return to increase your depreciation deduction might increase the loss carry-back refund.

### **Eight More Business-Related Tax Saving Tips**

1. **Don't forget out-of-pocket business expenses.** Review all of your records to maximize your deductions at tax time. If you paid any business expenses out of pocket, make sure that the company reimburses you for these expenses, which is tax deductible by the business entity and income tax-free to you!

It may be possible to deduct some of these expenses on schedule A as Miscellaneous Itemized Deductions. However, these expenses are usually not 100% tax deductible, due to the 2% limitation, and these Miscellaneous Itemized Deductions are *not* deductible for the Alternative Minimum Tax calculation. Therefore, try to reposition these expenses if possible. Here are just a few tax deductible expenses many taxpayers overlook:

- Legal and accounting fees
  - Business telephone calls made away from your office
  - Business supplies
  - Business usage of personal computer expenses such as paper, printer, etc.
  - Interest on credit cards. When you use plastic to pay for business expenses, the interest and often the carrying charges are fully deductible.
  - Home entertainment. If you invite a client to your home to have a business discussion, you can usually deduct 50% of your entertainment costs.
  - Online services used for business e-mail and research.
  - Subscriptions to business publications
  - Dues for professional organizations
  - Various travel expenses, such as the cost of luggage used exclusively for business travel, the dry cleaning of business clothes, and tips paid to doormen, luggage handlers, etc.
  - Repairs to business equipment
  - Cell phone costs relating to business
2. **Maximize your write-off for that company holiday party.** If you own a business and hosted a holiday party for employees, you can deduct 100% of your costs, instead of the 50% usually deducted for regular business entertainment. And you didn't even have to talk about business! Just make sure all

of your employees were invited. To get the full write-off, you cannot discriminate by limiting the party to executives.

3. **Know whether or not a fringe benefit is taxable income.** The IRS has a handy guide to fringe benefits, which is a 118-page training manual for agents that has been updated to reflect the Service's current views. Go to [www.irs.gov/publications/p15b/index.html](http://www.irs.gov/publications/p15b/index.html) to view the handbook.
4. **You can deduct up to \$25,000 of losses from rental real estate when you actively participate in its management.** However, this deduction is phased out once your AGI rises from \$100,000 to \$150,000. Please note that this rule does not apply if you are a professional real estate individual.
5. **Recheck medical insurance premiums if you are self-employed.** Self-employed people frequently overlook this deduction, which includes premiums for dental, vision, and long-term care insurance (subject to limitations), as well as general health insurance.

If you are sole proprietor, hire your spouse and offer family coverage for all employees. If your spouse is your only employee there is no extra out-of-pocket cost. The full cost of the medical plan is deducted on schedule C as a business expense. However, you must be careful and make sure that the employee-spouse is the primary insured on the policy, and that premiums are paid from the business checking account. Otherwise, the premiums will not be deductible as a business expense.

6. **Check to see if you can take a Net Operating Loss (NOL) carry-back.** C corporations and owners of pass-through entities, such as partnerships and S corporations, may have NOLs. In most cases, losses are automatically carried back for two years and carried forward up to 20 years to offset income in those years. However, an election can be made to forgo the carry-back and simply carry the NOL forward for up to 20 years. This could be an advantage if the taxpayer expects to be in a higher income tax bracket in future years than in the prior years. However, the time value of money should also be factored into this decision.
7. **Recheck Advantages of S Corporation.** The S corporation has become, by far, the most popular type of business entity for small business owners. According to the latest report issued by the IRS, approximately 4,000,000 businesses have elected S corporation status. There are a number of different reasons, such as protection against personal liability, and income and gains are taxed only once as opposed to the double taxation of regular C corporations.

In order to be effective for the current tax year, you must make the election to become an S corporation by filing form 2553 by the 15<sup>th</sup> day of the 3<sup>rd</sup> month of the tax year. Therefore, an election to become an S corporation for 2009 must be made by March 16, 2009 (March 15, 2009 is on a Sunday). We suggest seeing a corporate attorney to assist you with all of the required legal documents.

Another advantage to switching to an S corporation is cutting your audit risk significantly. When you operate your business as an S corporation, partnership or LLC, income and expenses are "passed through" to you on your personal tax return. The audit rate for these entities is significantly lower than the rate for sole proprietors.

8. **Don't forget about legal fees regarding discrimination!** If you are the victim of unlawful discrimination, any attorney's fees and court costs incurred to file your claims are fully income tax deductible, even if you don't itemize your income tax deductions! You need to have either won or settled the case; there are no deductions if the case is still under way or was unsuccessful.

## **Tax Breaks for Charity**

If you donate or volunteer, review these tax deductions:

1. **Recheck your cash charitable contributions.** There are now new rules regarding making charitable contributions with cash. Taxpayers need to have a bank record or written communication from the recipient showing the name of the organization and the date and amount of the contribution in order to deduct cash contributions to charity.

A credit card statement or print-out of an online contribution should be enough to pass these requirements. You must obtain “contemporaneous written acknowledgement” from the charity if the contribution is \$250 or more but less than \$500.

In the event you gave stocks or other assets in-kind to a non-profit organization during 2008, and you did not contribute 100% of that holding, be sure to identify the proper shares that were donated in order to take advantage of the different tax laws.

For example, if you purchased 100 shares of ABC stocks 20 years ago for a cost basis of \$1,000 and it is now worth \$5,000, and you purchased another lot of 100 shares of ABC stock 2 years ago for \$8,000 and this is also worth \$5,000, make sure that you indicated to your stock broker that the ones you wanted to gift to the non-profit organization would be the appreciated 100 shares and not the 100 shares that went down in value! If you still want to give shares that have dropped in value, be sure to sell the shares first, take the capital loss on your personal tax return, and then contribute the proceeds. Please check the specific transactions to make sure that everything has been documented properly.

The IRS has certain rules that limit how much charitable contributions a taxpayer can deduct on their tax returns. It is possible that a taxpayer might not be able to deduct 100% of their charitable contributions and can only take a deduction on their current income tax return using the following limitations:

- Cash charitable contributions in full up to 50% of their adjusted gross income.
  - Property charitable contributions in full up to 30% of their adjusted gross income.
  - Charitable contributions of appreciated capital gains assets in full up to 20% of their adjusted gross income.
  - Any unused charitable contributions can be carried forward to future years.
2. **Review your gifts to the Goodwill and the Salvation Army.** These organizations will often give you a receipt that is not entirely filled out. It is best to do a guesstimate to determine the approximate value of these non-cash charitable contributions. No deduction is allowed for a charitable contribution of clothing or household items unless it is in good used condition or better.

