TAX SAVING TIPS FOR 2008

Slide 1: Introduction

Whether you're training for a marathon, landing the job of your dreams or closing a sale, you're not going to excel without being well prepared and fully informed.

Well, the same holds true when managing and preparing your taxes. And with the economic crisis that has swept through global markets, and the beginning of a new presidential administration, there probably hasn't been a time in recent history when tax planning has been more important.

Waiting until April 15th to put your financial house in order is a straight path to paying higher taxes. To manage your taxes and minimize your tax bill, you need to know the rules of the game, which are constantly changing, and you want to take advantage of year-round tax-planning opportunities.

The good news is that it's not too late to get started. And the fact that you're here today shows that you appreciate the importance of proper planning and knowing the latest tax changes and strategies.

I'd like to take this opportunity to mention that the recent elections may usher in future changes in tax rates, tax credits and deductions. Congress is also considering some proposals to cut taxes in the short term to stimulate the economy.

During the next hour, I'll share with you the most recent tax law changes and tips that will not only help you prepare your tax return, but may also help you minimize your 2008 tax bill.

Slide 2: Recent Tax Law Changes

We'll start today with recent tax law changes. Over the past few years, Congress has made some adjustments to the tax code—reducing tax rates and adding new credits and deductions while increasing phase-out limits and, where appropriate, indexing the phase-out limits to an inflation index. Congress has also expanded opportunities for tax-deferred pension savings and deductions to help families afford sending their children to college, and creating incentives to be more energy efficient and energy conscious.

In 2008, a number of new provisions were introduced that may affect your 2008 return.

These were in areas including extended mortgage foreclosure tax relief, new energy tax incentives**,** enhanced child tax credit and disaster area tax relief. Congress also extended a long list of tax benefits that were about to expire and once again enacted a patch to the Alternative Minimum Tax, otherwise known as the AMT.

I'll begin by giving you an overview of these tax changes. Once we've covered the new information, we'll move on to the basics of filing and the major categories for tax planning.

Slide 3: 2008 Alternative Minimum Tax (AMT) Patch

In addition to the regular income tax, more and more taxpayers are finding themselves subject to the AMT. The AMT, which was created by the Tax Reform Act of 1969, was designed to ensure equitable taxes are paid by higher-income taxpayers. As the AMT was not indexed for inflation, increasingly taxpayers are finding themselves affected.

However, among the provisions included in the Emergency Economic Stabilization Act of 2008 is the AMT Patch, meant to protect most middle-income taxpayers from the AMT. The good news for many middle-income taxpayers is that the patch expanded the AMT exemption amounts for 2008, allowing these taxpayers to breathe a sigh of relief.

Last year Congress waited until after the end of the year to enact the AMT Patch, creating a difficult situation for the IRS as it had to stop processing returns until the computers could be reprogrammed to accept the new AMT threshold.

Some of the items that can trigger the AMT include a higher than average number of dependency exemptions, large deductions for state and local income taxes for those of you who live in high-tax states, higher real estate taxes, high miscellaneous itemized deductions, and high medical expenses.

Slide 4: AMT Exemption Amounts

As you can see from this slide, for 2008, under the Emergency Economic Stabilization Act of 2008, the AMT exemption amount expanded to $46,200 for single filers and heads of households, $69,950 for married taxpayers filing jointly and qualifying widow(er)s, and $34,975 for married taxpayers filing separately.

For 2009, Congress will have to pass a law with another patch and those amounts should be higher. However, if Congress fails to enact a patch the exemptions levels actually would go down to levels that existed in 2001.

The hope is that in 2009, Congress will confront the need to find a permanent solution to the AMT situation and pass the AMT reform rather than a new patch.

Unfortunately, the AMT defies most traditional tax planning strategies, but if you've been close to the threshold, you'll need to consult with your CPA for specific advice on how the AMT may affect you.

Slide 5: Extended Mortgage Foreclosure Tax Relief

In general, if a debt is discharged, you are required to recognize income from the discharge of indebtedness. However, there are several exceptions to this rule. The Mortgage Forgiveness

Debt Relief Act of 2007 added a new exception, which excludes from gross income up to $2 million from the discharge of qualified principal residence indebtedness occurring in 2007, 2008 or 2009.

The basis of your principal residence is reduced by the excluded amount, but not below zero. Under the Emergency Economic Stabilization Act of 2008, this exception for qualified principal residence indebtedness will continue through 2012.

Slide 6: New Energy Incentives

The Emergency Economic Stabilization Act of 2008 extends the non-business energy efficient property credit of up to $500 for the costs of making certain energy efficient improvements to your principal residence. Examples include new exterior doors and windows, skylights, insulated walls or ceilings, and installation of a high-efficiency furnace or water heater. This credit, which expired December 31, 2007, is available in 2009, but not in 2008.

Starting January 1, 2009, there is a new tax credit for plug-in hybrid electric vehicles, starting at $2,500 and capped at $7,500 for cars and trucks (the credit is based on the capacity of the battery system). The first 250,000 vehicles sold receive the full tax credit (then it phases out similar to the hybrid vehicle tax credits).

However, in 2008, the Alternative Motor Vehicle Credit grants four separate credits for different types of energy-efficient vehicles. Your potential credit will be determined by the type of vehicle and which of the four credits applies. You can check with your CPA or the IRS for a list of qualified vehicles and allowable credits.

