CHARLES P VONDERHAAR CPA LLC

9884 Reading Rd
Evendale, OH 45241
(513) 563-0598
(513) 563-1605 (fax)

1848 W Galbraith Rd
North College Hill, OH 45239
phone/fax (513) 522-5897
chuck@cpvcpa.com | cpvcpa.com

2009 YEAR-END TAX PLANNING TIPS

We've seen a number of new tax provisions passed in 2009 that were designed to help us recover from the very nasty recession we've been experiencing. Some of us had to change jobs or are still looking for employment and others had to take pay cuts. For the first time in our memory, there will be little or no inflation-related tax adjustments because of the low rate of inflation. Proposed health care legislation is likely to mean higher taxes for many of us and Congress is talking about other tax increases needed to reduce our record deficit. In other words, we all face a very complicated and very difficult year-end tax planning season this fall.

Here are a few reasons why that is so:

- More than thirty tax provisions are scheduled to expire at the end of 2009. Where possible, it may be time to "make hay while the sun shines." On the other hand, some of these provisions may (and likely will) be extended by Congress. (We'll be keeping a close eye on developments in Washington, but you'll need to check with us so that we can keep you posted.)
- Year-end tax techniques usually involve postponing income and accelerating deductible expenses to reduce taxes for the current year. But, because of the economic downturn, some of us may have significantly less income in 2009 than we expect to have in 2010. Doing things in reverse -- deferring expenses and accelerating income -- may save more in taxes if you will be in a higher tax bracket in 2010 than in 2009. But, of course, you will have to factor in the time value of money to see if this reverse strategy is worthwhile.
- A new law enacted in late 2008 provides that retirement plan account participants, IRA owners, and their beneficiaries do not have to take required minimum distributions during 2009. This means that taxpayers who can take advantage of this change won't be forced to sell stock or mutual fund shares held in retirement accounts when their value is exceptionally depressed.
- There are other new changes that take effect in 2010. For example, the income restriction is removed for clients who want to roll funds in a traditional IRA over to a Roth IRA. In addition, the phase-out of personal exemptions and the phase-down of itemized deductions for high-income clients are both eliminated in 2010.
- Finally, without Congressional "extender" legislation (which has come at the eleventh hour for several years), alternative minimum tax (AMT) exemptions for individuals are scheduled to drop drastically next year, and most nonrefundable personal credits won't be available to offset the AMT.

What's New for 2009?

Expanded Education Credits. The American Opportunity Tax Credit expands college education tax breaks under the Hope credit. For 2009, the credit increases to as much as $2,500 of the cost of tuition and related expenses paid during the tax year, including expenditures for course materials. Individuals can receive a tax credit based on 100% of the first $2,000 of tuition and related expenses (including books) paid during the tax year plus 25% of the next $2,000 of tuition and related expenses paid during the tax year. The credit is now available during the first four years of post-secondary education in a degree or certificate program (rather than just the first two years as in the past). Forty percent of the tax credit is refundable and a taxpayer who meets certain requirements can now receive a refund of up to $1,000 even if no taxes are owed. Because these credits are subject to a variety of limitations and to a phase-out, be sure to check with us if you think you will qualify for this credit.

Qualified Tuition Programs. (Also known as Section 529 Plans) QTPs are tax-advantaged savings plans that can be used to pay qualified education expenses. This year the definition of qualified higher education expenses for tax-free distributions from a qualified tuition program has been expanded. It now includes amounts paid in 2009 or 2010 for the purchase of computer software, any computer or related peripheral equipment and fiber optic cable related to computer use. Also included is Internet access (including related services). Any of these expenditures will qualify so long as they are to be used by the beneficiary and the beneficiary's family during any year that the beneficiary is enrolled at an eligible educational institution.

NOL Carryback. New tax law significantly expands the five-year NOL carryback opportunity enacted earlier this year as part of the stimulus bill. The new legislation allows U.S. companies of all sizes to carry back NOLs incurred in either 2008 or 2009 to the previous five years. This carryback can offset all of the taxpayer's taxable income in the first four carryback years, and 50 percent of the taxable income in the fifth carryback year. Any unused carryback amounts can be carried forward.

Alternative Minimum Tax (AMT). The 2009 AMT exemption amount increases to $46,700 ($70,950 if married filing jointly or qualifying widow(er); $35,475 if married filing separately). The AMT exemption amount for a child whose unearned income is taxed at the parent's tax rate has increased to $6,700.

Nonbusiness Energy Property Credit. In 2009 and 2010, a taxpayer can claim a credit under Code Sec. 25C equal to 30% of the sum of the cost of: qualified energy efficiency improvements to his home (e.g., energy-efficient windows, doors, insulation materials, and certain roofs) and residential energy property expenditures (e.g., high-efficiency heat pumps, air conditioners, water heaters, and stoves that burn biomass fuel), up to an aggregate amount of $1,500.

