

ORW News

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News and information from
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CERTIFIED PUBLIC ACCOUNTANTS

Accessible financial guidance for businesses and individuals

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There is still time to reduce your 2008 tax bill and plan for 2009. The following highlights several potential tax-saving opportunities for you.



The Basic Numbers You Need To Know

Because many tax benefits are tied to or limited by adjusted gross income (AGI)—IRA deductions, for example—a key aspect of tax planning is to estimate both your 2008 and 2009 AGI. Also, when considering whether to accelerate or defer income or deductions, you should be aware of the impact this action may have on your AGI and your ability to maximize itemized deductions that are tied to AGI. Your 2007 tax return and your 2008 pay stubs and other income and deduction related materials are a good starting point for estimating your 2008 AGI.

Another important number is your "tax bracket," i.e., the rate at which your last dollar of income is taxed. The tax rates for 2008 are 10%, 15%, 25%, 28%, 33%, and 35%. Capital gain sales for low taxable income filers – those whose top marginal rate is 10% or 15% – will have a 0% tax on long-term capital gains. Once income levels reach the 25% bracket, the capital gain tax rate is 15%.

Deduction Planning

Standard Deduction Planning: Deduction planning is also affected by the standard deduction. For 2008 returns, the standard deduction is \$10,900 for married taxpayers filing jointly, \$5,450 for single taxpayers, \$8,000 for heads of households, and \$5,450 for married

taxpayers filing separately. If your itemized deductions are relatively constant and are close to the standard deduction amount, you will obtain little or no benefit from itemizing your deductions each year. But simply taking the standard deduction each year means you lose the benefit of your itemized deductions. To maximize the benefits of both the standard deduction and itemized deductions, consider adjusting the timing of your deductible expenses so that they are higher in one year and lower in the following year.

Medical Expenses: Medical expenses, including amounts paid as health insurance premiums, are deductible only to the extent that they exceed 7.5% of AGI. Consider bunching medical expenses into years when your AGI is lower.

Health Savings Accounts (HSAs): HSA contributions amounts increased to \$5,800 (\$2,900 for singles) in 2008. Long-term health care premium deductions increased as well.

Deduction In Year Paid: An expense is only deductible in the year in which it is actually paid.

Payment By Check: Date checks before the end of the year and mail them before January 1, 2009.

AGI Limits: For 2008 returns, overall itemized deductions are reduced by 3% of the AGI exceeding \$159,950 (\$79,975 if married filing separately). Similarly, certain deductions may be claimed only if they exceed a percentage of AGI: 7.5% for medical expenses, 2% for miscellaneous itemized deductions, and 10% for personal casualty losses.

The Housing Assistance Act of 2008 (“the Housing Act”) was signed into law in July 2008.

The single largest provision in the Housing Act is a measure allowing first time home buyers or those who have not owned a home in three years to take a tax credit of up to \$7,500 of the purchase price.

This credit allows qualified homebuyers to subtract the credit amount from their federal income tax for buying a home after April 8, 2008 and before July 1, 2009. This credit phases out for married couples with AGI between \$150,000 and \$170,000 and \$75,000 to \$95,000 for singles. The result is that the credit resembles an interest-free loan that must be repaid to the government over a 15 year period beginning in 2010. However, the entire remaining balance of the loan must be repaid in the year you sell your home.



Property tax deduction for non-itemizers in the 2008 Housing Act

The provision creates a new standard deduction for state and local real property taxes paid by taxpayers who claim the standard deduction rather than itemizing their deductions. Since most homeowners who are paying on a mortgage have enough deductions (e.g., mortgage interest and property taxes) to justify itemizing them on their return, this new provision chiefly benefits homeowners who have paid off their homes.

The deduction is available only for the 2008 tax year and the amount of the deduction is as much as \$500 for single filers and \$1,000 for joint filers.

Charitable Contributions: Consider making your charitable contributions before the end of the year so that you may claim a deduction for that year. A few tax tips include:

- 1 Contributions must be made to qualified organizations to be deductible.
- 2 Only contributions actually made during the tax year are deductible.
- 3 Donations of stock or other property are usually valued at the fair market value of the property.
- 4 Clothing and household items donated must be in good used condition or better to be deductible.
- 5 Special rules apply to donation of vehicles.
- 6 You can claim a deduction for individual contributions of \$250 or more only if you obtain a written acknowledgment from the qualified organization.
- 7 If you claim a deduction of more than \$500 for all contributed property, you must attach IRS Form 8283, Noncash Charitable Contributions, to your return.