Slide 7: Enhanced or Additional Child Tax Credit

For 2008, the child credit is worth $1,000 for each qualifying child who is under age 17 at the end of the calendar year and who qualifies as a dependent—your son, daughter, adopted child, stepchild or eligible foster child, brother, sister, stepbrother, stepsister, or a descendant of any of these individuals. The child must also be a U.S. citizen or resident**.**

That means if you have three children, the child credit can potentially reduce your tax bill by $3,000. Keep in mind that the $1,000 credit remains in effect through 2010 when it will decrease to $500 per qualifying child. So, if your children are younger, you may qualify for the $1,000 credit for several more years—unless your income exceeds the phase-out levels.

For 2008, the child credit begins to phase out when modified AGI exceeds $110,000 for married couples filing jointly, $55,000 for married taxpayers filing separately, and $75,000 for single filers, heads of households and qualified widow(er)s. The credit is reduced by $50 for each $1,000, or fraction thereof, of AGI above these thresholds.

Some lower-income households may receive a refund under the Enhanced or Additional Child Tax Credit even if they do not owe any tax. Under the new law, the additional credit is refundable to the extent of 15% of your earned income in excess of $8,500.

Slide 8: Disaster Area Tax Relief

Through the Housing and Economic Recovery Act of 2008, the IRS has created special tax law provisions that help eligible homeowners, specifically those who received federal reimbursement grants stemming from Hurricanes Katrina, Rita or Wilma, recover financially from disaster.

The new law gives these homeowners the option of adjusting (on an amended return) their previously claimed deductions by treating these grants as reimbursement for the losses they suffered on their principal residence. Before this law was passed, some taxpayers ended up paying more tax on the grant than they saved by claiming the deduction because they were required to pay tax on part or all of the grant to compensate for the tax benefit of the prior deduction.

To qualify, amended returns need to be filed by July 30, 2009, and any resulting tax due paid by July 30, 2010 in most cases is penalty and interest free. The notice also provides special instructions for those taxpayers who received the grant in a later year and have already filed an amended return.

Also, depending on the circumstances and whether the president declares the location a major disaster area, homeowners may receive other forms of relief including additional time to file their tax returns and pay their taxes.

Now that we've covered some of the new tax changes, I'd like to take you through some tax filing basics.

Slide 9: FILING BASICS

Getting organized and having a well thought-out plan are two steps you can take to starting your tax return on the right note. We'll start today by taking a quick look at the basics, beginning with determining your filing status.

Many people think that the amount of income tax they pay is determined by the amount of their taxable income. The truth is that people with exactly the same amount of taxable income can end up with different tax bills because their amount of tax depends on their filing status.

Each filing status has its own tax brackets, and your filing status also affects how other tax rules, such as the standard deduction, IRA contribution limits, and tax credits and deductions, apply to you.

Slide 10: Filing Status

There are five categories of filing status: single, married filing jointly, married filing separately, head of household and qualifying widow(er). The primary factor impacting your filing status is whether you are married or not.

If you are married, you and your spouse must decide whether to file jointly or separately. In most cases, you'll pay lower taxes if you file jointly and you can take advantage of tax credits and benefits that aren't available to couples who file separately. Also, be aware that your choice will impact your state income tax calculation, as typically states require consistency with federal tax return filings.

In special circumstances, separate returns can be advantageous, such as when one spouse has high unreimbursed medical expenses or a significant amount of miscellaneous itemized deductions. In some cases, you may be able to deduct a higher percentage of these expenses by filing separately. The only way to be sure is to compute your taxes both ways, a task easily performed by most tax preparation software packages.

If you are not married, you can use the single filing status or the head-of-household filing status if you have a dependent. Heads of household pay a significantly lower tax rate than singles, but to qualify you must meet the requirement for supporting at least one other dependent.

If you are a qualifying widow(er), you may use the joint tax rates for two years following the year of death of your spouse, as long as (1) you have a qualifying dependent, (2) you provide more than half the cost of keeping up a home for you and your dependent, and (3) you did not remarry.

Slide 11: 2008 Tax Rates

The tax rates remain the same as last year. The six tax brackets are 10%, 15%, 25%, 28%, 33% and 35%. The tax rates are scheduled to remain the same until 2011, when the higher pre-2001 tax rates will return. What changes each year are the income levels for each tax bracket that are determined by your filing status. This information is included in your tax return instructions.

Slide 12: Standard Deduction

Now let's talk about the standard deduction – the basic deduction all taxpayers can take.

Every year, the IRS adjusts the standard deduction to account for inflation. For 2008, the standard deduction is $5,450 for single filers or married couples filing separately. The standard deduction jumps to $10,900 for married couples filing jointly and for qualifying widow(er)s, and to $8,000 for head-of-household filers. The standard deduction is higher for blind taxpayers and those age 65 and older.

Slide 13: Standard Deduction Additions

Taxpayers age 65 and older and/or blind receive an additional standard deduction amount that is added to the standard deduction. The slide indicates the amounts.

- Married (filing jointly or separately) – $1,050
- Single or head of household – $1,350

An individual who is both age 65 or older and blind may take two additional standard deductions. Married taxpayers filing jointly, both of whom are age 65 or older and blind, would be able to claim four additional standard deduction amounts.

A recent change in the law allows you to add an additional amount to the standard deductions when you pay real estate taxes but do not have enough to itemize deductions. Many senior citizens who have paid off their mortgages but still must pay real estate taxes can benefit from this change. You may add an amount to your standard deduction of $1,000 for a joint return and $500 if you file as single.