2009 Mileage Rates. Instead of deducting actual costs per mile, you can deduct your 2009 business miles at the standard rate of 55¢ per mile (down 3.5¢ from the end of 2008 rate). Use 24¢ for each mile driven to get medical care or in connection with a move that qualifies for the moving expense deduction. You can deduct 14¢ per mile when using your car for charitable purposes. That rate is set by Congress and is the same as last year.

Unemployment Compensation. For any tax year beginning in 2009, each recipient of unemployment compensation can exclude from gross income up to $2,400 of the amount of unemployment compensation received during the year.

New Rules for Children of Divorced or Separated Parents. If you are a noncustodial parent claiming an exemption for a child, you can no longer attach certain pages from your divorce decree or separation agreement instead of Form 8332 (Release/ Revocation of Release of Claim to Exemption for Child by Custodial Parent). Also, new rules allow the custodial parent to revoke a release of claim to exemption that was previously released to the noncustodial parent on Form 8332 or similar form. Such a revocation is effective no earlier than the tax year beginning in the calendar year following the calendar year in which the custodial parent provides, or makes reasonable efforts to provide, the noncustodial parent with written notice of the revocation.

First-time Homebuyer Credit. A new law just extended and expanded this popular credit. For homes purchased after 2008 the 10% of purchase price credit can be as much as $8,000 so long as you enter into a binding contract for the home before May 1, 2010 and the purchase closes before July 1, 2010.

The home you buy doesn't literally have to be your first home. You may qualify if you (or your spouse if married) did not own another principal residence in the U.S. during the three-year period before purchasing your new home. If you don't meet that requirement, you may still qualify for up to a $6,500 credit if you purchase your new home after November 6, 2009 and you (and your spouse if married) maintained the same principal residence for any five-consecutive years during the eight years ending on the date you purchase your new home.

If you give us a call, we would be pleased to help you sort out the limitations, phase-outs and other rules involved. (For instance, your home must be located in the U.S., it must cost no more than $800,000, it must be your principal residence . . . your main home . . . and you may have to repay the credit if you dispose of your home or it otherwise ceases to be your principal residence within 36 months of purchase.)

Tax-free Home Sale Rules Are Changed. The ability to avoid tax on a gain from the sale of a home has changed. Any Gain from the post-2008 sale or exchange of a principal residence that is attributable to periods of "nonqualified use" is not eligible for the homesale exclusion. "Nonqualified use" is any period after 2008 during which the property is not used as the principal residence of the taxpayer, or his spouse or former spouse.

2009 YEAR-END TAX TIPS

Year-end tax planning in 2009 is going to be unusually important for many reasons, including the fact that the right timing may lock in a slew of tax breaks that won't be around next year unless Congress acts to extend them. These include:

For Individuals:

- The option to deduct state and local sales and use taxes instead of state income taxes;
- The standard or itemized deduction for state sales tax and excise tax on the purchase of motor vehicles;
- The above-the-line deduction for qualified higher education expenses;
- The scheduled decrease in the AMT exemption and the related loss of the ability for most nonrefundable personal credits to offset AMT;
- Tax-free distributions by those age 70½ or older from IRAs for charitable purposes; and
- Many observers expect top tax rates on ordinary income to increase after 2010, making long-term deferral of income less appealing.

For Businesses:

- The 50% bonus first-year depreciation for most new machinery, equipment and software;
- An extraordinarily high $250,000 asset expensing limitation;
- The research tax credit; the five-year writeoff for most farm equipment; and
- The 15-year writeoff for qualified leasehold improvements, qualified restaurant buildings and improvements and qualified retail improvements.

Use this Checklist and then Call Us

Not all these tips based on current tax rules will apply in your particular situation, but you (or a family member) are likely to benefit from many of them. The sooner you call us and make an appointment, the more time we will have to meet, narrow down the specific actions that will benefit you and your family and get you started on your year-end tax-saving moves.

- ☐ Don't forget that you can set aside amounts to get tax-free reimbursements for over-the-counter drugs, such as aspirin and antacids.
- ☐ If you become eligible to make health savings account (HSA) contributions in December of this year, you can make a full year's worth of deductible HSA contributions for 2009.

- ☐ Realize losses on stock while substantially preserving your investment position. There are several ways this can be done. For example, you can sell the original holding, then buy back the same securities at least 31 days later. It may be advisable for us to meet to discuss the year-end trades you could consider making.

- ☐ You may want to settle an insurance or damage claim in order to maximize your casualty loss deduction this year.

- ☐ If you are planning to buy a car, do so before year-end in order to nail down a deduction for state sales tax and excise tax on the purchase.

- ☐ Postpone income until 2010 and accelerate deductions into 2009 to lower your 2009 tax bill. This strategy may enable you to claim larger deductions, credits, and other tax breaks for 2009 that are phased out over varying levels of adjusted gross income (AGI). These include:
  - ☐ IRA and Roth IRA contributions,
  - ☐ Conversions of regular IRAs to Roth IRAs,
  - ☐ Child credits, higher education tax credits,
  - ☐ The above-the-line deduction for higher-education expenses, and deductions for student loan interest.
  - ☐ Postponing income also is desirable for those taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances. Note, however, that in some cases, it may pay to actually accelerate income into 2009. For example, this may be the case where a person's marginal tax rate is much lower this year than it will be next year.