In the event that it is more than \$500 for the year, you must fill out Form 8283. This is an easy form to complete and you should not lose an allowable deduction just because you don't want to complete this form. However, if it is \$500 or less, you do not need to fill out this form, but make sure you still get a receipt. If you donate a car or other expensive non-cash charitable contribution, there are rules for how much you may deduct. If you want more detailed information regarding these charitable contributions, please reference IRS publication 526, Charitable Contributions.

3. **Remember charitable gift-giving after the end of the year.** If you own a C Corporation and have an accrual-basis company, and these donations were authorized last year, you can deduct charitable

contributions amounting to a maximum of 10% of its taxable income for the year. These contributions are currently deductible as long as the actual payment is made within two and a half months after the close of the income-tax year. Wow—a calendar-year accrual-based company can still deduct charitable donations authorized in 2008 as long as the payment is made before March 16, 2009!

4. **Remember charitable contributions made directly from your IRA to charity.** Individuals who were at least age 70½ in 2008 could have given as much as \$100,000 to charity straight from their IRA and not have to pay tax on the distribution. These withdrawals, known as Qualified Charitable Distributions (QCDs), also count toward the taxpayer's Required Minimum Distribution, yet they are not included in income. However, remember that no deduction is allowed for the charitable donation because there was never any tax paid on the distribution.

Although you cannot claim the contribution as a charitable deduction, your lower income may mean that the taxes you pay on your social security benefits will be reduced. It also might be easier for you to qualify for other tax breaks, such as deducting medical expenses that exceed 7.5% of your AGI. In addition, if you are subject to the Alternative Minimum Tax, a lower income may mean less of the AMT exemption is lost to the phase-out.

It is always important to remember that there are two sets of rules with respect to retirement distributions:

1. The IRS rules
2. The IRA Custodian or the Pension Administrator Rules

This Qualified Charitable Distribution is a perfect example of this important fact. Although the IRS has passed many new tax laws regarding retirement accounts, the taxpayer must comply with the stricter of these two rules!

The QCD only applies to IRAs and not other retirement plans, such as 401(k) or 403(b) plans. Donors must be at least 70 ½ and transfers to donor-advised funds, private foundations and supporting organizations do not qualify. In addition, the transfer must be outright to a qualifying public charity and cannot be used to fund a gift annuity, charitable remainder trust or any other life income plan.

This new tax law was originally only available for 2006 and 2007 (and has now been extended for 2008 & 2009) and many IRA custodians originally announced that they would not change their software programs to accommodate such a complicated and short-term change in the tax laws. Therefore, if you made a Qualified Charitable Distribution, you may still receive a 1099-R from the IRA custodian for the entire amount of the distribution that was paid not only to you, but also to the charitable organization. Make sure you reduce the taxable portion of the IRA distribution by the amount paid directly to the charity and include an explanation in your tax return. Please remember that it is best to show a lower taxable income from this retirement distribution on page 1 of your income tax return rather than taking the deduction as a charitable contribution on your itemized deductions on schedule A.

## **Capital Gains and Losses**

1. **Confirm tax calculations on qualifying dividends and long-term capital gains.** If you are in the 25% tax bracket or higher, the maximum Federal income tax rate remains 15% on qualifying dividends and long-term capital gains. If your tax bracket for ordinary income is 10% or 15%, the tax rate on qualifying dividends and long-term capital gains is only 5%. Please make sure that you check your 1099s and final numbers to verify that these calculations are correct.

2. **Don't miss the new 0% tax rate on long-term capital gains and qualified dividends.** If you are in the 10% or 15% tax brackets for 2008, 2009, or 2010, the profit from the sale of assets owned for over a year and dividends that are generated by stocks is income tax-free until it pushes you into the 25% tax bracket. In 2008, the 25% bracket begins at \$65,100 of taxable income for joint returns and \$32,550 for single filers. Please note this is for *taxable income* and not *adjusted gross income*. Once your taxable income exceeds these thresholds, the remainder of your dividends and long-term capital gains is taxed at 15%.
3. **Double-check any capital gains.** In the event that you sold an asset during 2008, you most likely incurred a capital gain or loss. Your tax preparer is usually going to ask what your cost basis was in the investment, which is usually what you paid for it, but this is not always the case.

With various equities there are four possible methods to calculate your basis and gains. Unless you tell your broker otherwise, the IRS assumes you are calculating the average cost basis— you add up the cost of all of your shares and divide by the number you own. (Note: Once you sell shares using this averaging method, you are stuck with using this calculation for that investment, even if you own the investment in different accounts.).

As with stocks, however, you are likely to do better tax-wise with the specified shares method. Calculating individual stock or other investment basis (and deciding which shares to sell) can be messy, particularly if you have held the security for years and have been reinvesting dividends (meaning you have bought small lots at different prices). Although some brokerage accounts show your basis and unrealized gains or losses, many do not and, as mentioned earlier, it is best to recheck the basis because of the frequency of errors in the calculation of the basis

Use great care when selling stocks and assigning basis to the shares sold. Most brokerage firms automatically use a first-in, first-out method or an average cost method to calculate your basis on which stocks you sold. However, you can always inform your broker if you want to identify the specific shares you sold in order to minimize your income taxes.

For example, let's assume you purchased an investment 10 years ago for \$60,000 and you sold it in 2008 for \$80,000. The tax preparer will often assume that there is a \$20,000 capital gain. However, many investors reinvest their capital gains and dividends back into their investments and pay income taxes on these reinvested dividends and capital gains each year, which increases your cost basis and should be added to the original \$60,000. Adjusting your cost basis in this way will reduce your capital gain (and often creates a capital loss when you sell this investment in the future).

This mistake in calculating capital gains and losses often applies to inherited property as well. For example, let's assume that "Harry" and "Martha" purchased a piece of raw land twenty years ago for \$600,000 and, after making no improvements to the land, sold it in 2008 for \$1,800,000. However, let's also assume that Harry passed away at the beginning of 2008 and Martha sold it after he passed away. If Harry and Martha held this property as joint tenants, she would be entitled to a special tax break called a "step-up in basis", which means that Harry's basis in this property gets stepped-up to the fair market value as of the date of Harry's death.

