
ALPHA OMEGA ACCOUNTING: YEAR-END TAX STRATEGIES

GETTING READY FOR YEAR-END 2008: YEAR-END ACTION POINTS

We have compiled this checklist based on current tax rules that may help you save tax dollars if you act before year-end. Not all of these actions will apply in your particular situation, but you will likely benefit from many of them. We can help you to narrow down the specific actions that you can take once we meet with you to tailor a particular plan.

If you need help, call us right away! Make your year-end tax planning appointment soon because January is our busiest month of the year.

- Increase the amount you set aside for next year in your employer's health flexible spending account (FSA) if you set aside too little for this year. Don't forget you can set aside amounts to get tax-free reimbursements for over-the-counter drugs, such as aspirin and antacids, but keep your receipts!
- 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 2008.
- 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, and then buy back the same securities at least 31 days later. It may be advisable for us to meet to discuss year-end trades you should consider making.
- Postpone income until 2009 and accelerate deductions into 2008 to lower your 2008 tax bill. This strategy may enable you to claim larger deductions, credits, and other tax breaks for 2008 that are phased out over varying levels of adjusted gross income (AGI). These include traditional IRA and Roth IRA contributions, conversions of those traditional IRA's to Roth IRA's, 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. Remember though, that in some cases, it may pay to actually accelerate income into 2008. 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 your traditional-IRA money invested in beaten-down stocks (or mutual funds) into Roth IRAs if you're eligible to do so. Keep in mind, however, that such a conversion will increase your adjusted gross income for 2008.
- It may be advantageous to try to arrange with your employer to defer a bonus that may be coming your way until 2009.
- 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.
- Consider using a credit card to prepay expenses that can generate deductions for this year (don't do this lightly though, as credit card costs often get people into more trouble than they're worth).
- If you expect to owe state and local income taxes when you file your return next year, ask 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 2008.
- Those facing a penalty for underpayment of federal estimated tax may be able to eliminate or reduce it by increasing their withholding.
- You may be able to save taxes this year and next by applying a "bunching strategy" to miscellaneous itemized deductions, medical expenses and other itemized deductions. For example, If you already have high medical bills for this year but do not plan on having as many next year it would be advantageous to get as many medical procedures done before the end of the year such as buying new glasses or dentistry work; however, if you have very little medical this year pushing those purchases into next year could increase your medical deductions for next year.

- Estimate the effect of any year-end planning moves on the alternative minimum tax (AMT) for 2008, keeping in mind that many tax breaks allowed for purposes of calculating regular taxes are disallowed for AMT purposes. This includes 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, deductions should be deferred rather than accelerated to keep them from being lost because of the AMT.
- If you are thinking of making energy saving improvements to your home, such as putting in extra insulation or installing energy saving windows, postpone your move until 2009. A credit of up to \$500 may be available for such improvements if made next year (but not this year).
- Substantial tax credits are available for installing energy generating equipment (such as solar electric panels or solar hot water heaters), in your home. These credits are available whether you spend the money this year or next, but if you're installing solar electric property, and will be spending more than \$6,667, the credit will be larger for expenses made in 2009 rather than 2008.
- If you are thinking of buying a hybrid/electric vehicle eligible for a tax credit, check first to see if it's eligible for the credit, and, if so, purchase it before year-end.
- You may want to pay contested taxes to be able to deduct them this year while continuing to contest them next year.
- Businesses should consider making expenditures they qualify for, up to \$250,000 business property expensing option for assets bought and placed in service this year; the maximum expensing amount will drop to \$133,000 for assets bought and placed in service next year (higher expensing amounts also apply to certain specialized assets). Businesses should also consider making expenditures now that qualify for 50% bonus first year depreciation if bought and placed in service this year. This bonus write-off generally won't be available next year (some exceptions apply, such as for businesses affected by Presidentially declared natural disasters).
- You may want to settle insurance or damage claims now in order to maximize your casualty loss deduction this year.
- If you are self-employed and haven't done so yet, set up a self-employed retirement plan.
- 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 \$12,000 in 2008 to an unlimited number of individuals but you can't carry over unused exclusions from one year to the next.
- If you're thinking of donating a used auto to charity, you may want to inquire whether the charity plans to sell the car or use it in its charitable activities; the latter may yield a bigger deduction for you.
- If you are age 70 1/2 or older, own IRA's (or Roth IRA's), and are thinking of making a charitable gift before year-end, consider arranging for the gift to be made directly by the IRA trustee. Such a transfer can achieve important tax savings.
- If you are receiving Social Security benefits, there are a number of steps you can take to reduce or eliminate the tax on your benefits.
- Consider extending your subscriptions to professional journals, paying union or professional dues, enrolling in (and paying tuition for) job-related courses, etc., to bunch into 2008 miscellaneous itemized deductions subject to the 2%-of-AGI floor.
- Depending on your particular situation, you may also want to consider deferring a debt-cancellation event until 2009, electing to deduct investment interest against capital gains, and disposing of a passive activity to allow you to deduct suspended losses.

THINGS TO BE AWARE OF

- There is a new law on the books. Effective in 2011, merchant account companies, including EBay and PayPal, will be required to report anyone who has sales of over \$20,000 and 200 or more transactions per year. That means that if you have sales that you have not reported in 2011 the IRS can go back seven years and audit your taxes for all years, Make sure you report all transactions – including selling things on EBay.
- The IRS has released a special report that targets sole-proprietors and single member LLC's. If you have one of these entities there is a good chance you will be audited.
- The IRS is openly soliciting anyone who received a 1099, explaining that they can get a tax break by turning in the company. Essentially, they are asking each independent contractor if they believe they should have been

treated as an employee. This opens the company up to a payroll audit with the potential of all independent contractors being re-classified as employees.

- IRS has announced that the standard mileage rate (including vans, pickups or panel trucks), is 55¢ per mile for business travel starting January 1, 2009. That's down 3.5¢ from the 58.5¢ allowance for business mileage in the last six months of 2008. Furthermore, the rate for using your car to get medical care or in connection with a move that qualifies for the moving expense deduction is 24¢ per mile, down 3¢ from the 27¢ per mile allowance for the last half of 2008. Get a mileage log and track your mileage! This is one of the most overlooked tax saving strategies out there.

These are just some of the year-end steps that can be taken to save taxes. Again, by contacting us, we can help tailor a particular plan that will work best for your situation.

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