Tax Extenders . . .

Our government has been busy passing several new bills that directly influence your 2008 taxes. In a strategic move, Senate lawmakers attached a bill to the Emergency Economic Stabilization Act of 2008 that renewed AMT (alternative minimum tax) relief and other

lapsed tax breaks. Now, the IRS will have ample time to print 2008 forms before filing season begins.

- 1 AMT exemption amounts were increased to \$69,950 for married couples and \$46,200 for singles.
- 2 Tax free payouts from IRAs to charity for taxpayers age 70 ½ and over may be made in 2008 and 2009.
- 3 Sales tax, college tuition, and teacher supplies' deductions were extended for 2 years, 2008 and 2009.
- 4 Write-offs for restaurant renovations, tenant improvements, research and development, credits, marginal oil and gas well, and many energy tax breaks were also included.

IRS Tax Due Dates

January 15, 2009

Form 1040-ES

Final estimate of 2007 estimated tax.

February 2, 2009

Form W-2

Copies of wage withholding and employer tax statements must be given to employees. (Form W-3 Transmittal and media due to the IRS no later than March 2nd or March 31st if filed electronically.)

Form 1099 Information Returns

Statements of non-employee compensation and recipients of interest, dividends and certain distributions must be given to recipients. (Form 1096 Transmittal and Copy A due to the IRS and Social Security Administration via magnetic media by March 2nd or March 31st if filed electronically.)

Forms 940, 941

Federal unemployment, social security and withheld income tax.

Forms 943

Social security and withheld income tax for farmers.

Form 945

Report of income tax withheld on non-payroll items including pensions and backup withholding.

March 16, 2009

Forms 1120, 1120S

Last day to file 2008 corporate tax returns for corporations or file **Form 7004** for automatic extension.

April 15, 2009

Form 1040, 1041, 1065

Last day to file 2008 income tax returns for individuals, trusts and partnerships or file **Forms 4868, 2758, or 8736** for automatic extensions.

Form 1040-ES and 1041-ES

First installment of 2008 estimated tax.

Client Tax Organizers

Watch for your 2008 tax organizers to be arriving soon. The organizer has been designed to assist you in preparation of your 2008 federal income tax return. It contains many of the common items of income, expense deductions and credits. The organizers are provided for your convenience and **are not** required for completion of your tax return. If you have any questions, please contact our office at 325-942-6713.

Social Security Announces 5.8 Percent Benefit Increase for 2009

Monthly Social Security and Supplemental Security Income benefits for more than 55 million Americans will increase 5.8 percent in 2009. The 5.8 percent increase is the largest since 1982.



Some other changes that take effect January of each year are based on the increase in average wages. Based on that increase, the maximum amount of earnings subject to the Social Security taxes (taxable minimum) will increase to \$106,800, a \$4,800 increase over the current figure. The tax rates remain the same - 6.2% for FICA and 1.45% for Medicare. Self-employed taxpayers will pay 15.3% on the first \$106,800 of their net earnings and 2.9% on any amounts above that.

Business Deductions

Self-Employed Health Insurance Premiums: Self-employed individuals are allowed to claim 100% of the amount paid during the taxable year for insurance that constitutes medical care for themselves, their spouses and dependents as an above-the-line deduction, without regard to the 7.5% of AGI floor.

Equipment and Business Fixed Assets Purchases: In 2008, if you are in business and purchase equipment, you may make a "Section 179 Election," which allows you to expense (i.e., currently deduct) otherwise depreciable business property. In general, you may elect

to expense up to \$250,000 of equipment costs (with a phase-out for purchases in excess of \$800,000) if the asset was placed in service during 2008. If 2008 equipment purchases are not fully deductible via a Section 179 write-off, then they may be eligible for a 50% special depreciation deduction.

Minimum Wage Increases Again 2009

The third and final increase of the federal minimum wage will take effect on July 24, 2009. This increase, which was signed into effect as the Fair Minimum Wage Act of 2007, will raise the current wage of \$6.55 per hour to \$7.25. Many states have minimum wages higher than this, while some U.S. territories are exempt. Some types of labor are also exempt, and tipped labor must be paid a minimum of \$2.13 per hour as long as the hourly wage plus tipped income result in a minimum of \$6.55 per hour.