Let's calculate the new adjusted basis of this property in this example. Harry's original basis was \$300,000 (half of \$600,000) and Martha's basis was \$300,000. However, if the fair market value as of the date of Harry's death was \$1,800,000, that means that Harry's basis gets stepped-up from \$300,000 (his original half) to \$900,000 (half of the current fair market value as of the date of his death). Martha inherited his half and therefore her new basis would be her original basis (for 50% ownership) of \$300,000 plus Harry's step-up in basis (for his 50% ownership) of \$900,000, for a new basis (for 100% of this property) of \$1,200,000. In this case, Martha's capital gain would only be \$600,000 (\$1,800,000 minus \$1,200,000)

rather than the \$1,200,000 capital gain if she or Harry had sold it prior to Harry's death or if Harry was not on the title of the property when he passed away.

Please also note that if Harry and Martha lived in a community property state (Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin) and if they held title as community property or had a Community Property Agreement, then there would have been a double step-up in basis and her new basis would be 100% of the fair market value as of the date of Harry's death. Harry's half ownership would still have received the same step-up in basis, as mentioned above, but so would Martha's half. By doing this, Martha's new basis for the entire property would have been the full \$1,800,000, and if she sold it for \$1,800,000, she would show no capital gains. And, of course, with no capital gains, there would be no income tax at all. Talk about tax savings!

What does this tell you? Be sure to review and recalculate the basis of all of your assets and especially those that have been inherited. Also, in the event that someone is in extremely poor health, give special consideration to any potential sale or gifting of assets with regard to the impact the step-up in basis would have after that individual's passing. Remember – most inherited assets receive a step-up in basis upon death; gifted assets do not! The recipient of a gift keeps the same (usually lower!) basis as the donor.

4. **Don't forget a tax break on bonds.** If you buy bonds on the secondary market, chances are you will owe part of your first interest payment to the seller. However, when you receive the 1099 for the bond interest, it will usually state that all of the interest was paid to you. You can deduct from that number the amount you paid to the seller, and you will only pay tax on the difference. This is a much-overlooked tax break for bond investors!
5. **Opt out of an installment sale.** If you've sold a capital asset, such as real estate, in 2008, it might make sense to record the entire taxable gain all at once in 2008 even if you are taking payments on an installment basis. It is best to remember that joint filers who have a taxable income of \$65,100 or less have long-term capital gains tax rate of 0% and therefore they should consider recognizing all the proceeds from the sale this year and possibly avoiding capital gains tax all together. Just make sure that the extra money does not push you into a higher income tax bracket.

Another reason to recognize 100% of the gain in 2008 is that you might have realized losses from your portfolio in 2008 that can be used to offset the extra gain that might be showing up on the installment sale.

6. **Recalculate depreciation on inherited rental property.** As mentioned above, if you inherit any depreciable assets (such as rental property), there is usually a step-up in basis to the fair market value as of the date of death on part or all of the property and the property can then be depreciated all over again!
7. **Check last year's income tax returns for any capital loss carry-over.** In the event that the taxpayer had over \$3,000 of net capital losses in 2007, the difference could be carried forward to 2008 and beyond. This is often overlooked and is extremely useful since capital losses from prior years can offset the current year's capital gains without limitations.
8. **Do you own any worthless securities?** If you were unlucky enough to own shares of a company that went bankrupt in 2008, you might be able to claim a deduction for the worthless stock. Be careful not to forget about these, as worthless securities sometimes have a way of just disappearing from brokerage statements.

Even if you did not sell the worthless stock during the last year, you can claim it as a tax deduction if you can show that it is technically worth less than what it would cost to sell it, or if it is no longer traded on any of the stock market exchanges. Be careful because if the company files for bankruptcy protection while it reorganizes, the company is deemed to still have a profit motive and their stock is not necessarily

considered worthless. However, once the company essentially stops doing business with no plans of resuming, you are able to deduct the cost basis in this stock or bond. For added insurance for this tax deduction, get a letter from your brokerage company confirming it is a worthless security or sell it to someone for a small price, such as \$1.

Please remember that if you own a worthless investment in a tax-deferred account, such as an IRA, the loss is not deductible.

9. **Review losses on start-up corporations.** In the event you are one of the original owners of a closely held corporation, then hopefully your tax attorney established in your articles of incorporation that this was a Section 1244 company. If a Section 1244 company goes belly-up, then 100% of the loss is immediately deductible in the year it becomes worthless, rather than having to take the deduction of \$3,000 as a capital loss each year and write off the balance over a long period of time.
10. **Review any bad debts that became worthless during 2008.** If you lent money to someone and you are unable to collect the amount that is owed, you can usually claim a deduction for this bad debt. However, this non-business bad debt is deductible in the year in which it actually becomes totally worthless.

It is best to document any correspondence and other type of communication that supports your claim that the bad debt became worthless during 2008 and not in some other year. By providing this documentation, this should assist you significantly with discussing this subject with the IRS, should an audit arise. Correspondence created *after* an IRS audit is often not looked upon very favorably.

### **Education-Related Savings**

Congress has created a number of tax breaks over the last few years to help pay for education – including adult education:

- Business expense deduction for work-related education
- Student loan interest deduction
- HOPE credit
- Lifetime Learning tax credit
- Section 529 tax-favored college savings
- Coverdell Education Savings Accounts
- Tax-free interest from series EE and series I savings bonds when the interest is used for tuition and fees at a higher education institution for yourself, your spouse, or a dependent

Each benefit, above and below, has its own rules including differing income limits for those eligible to use them. In addition, using one may preclude you from using another. The best way is to examine all of the options available to you and select the best for your particular situation. For help, consult your tax advisor or read IRS publication 970, Tax Benefits For Education.

For more information about the HOPE credit and the Lifetime Learning credit, see the section on Taking Advantage of Tax Credits.

1. **Reduce your college tuition costs.** The Hope and Lifetime Learning Credits are direct credits against taxes for education costs. These tax breaks now have slightly more generous income-eligibility levels, thanks to inflation adjustments. Individuals with an AGI up to \$58,000 and married couples with an AGI up to \$116,000 qualify for these credits. You can claim some or all of the Hope Credit for first- and second-year college students, which is worth up to \$1,800 per student.

College expenses for yourself, your spouse, or your child are eligible. The Lifetime Learning Credit, which is as much as \$2,000 for 2008, will essentially refund 20% of the first \$10,000 you spend for higher education costs beyond the first two years of undergraduate study.