If you live in a state with a state income tax, and you take a standard deduction for federal purposes, your state may require you to file your state return, also taking the standard deduction. Conversely, if you itemize for federal purposes you will have to itemize for state purposes. This is important because some federal deductions are not allowed as a state deduction, such as your state income tax.

Slide 14: Itemizing Deductions

An alternative to claiming the standard deduction is itemizing your deductions. To determine the best strategy for you, total all of your deductions. If your total itemized deductions are greater than the standard deduction, then, by all means, itemize. It will save you money.

However, watch out for the limitations that the law imposes on deducting itemized deductions. High income taxpayers need to know that their allowable itemized deductions may be reduced if their Adjusted Gross Income, or AGI, is over $159,950 for single, head of household and married taxpayers filing jointly, or $79,975 for married couples filing separately. Once AGI reaches these levels, itemized deductions are reduced. The good news is that the reduction is being phased out and will be eliminated in 2010.

Here's another tip: If you find you're getting close to exceeding the standard deduction limit, try bunching your tax breaks every other year. This allows you to claim the standard deduction one year, but itemize the next.

For example, instead of writing a $500 check every December to your favorite charity, write one $1,000 check every other year.

Also, since itemized deductions are a factor in determining if you're subject to the AMT, some pre-planning might help if you are in this situation. Since we are already in tax year 2009 there are no changes that can be made for 2008, but you may want to be aware of what you can do to help reduce your tax liability for the current year.

Slide 15: Charitable Deductions

For most people, making charitable contributions is synonymous with writing a check. I'd like to propose that you look at some other means of sharing your good fortune.

Donating appreciated assets that qualify for the long-term capital gains treatment can actually do more to cut your tax bill. When you give appreciated long-term securities to a nonprofit, you deduct the full market value of the asset at the time of the donation and you avoid paying capital gains tax on the appreciation.

Now, even though the capital gains tax is only 15%, zero tax is always better than 15% and you receive the benefit of a deduction. But don't wait until the last minute. You'll need to allow time for processing these transactions.

Here's another suggestion. Clean out your closets and basements. A tax deduction is allowed for clothing and household items at fair market value as long as they are in "good" condition, with the exception of personal items. Keep in mind that when donating a single item appraised at more than $500 a qualified appraisal must be included with your tax return.

Even for clothing, where the total will exceed $250, you must keep an itemized listing and show the fair market value of the individual items based on prices at local thrift shops, not a retail store. Always be sure to ask the charity for a receipt confirming the amount of the donation. The better the documentation, the more secure your deduction.

Keep in mind that volunteering to help others may also bring tax deductions. There is no deduction for the value of the services you provide to a charity, but you can deduct some costs associated with volunteering. Deductible expenses include your out-of-pocket costs for transportation, lodging and meals when you travel in connection with charitable work, as long as there is no significant element of personal pleasure or vacation.

You can also take a deduction of 14 cents per mile, plus parking fees and tolls or the vehicle's operating costs related to your philanthropic driving. Other charitable deductions include the cost of supplies such as stamps, stationery and the like that your charitable work requires.

Also, documentation in the form of an acknowledgement letter for the amount of your contribution from a charity, whether it's a cancelled check, credit card statement or receipt from the charity, is required for monetary donations. For donations of $250 or more, you need to obtain a written acknowledgement that notes any benefits or goods that you received in exchange. It is no longer permitted to estimate cash donations made throughout the year.

Slide 16: Temporarily Extended Tax Breaks

You have the option in 2008 and 2009 to deduct sales taxes as an itemized deduction on your return rather than state and local taxes—an attractive alternative for those who live in states with low or no state income tax.

The deduction for higher-education expenses is worth up to $4,000 for 2008 and 2009, and is an above-the-line deduction used to calculate adjusted gross income. The deduction is barred if your filing status is married filing separately.

Any teachers here today will be happy to learn that the out-of-pocket classroom expense deduction was also reinstated. For 2008, the deduction is worth up to $250.

The state and local sales tax deduction, as well as the classroom expense deduction, were expected to expire at the end of 2007. However, the Emergency Economic Stabilization Act of 2008 continued these deductions for 2008 and 2009.

For 2008 and 2009, non-itemizers are entitled to an additional standard deduction for real estate taxes. The maximum amount is $500 for single and head-of-household filers, and $1,000 for joint filers.

Slide 17: Personal Exemptions

In addition to the standard or itemized deductions, you can also subtract personal exemptions from your adjusted gross income to arrive at taxable income. In addition to personal exemptions for you and your spouse, you can claim a personal exemption for each dependent. The amount you can deduct for each exemption increased from $3,400 in 2007 to $3,500 in 2008. However, you will lose part of the benefit of your exemptions if your AGI is above a certain amount.

For 2008, if your AGI exceeds the maximum phase-out amount, your exemption amount is $2,333. As this slide shows, the amount at which the phase-out begins depends on your filing status. Again, this exemption reduction is being phased out. In 2010, there will be no phase-out of exemptions.

TIMING STRATEGIES

Slide 18: Timing Strategies

Timing is critical for taxpayers. Many of these suggestions need to be reviewed again during the last three months of 2009 because year-end strategies are best implemented when you know what your income and expenses for the year are likely to be.

The new presidential administration and the current economic environment leave a question mark over what tax rates might be in 2009. Depending on your income level and whether tax rates change, you may want to consider deferring income into the next year or accelerating deductions into the current year. This is a good strategy if you expect your taxable income to be about the same or lower next year and if you suspect tax rates will also be stable. The best strategy to follow will become more evident as these policy decisions are made.

