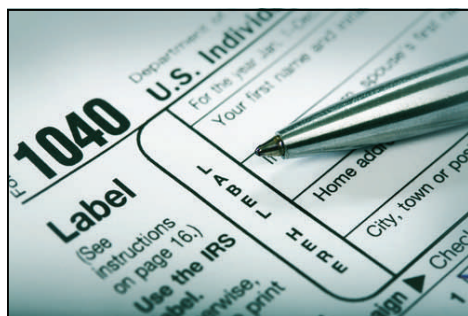


## Year-End Tax Planning

*As the end of the year approaches, it is a good time for you to engage in tax planning by taking various actions by the end of the year that may save taxes for this year, next year, or both years.*



Year-end tax planning may prove to be more of a challenge this year because of the current economic climate and the change-over in Washington. In fact, there may even be another economic stimulus package enacted before the year end. The good news is that for individuals, the Alternative Minimum Tax (AMT) problem has been “patched”, and many expiring tax breaks have been extended such as the option to deduct state and local taxes, the above-the-line deduction and educator expenses. New tax law has also created new tax breaks for 2008, including a tax credit for first-time homeowners, a nonitemizers’ deduction for property tax and certain disaster losses. For businesses, these breaks include beefed-up asset expensing and a 50% bonus first-year depreciation write-off, as well as the extension of many expiring provisions.

We’ve compiled a **checklist of actions** that may help you to save taxes if you act before year-end.

- Postpone income until 2009 and accelerate deductions into 2008 if you want to lower 2008 taxes. Doing this may allow larger deductions, credits, and other tax breaks that
- are normally phased out by income – especially if you expect to be in a lower tax bracket next year. Then again, doing the opposite may be more beneficial depending on the circumstance.
- Increase the amount you set aside for next year in your employer’s health flexible spending account. Don’t forget about over-the-counter drugs, such as aspirin and antacids.
- Realize losses on stock while substantially preserving your investment position by, for example, selling the original holding and buying back the same securities at least 31 days later. It is advisable for us to meet to discuss year-end trades.
- If Roth IRAs are better for your financial situation than traditional IRAs, and you want to remain in the market for the long term, consider converting traditional IRAs that have plunged in value into Roth IRAs if eligible to do so. Just keep in mind that the conversion may be taxable.
- It may be advantageous to try to arrange with your employer to defer your bonus until next year.
- You may be able to save taxes this year and next year by applying a bunching strategy to “miscellaneous” itemized deductions, medical expenses and other itemized deductions.
- If you are facing a penalty for underpayment of estimated tax, you may be able to eliminate or reduce it by increasing your withholding.

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- Save gift and estate taxes by making gifts sheltered by the annual gift tax exclusion before the end of the year. You can give \$12,000 in 2008 to an unlimited number of individuals, but can't carry unused exclusions from one year to the next.
- If you're thinking of donating a used auto to charity, be sure to inquire whether the charity plans to sell the car or use it in its charitable activities; the latter may yield a bigger deduction.
- Considering making credit-eligible energy saving improvements to your home? Postpone your purchase until 2009 since a credit is not available this year, but may be available in 2009.
- Thinking of buying a hybrid vehicle? Make sure it is eligible for the credit and consider doing so by year-end.
- If you are receiving Social Security benefits, there are several steps you can take to reduce or eliminate tax on your benefits.
- If you are an employee, consider asking your employer to increase withholding of state and local taxes to pull the deduction of those taxes into this year.
- If you're a business owner, consider making expenditures that qualify for the \$250,000 business property expensing option and the 50% bonus depreciation. (The expensing limit will drop to \$133,000 and the 50% bonus eliminated next year.)
- If you own an interest in a partnership or S corporation you may need to increase your basis in the entity so you can deduct a loss from it for this year.
- If a corporate liquidation is planned, delaying the distribution of assets until 2009 will defer a shareholder's gain or loss.
- Consider establishing a retirement plan for your business before December 31. Employer contributions to qualified plans are deductible.
- Consider using a credit card to prepay expenses that can generate deductions for this year.
- Accrual method businesses should consider accruing year-end bonuses to employees who are not controlling shareholders. They are deductible even though paid in the following year, and the bonus won't be taxable to the employee until 2009.
- Estimate the effect of any year-end tax planning move on AMT for 2008, since many tax breaks allowed for regular taxes are disallowed for AMT. Examples include property taxes and state income tax. In some cases, deductions should be deferred in order to prevent their loss because of AMT.



These are just some of the year-end steps that can be taken to save taxes. Please review the list and contact us at your earliest convenience so that we can advise you on which tax-saving moves to make.

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