However, as mentioned earlier, if you earn too much to qualify for education tax credits, you can benefit by deducting \$4,000 of college tuition if your AGI is \$160,000 or less on a joint return or \$80,000 AGI for single taxpayers.

2. **Review U.S. Savings Bond interest income.** Taxpayers may exclude from their income the interest earned on certain U.S. Savings Bonds that are used to pay for qualified higher education expenses. However, like so many other tax breaks, this exclusion is phased out for higher income levels. In 2008, the Savings Bond interest exclusion begins to phase out when modified AGI exceeds \$100,650 for joint filers and \$67,100 for other filers.

Qualified higher education expenses include tuition, fees, room and board, and related expenses such as books and supplies. The expenses must be for education for a degree, certificate or similar program at an eligible education institution.

3. **Do not overlook the tuition deduction.** This deduction was passed only a couple of years ago and is often overlooked by taxpayers and tax preparers. Unfortunately, this valuable tax perk is scheduled to disappear after 2009. Under this tax break, eligible taxpayers are able to deduct qualified higher education expenses of up to \$2,000 or \$4,000 paid on behalf of themselves, their spouses, or their dependents. The write-off is taken as an adjustment to income, which means taxpayers can claim it even if they do not itemize deductions; however, the top Adjusted Gross Income to qualify is \$160,000 for married couples or \$80,000 for single filers.
4. **Teachers should review un-reimbursed expenses for teaching supplies.** The educator expense deduction is extended for two years. The maximum amount is \$250 and it is an above-the-line deduction, which reduces your adjusted gross income. You do *not* have to itemize for this deduction. If you have more than \$250 in qualifying expenses, you might be able to deduct them as miscellaneous itemized deductions if you itemize.
5. **You may be able to deduct student-loan interest.** If you are single and your AGI is \$70,000 or less, or married with an AGI of \$140,000 or less, you are eligible to deduct up to \$2,500 in student loan interest for yourself, your spouse, or your dependent. You can take the deduction regardless of whether you itemize.

### **Refunds, Interest, Refinancing and Moving Costs**

1. **Do not necessarily report a State income tax refund as taxable income.** If you filed a standard deduction in 2007 on your Federal tax return, the state refund is income tax free for 2008.
2. **Review interest paid on your home equity line of credit to determine the right tax form to take the deduction that gives you the most tax savings.** You can deduct mortgage interest on up to \$100,000 of home-equity borrowing, regardless of what the money was used for. Interest paid on mortgages of second homes is usually tax deductible too! Unfortunately, the interest on non-business and non-housing expenses is usually not deductible for computation of regular tax or the AMT (unless the loan was used to buy, build, or substantially improve your home).

However, if you use a home-equity loan to pay business expenses, you can deduct the interest on it as business interest instead of mortgage interest on schedule A, provided you can trace the loan proceeds directly to a business use. Doing this can have several advantages over deducting it as a mortgage interest

expense. Business interest is deductible on an unlimited amount of home-equity borrowing. Also, the business interest deduction is allowed under the Alternative Minimum Tax. Business interest expense also reduces income from a proprietorship, thus reducing self-employment taxes along with reducing your Adjusted Gross Income. Mortgage interest will not reduce either of these.

It is necessary to document the flow of the funds into the business or investment. If the funds are segregated in a separate account before they are disbursed, any disbursement within 30 days (before or after) of receiving the loan can be attributed to the deductible activity. You must maintain records tracing the funds. These rules also apply to partnerships and closely held C corporations that borrow money that is distributed to owners or stock holders.

If you borrow money to buy investments, such as securities or real estate, the interest paid on the loan is treated as investment interest. The amount of investment interest that you deduct on schedule A is typically limited to the amount of your “net investment income” for the year. You are allowed to carry over any excess to the next year.

“Net investment income” includes gross income from certain investments, such as interest, annuities, and royalties. It does not include long-term capital gains or qualified dividends that are eligible for tax-favored treatment. The maximum tax rate for long-term capital gains and qualified dividends is only 15%, as opposed to ordinary income tax rates, which go as high as 35%. However, you can elect to include long term capital gains and qualified dividends as net investment income if you are willing to forfeit the preferential tax rate. The best strategy is to figure out the tax results both ways and take the approach that is best for your situation. In most cases, you will come out ahead with low-tax capital gains and dividends and take a reduced investment interest expense and carry over the difference into future years.

3. **Review other interest expenses.** If you borrowed on credit cards and utilized these loans for business purposes, then the interest is tax deductible. It is also possible that you borrowed money for investment purposes, which you can usually deduct up to the amount of your investment income. In many cases, however, it is best to get a home equity line of credit in order to pay off other non-business debt, which is not tax deductible.
4. **Review your refinancing costs.** If you paid points (loan fees) on a loan used to purchase a new residence, these are fully deductible in the year you purchased your house. Points associated with home improvement loans are usually fully deductible in the year that the points are paid.

However, if you refinanced your house, or purchased a rental property or second home, these points must be deducted over the lifetime of the loan. For example, let’s assume you had \$6,000 of points you paid in 2001 for a rental property and it was for a 30-year loan. You took a deduction of \$200 ( $\$6,000/30$ ) on each of your tax returns from 2001 to 2007, or a total of \$1,400. Let’s assume that in 2008 you refinanced the property for 30 years and had new points of \$3,000. You can then deduct the remaining \$4,600 ( $\$6,000 - \$1,400$ ) of the points on the old loan, plus \$100 (one-thirtieth of the \$3,000) on the new loan. Any remaining points on mortgages repaid before the mortgage falls due are deductible in the year of the repayment.

Please note that if refinancing proceeds are used to improve a residence, the points are fully deductible in full when paid.

5. **Did you move during the year?** In the event you moved from one state to another, the old state usually cannot tax any income that you earned after the move. However, this can get tricky, depending on the specific date when you left that state. Be sure to recheck these numbers in order to avoid paying

unnecessary state income taxes. If you worked in multiple states, determine if you paid the correct tax for that applicable state. There is often a credit available in your resident state for taxes paid to other states.

6. **Write off moving expenses.** If you relocated for a new job that is at least 50 miles further from your old house than your old job was, you can claim these moving expenses even if you don't itemize other deductions.

## **Medical Deductions**

1. **The limit on deductible pay-ins to Health Savings Accounts (HSA's) goes up in 2008.** An HSA is another way to get a tax break for putting away money for health-care costs. HSA's allow you to pay for health care expenses with pre-tax dollars. You can also roll over unused medical expenses from year to year. So if you stay relatively healthy, it is possible to build up a nice nest egg for your retirement health costs.