If you are self-employed, deferring income is also a strategy to employ, but again you will want to know what your business income will be later in the year. This strategy is also affected by large business investments that generate other deductions and credits, so spend some time working on this with your tax advisor.

The flip side of deferring income is accelerating deductions, and there are a number of ways you can do this. Make charitable contributions or estimated state income tax payments in December instead of January. Pay your January mortgage bill in December and you increase your mortgage interest deduction for the year. You can also pay your first quarter property taxes for next year on or before December 31 of the current year and claim a deduction for the current year.

Cash-basis, self-employed business owners can accelerate deductions by prepaying expenses. However, there are limits. For instance, you can pre-pay next year's insurance and receive the deduction but you cannot receive a deduction for paying two years in advance. Similar limits apply in other areas.

Deferring income and accelerating deductions generally are excellent strategies, but you need to take your personal circumstances into consideration and you will need to be aware of changing public policy priorities in the new administration. If you think your tax rate will be higher next year, perhaps because you expect a raise or your spouse plans to return to work, reversing this strategy may be more appropriate.

Also be aware that accelerating deductions too aggressively could subject you to the AMT, which we discussed earlier. You should consult with a CPA if you think you might be affected.

Another timing strategy calls for bunching deductions. Some deductions are allowed only to the extent they exceed a minimum amount tied to your adjusted gross income.

Only those un-reimbursed medical expenses, for example, in excess of 7.5% of your adjusted gross income, are eligible for a deduction. Similarly, only miscellaneous itemized deductions, such as un-reimbursed employee business expenses, that surpass 2% of your adjusted gross income can be claimed as a deduction. If you're close to these limits, think about bunching as many deductible costs as you can into the current tax year.

This is an area that you will want to factor in the potential for higher income tax rates or capital gains rates in the coming years when making your decision on tax strategies.

TAX STRATEGIES

Slide 19: Tax Strategies for Life

Now that we have the basics behind us, it's time to move further ahead. I'm going to group my comments into five categories all of us can relate to—family, education, home, investments and retirement. For those of you who are small business owners, we'll also cover some strategies you can use to lower your business tax bill. We'll then wrap things up with a few tips that will give you a jump start on preparing your tax return.

FAMILY

Slide 20: Family Strategies

Let's start with some tax breaks for which you may be eligible if you are raising a family. You parents out there want to be sure to take advantage of every tax-saving opportunity available to you—the child credit, the adoption credit, the dependent care credit and the earned income credit. In this section, we'll discuss the "Kiddie Tax," adoption credit, dependent care credit, earned income credit and shifting income. We discussed the enhanced child tax credit earlier in the presentation.

And as I mentioned earlier, a credit is the best tax break you can get. Deductions reduce the amount of taxable income on which you must pay taxes, but tax credits reduce, dollar for dollar, the taxes you actually owe.

Slide 21: Changing "Kiddie Tax" Rules

A strategy long employed by parents was to shift assets to a child's name with the result that the investment income would be taxed at the child's lower tax bracket. However, recent changes make this strategy less beneficial.

In order to discourage income-splitting of investment income between parents and minor children, the tax law has imposed a Kiddie Tax that taxes a child's income over an annual floor. Under these rules, a child who can be claimed as a dependent is not taxed on $900 or less of gross income, with the second $900 of investment income taxed at the child's rate. Any net unearned income over $1,800 is taxed at the parent's highest marginal tax rate.

Starting in 2008, the Kiddie Tax will apply to investment income of children in these three categories: (1) children under 18, (2) children who are 18 and do not have earned income exceeding 50% of their support and (3) children age 19 through 23 and who are full-time students and who do not have earned income exceeding 50% of their support.

College savings strategies have become more complex as other choices, including prepaid tuition plans offered by many states and Section 529 Plans, offer opportunities to save for college.

Similar to any investment strategy, investigate plans available in other states that are best suited to your financial goals. You are not restricted to using the savings plans of your state and can use any state's plan. The Internet is an invaluable research tool. However, if you select another state's plan, you may lose a state tax deduction that some states offer to residents who use their states prepaid or 529 Plans.

I'll be discussing 529 Plans in greater detail later in my presentation.

Slide 22: Adoption Credit

There is good news for people who are planning to adopt a child. Two tax benefits offset the escalating expenses of adopting an eligible child.

In 2008, the maximum adoption credit rose to $11,650. Parents who work for companies with an Adoption Assistance Program can receive up to an $11,650 reimbursement from their employer for adoption expenses without paying taxes on that benefit.

This benefit phases out for modified AGIs between $174,730 and $214,730. When you adopt a child with special needs, you are allowed to claim these benefits regardless of actual expenses paid or incurred in the year the adoption becomes final. You cannot claim the credit or exclusion if your modified AGI is $214,730 or more.

For special needs children, the taxpayer claiming the credit is assumed to have incurred the maximum amount of qualifying expenses and may claim the full credit.

When adopting a child from within the United States, the family is permitted to take the credit in the year following the year where the actual expense was incurred. These expenses are deductible even if the adoption ultimately is not completed. This is different from how adoption expenses are treated if the child is from outside the United States.

Where a foreign adoption is involved, the family may not deduct any expenses until the adoption is final, which considering the time and uncertainty of a foreign adoption, places an added burden on the family financing the cost of the adoption. Clearly, in this situation, the longer the adoption process, the more expenses are incurred, none of which are deductible until the adoption is finalized.