- ☐ If you believe a Roth IRA is better than a traditional IRA, and want to remain in the market for the long term, consider converting traditional-IRA money invested in beaten-down stocks (or mutual funds) into a Roth IRA if eligible to do so. Keep in mind, however, that such a conversion will increase your adjusted gross income for 2009.

- ☐ It might be advantageous to arrange to have your employer defer until 2010 a bonus that may be coming your way.

- ☐ Consider using a credit card to prepay expenses that can generate deductions for this year. If you are a homeowner, make energy saving improvements to the residence, such as putting in extra insulation or installing energy saving windows, and qualify for a tax credit. Additional substantial tax credits are available for installing energy generating equipment (such as solar electric panels or solar hot water heaters) to your home.

- ☐ Businesses should consider making expenditures that qualify for the business property expensing option, which is up to $250,000 for assets bought and placed in service this year. Unless Congress passes legislation to change the rules, the maximum expensing amount will drop to $134,000 for assets bought and placed in service next year (higher expensing amounts apply in certain specialized situations).

- ☐ Businesses also should consider making expenditures that qualify for 50% bonus first-year depreciation if bought and placed in service this year. This bonus writeoff generally won't be available next year.

- ☐ You can save gift and estate taxes by making gifts sheltered by the annual gift tax exclusion before the end of the year. You can give $13,000 in 2009 to an unlimited number of individuals but you can't carry over unused exclusions from one year to the next.

- ☐ If you are age 70 1/2 or older, own IRAs (or Roth IRAs), and are thinking of making a charitable gift, consider arranging for the gift to be made directly by the IRA trustee. Such a transfer, if made before year-end, can achieve important tax savings.

- ☐ If you are age 70 1/2 or older and took a distribution from a retirement plan or IRA earlier this year, you may be able to avoid tax on the payout by rolling it over into an eligible retirement plan (including an IRA) before Dec. 1, 2009.

- ☐ If you are self-employed and haven't yet done so, set up a self-employed retirement plan.

- ☐ 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 you expect to owe state and local income taxes when you file your return next year, consider asking your employer to increase withholding of state and local taxes (or pay estimated tax payments of state and local taxes) before year-end to pull the deduction of those taxes into 2010 if doing so won't create an AMT problem (see below)..

- ☐ Estimate the effect of any year-end planning moves on the alternative minimum tax (AMT) for 2009, keeping in mind that many tax breaks allowed for purposes of calculating regular taxes are disallowed for AMT purposes. These include:
  - ☐ The deduction for state property taxes on your residence,
  - ☐ State income taxes (or state sales tax if you elect this deduction option),
  - ☐ Miscellaneous itemized deductions, and personal exemption deductions.
  - ☐ Other deductions, such as for medical expenses, are calculated in a more restrictive way for AMT purposes than for regular tax purposes. As a result, in some cases, such deductions should be deferred rather than accelerated to keep them from being lost because of the AMT.

- ☐ Those facing a penalty for underpayment of federal estimated tax may be able to eliminate or reduce it by increasing their withholding.
- ☐ Given recent market volatility, consider making retirement plan contributions over time rather than in a lump sum. It's referred to as dollar cost averaging.
- ☐ Depending on your particular situation, you may also want to consider deferring a debt-cancellation event until 2010, electing to deduct investment interest against capital gains, and disposing of a passive activity to allow you to deduct suspended losses.
- ☐ You may be able to save taxes this year and next by applying a "bunching" strategy that maximizes "miscellaneous" itemized deductions, medical expenses and other itemized deductions subject to percent of income offsets. For instance, you might prepay health insurance premiums, extend your subscriptions to professional journals, prepay union or professional dues, enroll in (and pay tuition for) job-related courses, etc. There are a number of things to consider when "bunching", so check with us before trying this tax saving tip.

THANK YOU!

Your business is appreciated, as are your referrals of friends, relatives and business contacts.

NOW IS THE TIME TO TO MINIMIZE YOUR 2009 TAXES!

Situations occur almost every day that can impact your income taxes. Waiting until 2010 is likely to mean missing tax saving opportunities that are only available until the end of 2009. Don't overpay your 2009 taxes!

In 2009 did you – have a significant income change; change your name or address; marry, divorce or live apart from your spouse; have or adopt a child; lose a spouse or a child; start or sell a business; purchase or sell business equipment or rental property; create a living trust; or receive any correspondence from the IRS?

Call today for a tax planning appointment. The sooner we meet, the more time we will have for tax-saving action…

Charles P Vonderhaar CPA LLC
9884 Reading Rd
Cincinnati, OH 45241