You can contribute up to \$2,900 to the plan for 2008 (\$5,800 for family coverage). Contribution levels rise gradually each year and if you are 55 or over, you can actually make an additional contribution of \$900 in 2008. Remember that many employers offer HSA's as part of their benefits package.

2. **Review frequently overlooked medical expenses.** Many tax deductible medical expenses are often overlooked, such as the following:
  - Long-term care insurance premiums for 2008 (the amount allowed for tax deduction varies depending on your age). Taxpayers who are age 71 or older can claim as much as \$3,850 per person. Filers age 61 to 70 can deduct \$3,080. Those who are age 51 to 60 can deduct up to \$1,150. Individuals age 41-50 can take \$580. And people age 40 and younger - \$310. Also, the limit for the tax-free payout under such policies increases to \$270 per day.
  - Nursing home costs
  - Prescription expenses
  - Medicare insurance premiums
  - 19 cents per mile during January 1 – June 30 and 27 cents per mile during July 31 – December 31 for medical travel
  - Prescribed weight-loss programs
  - Stop-smoking classes
  - Acupuncture
  - Chiropractic care
  - Therapy
  - Braces or other dental work
  - Eye glasses
  - Miscellaneous improvements to your house, such as adding a wheelchair ramp (or possibly even a hot tub, if the doctor prescribed this for various back problems). When in doubt, make sure you have a doctor's prescription!

Revenue Ruling 2007-72 fine tunes which medical expense are deductible, and the ruling clarifies a number of specific situations regarding the deductibility of medical care expense:

- The deduction is not limited to the least expensive form of medical care available.
- A physician's recommendation is unnecessary when medical expenditures are for items wholly medical in nature that serve no other function in everyday life.
- Amounts paid for an annual examination is for diagnosis and amounts paid for a full body scan and qualifies as an expense for medical care, even though the taxpayer is not experiencing any symptoms of illness.
- If a cost is incurred to alleviate a medical condition or physical handicap, it probably can be deducted as a medical expense even if it doesn't appear to be "medical." Deductions have been allowed for:
  - A clarinet and lessons bought on a doctor's advice to correct overbite.
  - A cat trained to alert a hearing-impaired owner to unusual sounds.
  - New siding on a house when the owner was allergic to the old siding.
  - Legal expenses incurred to authorize medical treatment.
  - Boarding school in Arizona (travel, room, and board) for a child with respiratory problems.
  - Whiskey prescribed by a doctor to alleviate angina pain.
  - A wig purchased on a doctor's advice to relieve mental stress from hair loss.

**Strategy:** If you incur a cost that appears non-medical but that is really medically related, get a statement from your doctor confirming that the cost has a medical purpose and keep in on file in case of an audit. You can also check IRS Publication 502, Medical and Dental Expenses, to see if any special rules apply to the item. If no restrictions apply, deduct it!

**Note:** Total medical expenses are deductible to the extent that they exceed 7.5% of adjusted gross income.

3. **Medicare.** The basic Medicare part B premium remains at \$96.40 per month in 2009, unchanged from 2008. Unfortunately, upper-income seniors have to pay considerably larger premiums in 2009 because the fee is based on 2007's adjusted gross income plus any tax-exempt interest (EE bond interest that is used for education and excluded from earned income). These amounts are much higher than the premiums for 2008 because lawmakers phased in the premium hike over 3 years. The final phase is now fully in affect.
4. **Remember that your state income tax laws are very often different from the Federal income tax laws.** For example, Oregon allows a tax deduction of up to \$5,000 for income tax payments to the Federal government and allows taxpayers over 62 to deduct all their medical expenses (not limited to the 7 ½% of the AGI threshold required by the Federal tax laws).

### **Important Areas to Review**

1. **Review miscellaneous itemized deductions.** Amortizable bond premiums and the impairment-related job expenses of handicapped people are just a couple of examples. Most of these expenses are only allowed if they exceed 2% of your AGI. However, some expenses are *not* subject to the 2% limitation (assuming you itemize) such as:

- Estate taxes on income that heirs inherit from decedents (including estate taxes paid on IRAs, Keoghs, 401(k)s and interest that decedents received on savings bonds that were cashed in after the inheritance).
  - Gambling losses. Gambling *winnings* are taxable and most casinos will send you a W-2 form if you win a sizable amount. In order to get any tax benefit from gambling *losses*, you must itemize your income tax deductions. The amount of deductible gambling losses cannot exceed total winnings for the year. Remember, the balance of any gambling losses for the year is lost forever and does not carry forward. You must keep very good records in order to take these deductions.
2. **Taxpayers 65 or older should recheck their standard deduction.** The standard deduction in 2008 for singles is \$5,450 and \$10,900 for married couples filing a joint return. When seniors turn 65, however, they can claim an additional standard deduction each year. For 2008, the additional amount is \$1,350 for those who are unmarried or \$1,050 per married person. Of course, those who itemize their tax deductions instead of claiming the standard deduction do not receive any benefit in this case.

Please note that those who attain age 65 on January 1<sup>st</sup>, 2009, are treated as age 65 on the last day of 2008 and can claim the higher standard deduction on their 2008 income tax return.

3. **Calculate your estimated tax payments for 2009 very carefully.** Although this will not currently save you any taxes for 2008, one of the biggest mistakes that taxpayers and tax preparers often make is to assume that their income-tax liability for the current year is the same as their prior year. They do this in order to avoid paying penalties for underpayment of estimated income taxes for the current tax year. However, in many cases this is not a correct assumption, especially if 2008 was an unusual income tax year due to the sale of a business, unusual capital gains, exercise of stock options, or even winning big in Las Vegas or winning the lottery!

Again, do not assume that 2009 will be the same as 2008. For example, if your distributions from your retirement accounts would be significantly reduced, this will most likely play a significant factor with regards to generating your income tax. Prepare a guesstimate of your income-tax liability for 2009 and make sure that your estimated income tax payments are based upon *that* estimate, rather than on your 2008 income tax liability.

If you believe that you will still owe additional taxes on April 15, 2010 for this 2009 calendar year, you can always put aside additional funds in a separate account and earmark these for taxes to be paid later next year.

If you think that 2009 will result in a higher income tax liability, you only need to pay the minimum amount during 2009 based on 100% of 2008's tax liability (or 110% of 2008's tax liability if your AGI was greater than \$150,000 for married couples or \$75,000 for a single taxpayer), and pay the difference in 2010, which is not subject to penalties.