Slide 23: Dependent Care Credit

Working parents know how expensive child care can be. The Dependent Care Tax Credit aims to ease some of the burden. Basically, the credit works like this: If, in order to work, you pay someone to care for a dependent under age 13 whom you also claim as a dependent, you may be eligible for a tax credit of between 20 and 35% of your qualifying expenses.

For 2008, the dollar limit on the expenses toward which you can apply the credit percentage is $3,000 for the care of one individual and $6,000 for two or more. The percentage of the expenses you can take as a credit depends on your AGI. These dollar limits must be reduced by the amount of any dependent care benefits provided by your employer, excluded from your income.

Take note that the Dependent Care Tax break isn't restricted to child-related care costs. If you pay someone to look after an incapacitated dependent of any age, such as a parent or disabled family member (for example a spouse who is physically or mentally incapable of self-care), you may be eligible for this tax break.

You will need documentation to claim the dependent care credit, which specifies an invoice from the provider that includes the name of the care provider, address and employer identification number.

Slide 24: Earned Income Credit

There's one more credit I would like to touch on. Although the Earned Income Credit applies to eligible low-wage taxpayers without children, those with children receive the largest benefit. The Earned Income Credit is subtracted directly from the amount of tax you owe. Even if you do not owe any tax to the IRS on your tax return, you might still get some money back.

On 2008 returns, the maximum credit can be as much as $4,824 for workers supporting two or more qualifying children. A worker with one qualifying child can receive a credit worth up to $2,917. For an eligible worker with no qualifying children, the credit drops to $438.

The credit is phased out as AGI increases. Keep in mind also that taxpayers with investment income of more than $2,950 are not eligible for the credit.

Slide 25: Shifting Income

There are some long-term strategies you can employ to reduce your taxes on investment income for college savings. As with all investment strategies, they have to be right for you and appropriate for the economic environment. The current economy makes some of these strategies more or less beneficial, depending on your circumstances. I highly recommend that you first check with a financial advisor.

Now, let's begin with strategies for how parents can save on taxes. As we discussed earlier, shifting income to a child in a lower tax bracket was a popular strategy. With the Kiddie Tax being expanded to also include kids 19-23 who are full-time students and do not have earned income exceeding 50% of their support, it's less advantageous than it used to be. However, it may still have a place in your overall tax plan.

Remember, in 2008**,** a child can still earn investment income up to $900 tax free. The next $900 is taxed at the child's rate, which for dividends and capital gains, can be as low as 0%. Any investment income over $1,800 will be taxed at your own top rate. It won't pay to shift a significant amount of income to a child falling under the Kiddie Tax rules, but transferring a few income-producing assets to a child might still lower your overall tax bill.

And it's important to know that shifting income to your child will also reduce the adjusted gross income on your personal return, which may mean that you'll lose less of your itemized deductions and personal exemptions. Lowering your AGI may also make you eligible for other tax benefits.

Also, be sure to consider the gift tax when shifting assets. For 2008, you generally can give a gift to a child, or anyone else, valued at up to $12,000 each without being subject to the gift tax. This annual gift tax exclusion will rise to $13,000 in 2009.

If you're a sole proprietor, you can shift income by hiring your children to help in your business. In addition to providing valuable work experience for your child, this arrangement offers significant tax savings to the business. As long as the work your children do is legitimate and you follow all the rules and they receive reasonable wages, you can deduct their wages as a business expense and shift the money to your children in lower tax brackets.

As an added bonus, if your son or daughter is under 18, you don't have to pay Social Security or Medicare taxes on the wages you pay. Because of the standard deduction, in 2008, the first $5,450 earned by each child is not taxed. Also, since it's earned income, it isn't subject to the Kiddie Tax. Just be sure to file W-2 forms and other necessary tax forms for the child.

EDUCATION

Slide 26: Education Strategies

Since, in most cases, education accounts for the greatest cost associated with raising kids, you'll want to listen carefully to learn all you can about the credits and deductions for education expenses. Keep in mind that these benefits are available to college students of every age.

The following discussion describes the rules as they exist on January 1, 2009. The new administration and Congress have discussed new incentives for education. However, it may be several months before we are aware of any changes.

Slide 27: Tax Credits

Two popular tax credits—the Hope Credit and the Lifetime Learning Credit—can help defray education expenses for you and your children. And because they are credits, rather than deductions, they take a bigger bite out of your tax bill. However, you cannot claim both credits for the same student's expenses in the same tax year.

For the 2008 tax year, these education credits are gradually phased out if your modified AGI is between $48,000 and $58,000 if you file as single ($96,000 and $116,000 if you file a joint return). Both credits are not available to married taxpayers who file separate returns.

Slide 28: Hope Credit and Lifetime Learning Credit

Also beginning in 2008, the amount of the Hope Credit for each eligible student is the total of:

1. 100% of the first $1,200 of qualified education expenses you paid for the eligible student and
2. 50% of the next $1,200 of qualified education expenses you paid for that student

The Hope Credit – worth up to a maximum of $1,800 per qualifying student – can be claimed in each of the first two years of college for each student.

The second tax credit is the Lifetime Learning Credit (LLC) and it provides a credit of up to $2,000 per year. As its name suggests, the LLC can be used by anyone for undergraduate, graduate and professional degree courses. As previously mentioned, the LLC is subject to the same phase-out rules as the Hope Credit but is not limited to any number of years.

Slide 29: 529 Plans

529 Plans give parents and other family members a tax-advantaged way to save money for college expenses. While there is no tax deduction available on contributions to the plan, the money in the plan grows tax-free and no tax is due on withdrawals if the distribution is used to pay for qualified higher education expenses.