The Fair Minimum Wage Act of 2007 was signed into law on May 25, 2007 as a rider to the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007. This bill also contains almost \$5 billion in tax cuts for small businesses.

The three step wage increase is scheduled as follows: \$5.85 – Summer of 2007; \$6.55 – Summer of 2008; and \$7.25 – Summer of 2009.



Check the numbers for additional 2008 tax savings



0% The capital gains tax rate on qualified dividends and gains from sales of stocks, bonds, and other securities you've held more than a year is zero if your 2008 taxable income is less than \$65,101 (married filing jointly) or \$32,551 (single).

>> ACTION: Assess your portfolio with an eye toward realizing gains on investments in which you have a low basis.

7.5% To take an itemized deduction for medical care, your total expenses have to equal more than 7.5% of your adjusted gross income. Not quite there? You may be able to bunch your costs. Bunching is a classic tax planning strategy that involves accelerating expenses into the current year or deferring them to the next year.

>> ACTION: Calculate your expenses to date. Include amounts you paid for family members who failed to qualify as your dependents only because they did not meet the gross income or joint return test. If you're close to the 7.5% floor, look for opportunities to increase your deduction. Example: Schedule deductible elective procedures before year-end.

50% Bonus depreciation is back. For 2008 you can immediately deduct up to half of the cost of qualifying new business assets. In addition, the bonus rule increases the maximum amount of first-year depreciation on luxury passenger cars and light trucks that you use in your business by as much as \$8,000.

>> ACTION: Consider replacing worn-out business vehicles and equipment before year-end.

100% Subject to certain restrictions, you can claim self-employed health insurance premiums "above the line" — meaning you can subtract them from your gross income. However, at the beginning of 2008, the IRS issued a notice spelling out the procedures

you'll need to follow to keep this deduction from being disallowed if your business is set up as an S corporation.

>> ACTION: Have your business write an additional compensation check before year-end to reimburse you for premiums you paid personally.

58.5¢ Use this standard mileage rate to calculate the amount you can deduct for each business mile you or your mobile employees drive from July 1, 2008, through year-end. (For business miles driven from January 1 through June 30, 2008, the deductible rate remains at 50.5¢.) Remember, estimates are not enough to support a deduction. The IRS requires adequate records, either written or electronic.

>> ACTION: Maintain a mileage log, recording the date, destination, purpose, and total miles of business trips.

\$1,800 The maximum Hope Scholarship credit for 2008 is \$1,800, up from \$1,650 last year. (A higher credit is available for students in certain disaster areas.) The credit reduces your tax bill dollar for dollar and is available for the first two years of college or vocational expenses you pay for yourself, your spouse, or your dependents. Two cautions: Income phase-outs apply, and taking



the Hope credit may limit other educational tax breaks, such as the lifetime learning credit.

>> ACTION: Add up your 2008 tuition expenses to determine whether it makes sense to prepay first semester 2009 costs.

\$3,000 You can use up to \$3,000 of capital losses to reduce other taxable income. Is your income too high to benefit from the zero percent capital gains rate in effect this year? "Harvesting" tax losses to offset gains can generate tax savings.

>> ACTION: Total your realized gains and losses from your 2008 transactions; then consider weeding out poorly performing investments.

\$3,500 Each dependency exemption you're eligible to claim reduces your taxable income

by \$3,500. In addition to your children, dependency exemptions are available for others, including parents that you support. There's no age requirement for a qualifying relative, and in some cases your loved one does not need to live with you. However, your relative's gross taxable income must be less than \$3,500, and you need to provide over half of his or her support during the calendar year.

>> ACTION: Review food, housing, and medical care support you provide to dependents. If more than one family member contributes, consider whether a multiple support agreement would benefit you.

\$5,000 Make a deductible contribution of up to \$5,000 to a traditional IRA and save tax dollars now. Contributions to a Roth IRA are not deductible, but provide tax-free withdrawals later. In both cases, growth within the accounts is generally tax-free. If you're over 50, you can contribute up to \$6,000 to an IRA for 2008.

>> ACTION: Maximize your savings by contributing as much as you can to all retirement plans for which you qualify.

\$250,000 The Section 179 depreciation deduction lets you treat up to \$250,000 of the cost of business assets you purchase and place in service during 2008 as a current-year expense. The deduction phases out when you buy more than \$800,000 of assets during the year.

>> ACTION: Schedule purchases of business equipment and machinery so you'll have time to make sure the assets are up and running before December 31.