For example, let's assume that your AGI was \$50,000 and your tax liability was \$5,000 in 2008. Pretend you just won big in Vegas and project that you will owe an additional \$10,000 of tax. As long as you pay \$5,000 of your 2009 income-tax liability during 2009, there will not be any penalty even though you might owe a significant amount of income tax on April 15, 2010. You can use the money during this period of time to earn additional interest, or for any other reason. However, it still might be better to pay any State income tax during calendar year 2009 even though it might not be due until 2010 because State income taxes are deductible in the year when they are paid. However, remember that state income taxes are not deductible for calculating the AMT.

4. **Review distributable net income (DNI) on estates and trusts.** In the event the income on an estate or trust is distributed to the beneficiaries, then a deduction is generated for the estate or trust on its 1041 and the income is then taxable to the recipient, who is listed on the K-1. This is important because the top income tax rate of 35% is reached once the taxable income on the estate or trust reaches \$10,701 for 2008. In comparison, for taxpayers filing a joint return, the top income tax rate of 35% does not apply until their taxable income reaches \$357,701! Talk about major income tax savings based upon tax brackets!
5. **Recheck penalties on distributions from retirement accounts.** Withdrawals from IRAs and qualified retirement plans are usually subject to a 10% early distribution penalty unless the account owner has attained these ages:
  - Age 55 for withdrawals from qualified retirement plans, 401(k) and profit sharing plans after terminating employment. This exception does not apply to IRAs.
  - Age 59 ½ for withdrawals from any retirement plan at any time except for taking distributions under the formula called “substantially equal payments” also known as 72(t). (There are also a few other exceptions, but they are difficult to use.)
6. **Be careful not to overpay Social Security Taxes.** If you received a paycheck from two or more employers last year, and earned more than \$102,000 in 2008, you may be able to file a claim on your return for the excess Social Security tax withholding.

Social security wage base rises to \$106,800 in 2009, a \$4,800 increase over 2008. That translates into an extra \$298 tax bill for high-paid employees and their employers. The rates remain 6.2% for FICA and 1.45% for Medicare. Self-employed taxpayers will pay 15.3% on the first \$106,800 and 2.9% on amounts over that.

Social security benefits increased 5.8% in 2009, which is the cost-of-living hike. The earnings limits are going up, too. Your full retirement age is 65 years and 10 months for people born in 1942 and 66 for people born in 1943 to 1954. You can earn any amount of money without losing any benefits. However, if you haven't reached full retirement age then you will lose \$1 benefits for every \$2 you earn over the “earning limit” of \$14,160 in 2009. If you reach full retirement age in 2009 you can earn up to \$37,680 in the months before you reach full retirement age, and you will lose \$1 in benefits for every \$3 you earn above that limit. The limit disappears after the month you reach full retirement age.

7. **Recheck changes in the Estate and Gift Tax laws.** The annual gift tax exclusion for 2008 remains the same as 2007 - \$12,000. This allows you give up to \$12,000 to any number of people without triggering the gift tax. For example, if you gave 1,000 friends each \$12,000 during 2008 this would result in giving away \$1,200,000 with no gift tax liability at all. A husband and wife can give away up to twice the amount, or \$24,000. There is also no limit on how much you can give a spouse gift-tax-free, as long as the spouse is a citizen.

Please note: the annual gift exclusion rises to \$13,000 in 2009.

There are a few gifts that are not included as part of the annual exclusion. Tuition you pay directly to a school, rather than giving the money to the student and having him or her pay the tuition, is ignored by the gift tax rules. The same applies to medical bills you pay directly on behalf of someone else, such as an adult child or friend. Also, if you contribute to a 529 state college savings plan, you can use up to 5 years-worth of annual exclusions all at once. Thus, you can contribute \$60,000 to a 529 plan to your grandson this year without triggering the gift tax, as long as you don't make additional gifts to him in the next 4 calendar years.

You now have more flexibility with 529 plans: The IRS says you can change investments in these plans twice during 2009; under prior rules, investments in a 529 plan could be switched only once a year. The IRS decided to ease the rule after investors said they needed to be able to respond better to swings in the market.

Gifts of valuable assets made to other family members can save taxes in various ways:

- Shifting income-producing assets to those in lower tax brackets. However, beware of the new “kiddie tax” in 2008, as discussed later in this report.
- Reducing the size of your estate to reduce your future estate tax bill.
- Removing future appreciation on assets from your estate.

Making such gifts as early in the year as possible maximizes these tax benefits by shifting income and, potentially, more appreciation, than if the gifts are made later.

Every person can make up to \$1,000,000 (unchanged from 2007) of lifetime gifts (over the 2009 \$13,000 annual exempt amount) free of gift tax. These lifetime gifts reduce the amount of the estate that will be exempt from estate tax, which is currently \$3,500,000. However, if your estate will be too small to owe estate tax, the gift costs nothing.

If you give more than the amount allowed on an annual basis, then you must file a gift tax return, Form 709.

Far fewer estates will be subject to federal estate taxes this year. The estate tax exemption jumps up from \$2 million in 2008 up to \$3.5 million in 2009. Amounts above the exemption will continue to be taxed at a flat 45%.

According to the existing laws the amount you can have in your estate without paying any estate taxes in 2010 would be unlimited! However, in 2011, the amount you can have in your estate without paying any estate tax goes down to \$1,000,000! Talk about simple tax laws! There is a very good likelihood that Congress will change some of these rules in the near future.

Please note that this \$3.5 million is the exemption amount for *federal estate* taxes, and not for the *state inheritance tax*, which is usually significantly less than the federal amount. Please check with your estate planning attorney to make sure that your estate planning documents are worded properly to take advantage of these 2 different sets of rules.

If you estimate your estate will not be great enough that will trigger an estate tax in the future, then it is usually best not to gift assets during your lifetime since the appreciation on these investments should receive a step-up in basis upon death and the capital gains tax on the appreciation of that investment will not have to be paid by anyone.

8. **Check to see if your children are subject to the “Kiddie Tax”.** Unfortunately, the potential benefits of the extension of the zero capital gains tax to lower bracket taxpayers in 2008-2010 will be severely restricted for many taxpayers with children. Just when you thought it was safe to transfer funds to your children, the Small Business and Work Opportunity Tax Act of 2007 has extended the dreaded “kiddie tax”, enacted to prevent parents from taking advantage of their children’s low tax rate.