Before the Pension Protection Act of 2006, the tax-free withdrawal provision of 529 Plans was set to expire at the end of 2010. Parents who opened 529 Plans for young children can take comfort in knowing that tax-free distributions from 529 Plans are now a permanent part of the tax code.

The 529 Plan is especially valuable as a vehicle for gifts from family members, especially grandparents.

Slide 30: U.S. Savings Bonds

Generally, investors who redeem qualified U.S. savings bonds to pay for qualified higher education expenses may exclude the amount redeemed from gross income.

If the proceeds from the redeemed bond exceed the amount of qualified education expenses the investor pays, however, the exclusion is limited to a fraction of the redeemed amount. The fraction equals the amount of qualified education expenses paid during the tax year over the aggregate proceeds of qualified U.S. savings bonds redeemed during the tax year.

Slide 31: Student Loan Deduction

If you're paying off student loans, you'll be happy to know that the rules for deducting student loan interest remain liberal. Taxpayers can continue to deduct up to $2,500 of the interest paid on a student loan, regardless of how long it takes to repay the loan. And you don't have to itemize in order to take this deduction. However, there is no deduction if you file as married filing separately, if you are claimed as a dependent, or if the loan is from a related party or a qualified employer plan.

For the 2008 tax year, the deduction is phased out for single taxpayers with AGIs between $55,000 and $70,000. For married couples filing jointly, the phase-out kicks in at AGI of $115,000 and ends at $145,000.

Slide 32: Higher Education Tuition Deduction

As I mentioned earlier, Congress reinstated the higher education tuition deduction for 2008 and 2009. A deduction of $4,000 is available to single taxpayers with AGIs not exceeding $65,000 and married filing jointly with AGIs not exceeding $130,000. A $2,000 deduction is available to single taxpayers with AGIs exceeding that limit but does not exceed $80,000 ($160,000 for married filing jointly). And similar to the student loan deduction, you don't have to itemize to claim this deduction.

Keep in mind that this deduction is for higher education qualifying tuition and related expenses only, and you cannot claim the deduction and the Hope or Lifetime credits for the same student.

Slide 33: Prepaid Tuition Plans

Many states have instituted savings plans substantially similar to the Section 529 Plans that propose to create a prepaid tuition account for a student in that state. The amount contributed will depend on when the plan is begun and the child's age. The states have created actuarial tables that they believe will result in a fully funded tuition based on a schedule of deposits and investment return rates.

The advantage of these plans is that they guarantee tuition costs will be covered. However, they do not guarantee admissions, and they do not cover room and board and the cost of books. These expenses would have to be funded separately. The plans will provide assistance if the student decides not to attend an in-state school; however, it may not cover the full tuition costs of these schools.

In general, the tax treatment of these prepaid tuition plans is similar to section 529 Plan rules.

HOME

Slide 34: Homeowner Strategies

Now let's turn our attention to the tax benefits of owning a home, because as a homeowner there are many tax-saving opportunities available to you.

Slide 35: Deductions

In most cases, you can deduct all of the interest you pay on any loan secured by your home if you itemize your deductions. Interest is deductible on up to $1 million of home acquisition loans. These are loans used to buy, build or substantially improve your principal residence or second home and are secured by that same residence.

Interest on a home equity loan or line of credit of up to $100,000 is also deductible. As long as the home equity loan is secured by your home, it doesn't matter how you spend the proceeds. Home improvements, college tuition, debt consolidation or an exotic vacation—it's up to you. Just be sure you have a plan to pay it back. You will need to itemize your deductions on Schedule A in order to take the mortgage interest deduction.

The IRS defines points as any extra charges paid by a home buyer at closing in order to obtain a mortgage. In effect, points are prepaid interest. Points paid to secure a loan for the purchase or improvement of a principal residence are usually fully deductible in the year you paid them. Points paid to refinance your home mortgage must be deducted ratably over the term of the loan.

After the home mortgage interest deduction, the next most important tax break for homeowners is the deduction for real estate taxes. You can deduct real estate taxes paid on all your real estate

as an itemized deduction. However, a recent law change allows those who do not itemize deductions to increase their standard deduction by up to $1,000 for a joint return or $500 for a single person for real estate taxes paid.

Your deduction on real estate taxes is not limited to only two principal residences, as it is with the home mortgage interest deduction.

Slide 36: Selling Your Home

Excluding the gain on the sale of a home is another major incentive for buying a home. If you meet certain requirements, you can keep a significant portion of the profit of the sale of your principal residence without having to pay tax on the gain. Any gain is taxed as a capital gain so the amount owed is not as high. However, any losses on the sale of a principal residence are not deductible.

When you sell your home, you can exclude from your taxes up to $250,000 in gains (for single-filers), $500,000 if you are married and filing jointly, provided that you have both owned and used your home as a principal residence for at least two of the five years preceding the sale. The full tax break is available only once every two years. If your gain exceeds the exclusion limit, the balance is taxed as a capital gains. The maximum tax rate on a capital gain is 15% in 2008.

There are some limits if the property had previously been rented or if it was used as vacation property. Discuss these issues very carefully with your CPA.

Special exceptions are available if you were required to sell your home due to a change in place of employment, health issues or other unforeseen circumstances before meeting the two-year principal residence rule.

INVESTMENTS

Slide 37: Investment Strategies

Strategy and timing are as important as skill in investing, particularly with regard to taxes. There are a number of tax-smart investment strategies you may want to consider, especially in light of recent legislation that lowered the tax rate on dividends and capital gains.

These same strategies can be applied during today's difficult economic times when many people have suffered substantial investment losses. As you prepare your 2008 returns, some of these rules can help. However, be aware that Congress may make changes to them in the future. The following are the rules as they exist on January 1, 2009.

Slide 38: Dividends

Dividend income received by an individual shareholder from a domestic or qualified foreign company is taxed at a top rate of 15% and at just 0% for taxpayers in the 10% and 15% tax

brackets for 2008 through 2010. However, these tax rates are subject to review so watch for media reports on the topic and seek counsel from your CPA as changes occur.

It's important to keep in mind that to receive a dividend that qualifies for the lower tax rate, you must buy the stock at least one day before the ex-dividend date and hold that stock for at least 60 more days. The ex-dividend date is the last date on which shareholders of record are entitled to receive the upcoming dividend. Essentially, what this means is that if you owned shares for only a short time around the ex-dividend date, your dividend income will be taxed as ordinary income and will not be eligible for the 15% rate.

Here's another caveat: not all income payments that are called dividends are qualified dividends in the true "taxed at 15%" sense. For example, the money you earn on savings accounts, certificates of deposit and money market funds is sometimes referred to as dividends, but is actually interest and is taxed as ordinary income.

You might be wondering whether you should invest more heavily in stocks that pay high dividends. The answer is both yes and no. Surely, stocks that pay a high dividend are more attractive now, but that doesn't mean they are going to perform better than stocks that don't pay dividends. You also should consider that if you're holding stocks that don't pay dividends, there is no tax owed until you sell those stocks at a gain. In contrast, the tax on dividends applies in the year the dividend is paid.

In any case, you should never let tax considerations drive your investment decisions. Be sure that your overall financial objectives guide your investment strategies.

Slide 39: Capital Gains Tax

The maximum tax rate on net long-term capital gains is also 15%. If you're in the 10% or 15% tax brackets, your net long-term capital gains will not be taxed for 2008 through 2010. To qualify for long-term tax treatment, an asset must be held for more than one year before it is sold. The net long-term capital gains tax rate from the sales of collectibles remains at 28%.

Slide 40: Offset Capital Gains with Losses

When it comes to investment decisions, knowing when to make a move is critical. Then there are times, such as those we are experiencing today, where many of our conventional ideas about investing are dramatically challenged.

If you have any capital gains, you can reduce your taxes by offsetting your gains against sales of investments that resulted in losses in 2008. If your capital losses exceed your capital gains, you can deduct up to $3,000 in net capital losses against ordinary income. That figure is $1,500 if married filing separately.

Excess losses that you could not deduct may be carried forward to future years and can be used to offset future gains. This is in addition to being able to deduct up to $3,000 in future years. It is

very important to keep track of these unused losses and whether they are short-term or long-term losses.

Keep in mind that an investment sold at a loss in 2008 need not be gone forever. If you believe it was a good long-term investment, you can buy it back. Just be sure to wait 31 days after the sale, otherwise you'll get caught up in the wash sale rule.

This rule disallows losses on securities sold if substantially identical securities are bought within 30 days before or after the loss sale, although the definition of "substantially identical" does provide some flexibility.

Just be sure to work with a qualified investment professional.

RETIREMENT

Slide 41: Retirement Strategies

We all know that contributing to a retirement plan is a key step in working toward a secure retirement, but did you know it can lower your current income tax bill as well?

As economic events have clearly shown, your retirement account is not an asset that should be reviewed haphazardly. It requires careful consideration, expert management and reallocation as needed to ensure that it's always working for you.

Slide 42: Employer-Sponsored Plans

Pre-tax contributions to an employer-sponsored savings plan reduce the amount of taxable wages you report on your tax return, making qualified retirement plans an excellent way to cut your tax bill. If you have a 401(k) and you haven't arranged to contribute the maximum, try to increase your contributions before year end. This is especially important if your employer makes matching contributions, which, in effect, represents free money.

For 2008, if you're under age 50, your maximum contribution to a 401(k) plan is $15,500. Taxpayers who are age 50 or older by the end of the calendar year can make an additional "catch-up" contribution for that calendar year. For instance, in 2009, the maximum contribution to a 401(k) plan for those under 50 will increase to $16,500 and the catch-up contribution for those 50 or older by the end of 2009 is $5,500.

In 2006, some employers began offering a new "Roth 401(k)" option. Employees with plans that allow this option may designate some or all of their 401(k) contributions as Roth 401(k) contributions. Although these contributions will not reduce employees' taxable income, the balances grow untaxed and no income tax will be levied on qualified distributions.

Also, keep in mind that any losses incurred in your 401(k) plan are not tax deductible, which is disappointing news for those who experienced double-digit losses in 2008.

Slide 43: Individual Retirement Accounts (IRAs)

The top annual contribution for traditional and Roth IRAs is $5,000 for 2008, provided you have earned income to cover the contribution. If you're age 50 or older, you can make an extra $1,000 "catch up" contribution for 2008. In 2009, the basic IRA contribution amount will remain $5,000 and the "catch-up" contribution limit will remain unchanged at $1,000.

Deductible contributions to a traditional IRA reduce your adjusted gross income. A full deduction to a traditional IRA is available, regardless of your income, if neither you nor your spouse is an active participant in an employer-sponsored retirement plan.

If you or your spouse participate in a retirement plan at work, your AGI may limit the IRA deduction. For joint filers, who are both active participants in employer-sponsored plans, the deduction phase-out ranges from $85,000 to $105,000. For single filers, the deduction phases out for incomes between $53,000 and $63,000. For married taxpayers filing separately, no deduction is available once income surpasses $10,000.