The kiddie tax is a special rule that taxes a child’s unearned income (usually interest and dividends) over a threshold amount (\$1,800 in 2008) at their parent’s highest income tax rate. This means that the first \$900

of unearned (investment) income is tax-free, the second \$900 is taxed to child at the child's income rate, and the unearned income over this threshold is taxed to the child at the *parent's* highest marginal income tax rate. Remember that all earned income (usually wages) is taxed at the child's income tax rate.

In 2008, as in the past, the kiddie tax applies to children younger than 18 whose investment income exceeds \$1,800. New in 2008, children under 19 or full-time students under 24 (whose earned income is not in excess of half of his/her annual support) are also subject to the kiddie tax. Once a child turns 24, he or she is no longer subject to the kiddie tax on any income.

So what does this change mean to you? If you have children between the ages of 18 and 23, they are now affected by the kiddie tax. What options do you have now?

- ♦ Wait to have your child sell assets when he/she reaches the higher kiddie tax age or has income in excess of 50% of his/her support.
- ♦ Instead of shifting assets to your child, move them into an elderly parent's account. When the parent sells the assets, the capital gains will be taxed only 5% (or 0% for 2008) for those in the regular 10%-15% brackets, thereby lowering the overall family tax bill.
- ♦ Monitor your child's investment income. If you stay below the \$1,800 fault line, you won't have any kiddie tax problems. For example, if your child turns 19 in 2009 and won't be a full-time student, you might have him/her invest next year in CDs that won't mature until 2009.
- ♦ Emphasize tax-deferred investments. It might be possible to shift more of your child's portfolio into long-term range vehicles, such as growth stocks or U.S. savings bonds, instead of investments that produce current income.
- ♦ Use the section 529 plan to save for college. Investments in 529 plans are not subject to the kiddie tax.

### **Take Advantage of Tax Credits**

A tax credit is more valuable than a deduction; it reduces your income tax bill dollar for dollar compared with a deduction, which merely reduces the amount of income subject to tax.

1. **Check to see if you qualify for a foreign tax credit.** If you own shares in a portfolio investment that invests internationally, you may be entitled to claim a foreign tax credit for foreign income taxes on investment income paid by the investment company. This may reduce your U.S. taxes by the amount of tax paid by the investment to foreign governments. Unfortunately, many tax preparers overlook this credit. Be sure to give your tax preparer the proper 1099 that will reflect this foreign tax paid.
2. **You may qualify for a tax credit worth as much as \$500 if you made your home more energy-efficient in 2008.** If you added insulation or replaced drafty windows or bought a furnace or incurred other energy-efficient improvements, you may qualify for this new tax credit. In order to read more about which improvements may qualify for this credit, go to [www.ase.org/taxcredits](http://www.ase.org/taxcredits).
3. **You may also qualify for the Alternative Motor Vehicle Credit.** The IRS continues to "tune-up" the list of vehicles eligible for this credit. This credit has four components:
  - The Alternative Fuel Motor Vehicle Credit
  - The Fuel-Cell Motor Vehicle Credit
  - The Lean-Burn Technology Motor Vehicle Credit

- The Hybrid Motor Vehicle Credit

The Hybrid Vehicle Credit, which is the component that is best-known to taxpayers, can be as high as \$3,000. It includes consumer passenger vehicles and heavy-duty industrial-use trucks and buses. Be sure to get documentation from the dealer noting your date of purchase and the amount of credit. Check to see if your state offers tax credits as well. If you qualify for 2008, claim the credit on form 8910, Alternative Motor Vehicle Credit. Find out the updated lists of qualified vehicles at [www.irs.gov/newsroom/articles/0,,id=157632,00.html](http://www.irs.gov/newsroom/articles/0,,id=157632,00.html).

4. **There is still a child income tax credit of \$1,000 for one child and \$2,000 for two children.** Many people are not aware that this tax credit is also deductible against the Alternative Minimum Tax! Unfortunately, the child tax credit still phases out when income exceeds certain levels.

You may also be eligible to receive dependent care credits and possibly other credits as well. Please see your tax preparer for details.

5. **Military personnel can now count excludable combat pay as income when figuring the earned income tax credit.** They have the option of counting or ignoring combat pay as income when figuring the earned income tax credit. This has no effect on the amount of combat pay that is not taxed, according to the IRS.

### **Review Filing Options**

1. **Married Filing Jointly or Married Filing Separately?** It often makes a big difference in your income taxes, especially if there is a significant medical deduction for one of the parties and you can show that there was also very little income for that individual.
2. **Are you considered divorced for tax purposes?** In certain circumstances, you can actually file as single or head of household even if the divorce is not finalized. Make sure you see your tax preparer for these details.
3. **Are you taking all available dependent exemptions?** If you are taking care of a dependent relative who earns little, and you furnish more than 50% of that person's financial support, make sure that you take the dependency exemption for that person. If you also pay for the dependent's medical expenses, you can deduct those as well. There is now a new uniform definition of a child that applies to exemptions, child tax credit, Earned Income Credit, dependent care and Head of Household file status.
4. **Need more time to file your personal tax return?** If so, apply for an automatic filing extension. The IRS will grant you an extra 6 months, no questions asked! However, an extension to *file* is not an extension to *pay* the tax. You still must estimate your income tax liability based on the information you have when you file for the extension. You must pay at least 90% of your tax liability or 100% of your prior year's liability to income-tax withholding or estimated tax payments by the April 15<sup>th</sup> due date. Otherwise, the IRS may assess interest rate tax penalties.

Individuals should use Form 4868, which is the application for Automatic Extension of Time to File U.S. individual income tax return, for the automatic 6-month extension. Individuals no longer need to file Form 2688. As long as you file Form 4868 no later than April 15<sup>th</sup>, 2009, you can get an automatic extension to file your 2008 income tax return until October 15<sup>th</sup>, 2009, without stating a reason or signing the form. Make sure to calculate a proper estimate of income tax liability and mail a check for this estimated tax liability with the Form 4868.

## **Assist Your Tax Preparer**

As you can see, there are many different strategies that can be implemented in 2009 to reduce your 2008 income tax liability. In most cases, it is a simple matter of knowing the opportunities provided by the tax laws and making use of as many as apply to you.

Now that you are familiar with many of these important details, you should also make sure that your tax preparer is current on all the tax laws as well. The number of actual changes in the tax laws (not to mention all the proposed ones!) can make it difficult for tax preparers to keep on top of which rules apply to what years, especially when many of these laws are brand-new. Nobody's perfect! Even good tax preparers can make a mistake, so be sure to confirm these tax deductions and tax strategies and do not simply assume that everything is reported properly on your tax return. You may want to double-check the tax preparer's numbers to make sure that everything is accurate.

One easy way to help ensure the accuracy of your taxes is to review all checks, credit card receipts and cash receipts. There are many tax-deductible expenses that are often overlooked by not completely rechecking all of your receipts, credit card statements and check registers. When reviewing these receipts, determine whether or not any of your expenses might possibly fit into any of the following categories:

- Business
- Medical
- Charitable
- Sales taxes
- Rental properties
- Other miscellaneous expenses, such as job hunting, investment management fees, etc.

Write down *all* of these receipts you think are even *possibly* tax-deductible. Many taxpayers assume that various expenses are not deductible and do not even mention them to their tax preparers. Don't assume anything—give your tax preparer the chance to tell you whether something is or is not deductible.

Expenses paid using credit cards are deductible on your 2008 income tax return if they were charged in 2008, even if the bill is not paid until 2009 or later. Remember—if you are in a 30% Federal and State income tax bracket (this is very easy to do!) and even if you only discover \$500 worth of additional tax deductible expenses, this would save you \$150 of income taxes! Talk about a lot of tax savings for the short period of time required to recheck your records!

## **How to Treat Losses Due to Scams**

Just when we thought we had heard all the bad financial news there was, another major money scandal arose in which Bernie Madoff allegedly implemented a “ponzi scheme” to steal \$50 billion from investors. If you had the unfortunate surprise of learning you were involved in this or any other similar problem, you probably know by now you have very little chance of getting any money back. The question is how to handle the loss on your income tax return. Although this specific issue has not been ruled on by the Internal Revenue Service, there is precedence in treating the loss of investments due to fraud as a theft loss.

Let's use an example and assume you invested \$1,000,000 with Mr. Madoff. If the entire amount of the loss is treated as a theft, the loss would be deducted in full in the year it was discovered – 2008. Unlike a capital loss, which is deductible only against capital gains with any excess subject to a \$3,000 limit, the entire \$1,000,000

would be deductible in 2008. The only limitations are that the theft, or casualty loss, is deductible only to the extent that exceeds 10% of the taxpayer's AGI plus a \$100-per-casualty deductible.

For example, if your 2008 AGI was \$200,000 and you had a \$1,000,000 loss, the deduction would be \$9,979,900 ( $\$1,000,000 - (200,000 \times 10\% = \$20,000 - \$100)$ ). These losses can be carried back 3 years and amended returns can be filed and refunds obtained for 2005, 2006 and 2007. If the losses aren't entirely used in 2005, 2006, 2007 and 2008, the balance can be carried forward for 20 years.

I am a big believer that if the Government participates in the profits when we make money, they should also participate in the losses when we lose money. The Department of Treasury ends up paying for some of the losses on your investment via refunds of taxes previously paid. It will be interesting to see if the Treasury department issues any new rules to address this specific situation due to the increased publicity and the wide exposure to many different investors across the board.

### **In Summary**

I hope that all these tax laws and changes do not overwhelm you. However, please note that the changes in the income tax laws in 2009 will most likely be significant, especially due to the changing of the guard on January 20<sup>th</sup>. Tax cuts will be a key part of the upcoming economic stimulus package that Congress and President Obama are putting together at this time. It is likely that many of the tax breaks set to expire in 2008 may be reinstated and could possibly apply retroactively to January 1, 2009. Note also that there is a very good likelihood of income tax rates increasing over the long run. Although tax rates might be reduced for a short period, a number of current tax laws expire and old tax laws with higher income tax rates get reinstated over the next few years. This is especially true with respect to the taxes on long-term capital gains and qualified dividends.

We will certainly keep you posted and believe that taking a proactive approach is better than a reactive approach – especially regarding income tax strategies! There are many new tax laws that became effective January 1<sup>st</sup>, 2009 and will affect the taxes you pay this year. I plan to review tax planning alternatives regarding 2009 and beyond with you later on in the year.

Respectfully,



Jay R. Penney, CFP, CFA

P.S. A little bit of trivia – the IRS did something very rare in 2008 – after years of increasing coverage, the agency audited 1.01% of personal tax returns in fiscal year 2008, one out of every 99 returns. The previous year, the examination rate was 1.03%. Although this is only a slight decline, it still represents a significant change from prior years, and also a change in pattern from what we have seen over the last 20 years.

The IRS blames the 2008 tax rebate program for the declines in enforcement. It was forced to reassign agents to help answer filer's questions about the rebate.

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*This information is not intended to be a substitute for specific individualized tax, legal or investment planning advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.*

*Sources: Small Business Tax Strategies (January 2008, March 2008, April 2008, August 2008, November 2008), Journal of Accountancy (January 2009), Investment News (1/7/08, 6/2/08, 1/19/09), On Wall Street Magazine (January 2009), Kiplinger Tax Letter (12/28/07, 2/22/08, 7/25/08, 8/8/08, 9/5/08, 10/3/08, 10/31/08, 12/23/08, 1/9/09), Steve Leimberg's Newsletter (1/21/08, 11/3/08, 12/5/08, 1/15/09), Tax Hotline Magazine (January 2008, February 2008, March 2008, April 2008, May 2008, June 2008), Inc. Guidebook (Vol. 1 No.7), Kiplinger's Personal Finance (March 2008), Trust & Estates Magazine (November 2008, January 2009), J.K. Lasser's Tax Letter (September 2007, February 2008), Senior Market Advisor Magazine (February 2008), Kiplinger's Retirement Report (February 2008), Wealth Manager Magazine (December 2007, February 2008, September 2008), Wall Street Journal (1/9/08, 5/3-4/08, 8/6/08, 12/2/08, 12/3/08, 12/27-28/08, 1/7/09, 1/8/09), Money Magazine (April 2008), Money Adviser Magazine (January 2008), National Underwriter Magazine (10/20/08, 12/1/08), Tax Savings Report (October 2008, November 2008), Business Week (November 2008), CCH Tax Briefing (7/30/08), Bottom Line Wealth Magazine (October 2008), Ed Slott's IRA Advisor (January 2009). The contents of this report were written and provided by MDP, Inc, and edited by Jay R. Penney. ©*