If you don't participate in an employer-sponsored plan but your spouse does, the deduction for your contribution is phased out if your joint AGI is more than $159,000 but less than $169,000.

With a Roth IRA, contributions are not deductible, but investment earnings accumulate on a tax-deferred basis and may be withdrawn tax-free, as long as you meet certain requirements.

Eligibility to contribute to a Roth IRA is phased out as AGI rises from $101,000 to $116,000 for single filers and $159,000 to $169,000 for joint filers. Married taxpayers filing separately cannot contribute to a Roth IRA if their income is above $10,000.

You have until the filing deadline of April 15, 2009, to open and contribute to an IRA for 2008. But why wait? The sooner you contribute, the longer your money grows tax deferred or tax-free.

BUSINESS

Slide 44: Business Strategies

I'd like to take a few minutes now to address those of you in the audience who are self-employed or small business owners.

Slide 45: Structure

The structure of your business determines how your business income is taxed. If you are planning to start a business, consider your options carefully to determine whether a C Corporation, S Corporation, partnership, limited liability company or sole proprietorship is best for you.

While small businesses often start out as sole proprietorships or partnerships, many owners eventually explore the transition to another entity. If you're already in business, it makes sense to periodically review your business structure to determine if it's still the best option for you.

Considerations must also include how state laws will impact your decision because not all states are in complete conformity with federal law. For example, not all states recognize subchapter S status and you could be forced to file one form for federal law and another for state law. Be sure to consult with a CPA experienced in the law in your state.

Slide 46: Section 179 Deduction

Typically, when a business buys new or used property that has a useful life of more than one year, the cost must be depreciated over the life of the asset.

However, under Section 179 expensing, in accordance with the Economic Stimulus Act of 2008, you can immediately elect to deduct 100% of the cost of up to $250,000 in new and used personal property put into service in 2008. The portion of the cost not eligible for first-year expensing is recovered by depreciation.

The Section 179 deduction is phased out on a dollar-for-dollar basis when qualifying assets costing over $800,000 are placed in service, effective for tax years beginning in 2008. For 2009, the Section 179 limit is $133,000. The reduction to this amount will phase out if eligible assets placed in service in 2009 exceed $530,000. The deduction may not exceed net Section 179 income from all your active businesses.

The Economic Stimulus Act of 2008 also permits a bonus first-year depreciation deduction of 50% of the adjusted basis of qualifying property acquired and placed in service after December 31, 2007 and before January 1, 2009. The luxury auto cap on first-year depreciation increases by $8,000 for vehicles that qualify.

You should also know that the cost of computer software, which previously had to be depreciated, generally over 36 months, is now eligible for the Section 179 deduction.

Deciding whether to use the expensing rule or the first-year bonus depreciation rule is a decision you need to make before you file your tax return and only after you have considered the alternatives with your tax advisor. It is also important to consider whether future income will allow you to take advantage of these tax benefits or simply generate losses for future years.

Slide 47: Additional Business Strategies

If you were self-employed in 2008, you can deduct 100% of amounts paid for health insurance for yourself, your spouse and your dependents. The amount is taken as an above-the-line deduction from gross income to arrive at AGI. You can also deduct one-half of your self-employment tax. But there are several other strategies you need to consider.

Do you have any debts you haven't been able to collect? A business bad debt is deductible by a cash-basis taxpayer only if an actual cash loss was incurred or if the amount deducted was included as income and it can be determined that the amount is not collectible.

Be sure to make the most of your deductible expenses. Business-related auto expenses and travel, meal and entertainment costs are all deductible. Just be sure to keep good records, especially for travel, meal and entertainment expenses so that you can justify these expenses to the IRS.

If you have not established any type of pension plan for your business, even an IRA plan, you might want to consider the benefits of creating a savings plan for you and your employees.

Several of the strategies we've already discussed today apply to small businesses as well. I'm referring to deferring income and accelerating expenses, and to contributing to a retirement plan.

Slide 48: Net Operating Losses

In the current financial climate, many businesses will find that they will have no profits at the end of the year, but rather an actual business loss. One way to help keep your business alive is by using the net operating loss carry back rules.

A business may use a current loss to obtain a refund for taxes paid during the two years before the year of the loss. For example, if you have a $10,000 loss this year, but paid $10,000 in taxes in the two prior years, you can have these taxes refunded.

If you are not able to recover the full amount because of low incomes in the previous two years, you can carry the loss balances forward and use them to offset possible future gains in your business.

Slide 49: Estimated Taxes

Generally, in most years, estimating tax liabilities for your business means paying at least as much in the current year as you owed in the previous year to avoid the penalties for underestimating taxes. However, if you are convinced that you will owe less taxes in the future, you will not be penalized so long as the estimates you make are equal to 90% of your current year's taxes.

Slide 50: Quick Refunds

If you have determined that your 2008 tax liability will be far less than originally estimated and it is early enough in the year, you can apply for a refund of your estimated tax payments in January, without waiting to receive a refund after filing your return. This is also something that should be discussed with your tax advisor.

CLOSING

Slide 51: Key Takeaways

I know this was a lot to cover, but my key takeaways for you are these:

First, follow the advice of your CPA and plan for tax savings year-round.

Second, remember that your CPA can be a valuable partner in helping to keep your tax bill to a minimum.

Third, do not wait until December 31 to implement any of these recommendations because by then it will be too late. Be sure to plan for tax savings all throughout the year.

Thank you.