

A DOZEN THINGS TO DO **NOW** TO REDUCE 2008 TAXES

1. **CHECK ON YOUR NON-RETIREMENT MUTUAL FUNDS NOW!!! DISTRIBUTION DATES ARE COMING!!! AND YOU COULD BE THE VICTIM OF A NASTY TAX HIT!**

You may have a very nasty surprise come tax time if you are currently invested in NON-retirement fund mutual funds. The market crash not only reduced the value of your accounts, but WORSE - fund managers were forced to sell off stock to (a) attempt to minimize losses and (b) have cash to redeem people and institutions selling their fund units back in September and October. *The RESULT = (believe it or not) CAPITAL GAINS on funds that have lost money and YOU HAVE TO PAY THE TAX!!!* Insult added to extreme injury.

This happened back with the dot com crash, too - do you remember? Contact your mutual fund company TODAY via internet access or a phone call to determine the capital gain hit that will ambush you on your tax return. Find out the distribution rate (which may not show until AFTER it is too late) and the date. You may be able to sell ASAP to avoid the distribution. If you DO have to take the capital gain hit, you will be able to add the capital gain to your basis, reducing your ultimate capital gain, or increasing your capital loss when you do sell.

2. TAKE THE \$3,000 CAPITAL LOSS—APPROPRIATE '08 DEDUCTION

Did you lose value on your NON-retirement stock portfolio this year? Of course you did! If you didn't, you need to write a book. Sell some of the losers that will take forever to come back (if you haven't already done so). Losses offset capital gains (use for Tip #1 cap gains problem) AND then you are allowed to take additional losses to offset other kinds of income of up to \$3,000 (and if you have even more losses, those get carried over to 2009). Be careful, though. Make sure you are selling true losers—the original cost basis of the stock (ie what you paid for it including commissions) must be higher than the current selling price to have a true loser. And another caveat - if you are a victim of Alternative Minimum Tax (AMT), this strategy may not work for you since capital losses are not deductible for AMT - yep.

3. FUND YOUR RETIREMENT ACCOUNT - 401k, SEP, KEOGH, IRA

Make sure that you have fully funded your retirement accounts - at least to the amount matched by your employer. Consider a Roth 401k. While not currently deductible, your money will grow tax free - and YES, we have just got to believe that over time, our money WILL grow!

If you have a small solo business, consider establishing a solo 401k plan by the end of the year. You can stockpile more money into a Solo 401k more easily than a SEP. SEPs, however, do not need to be established by year end and require no administration. Neither needs to be funded until the extended due date of the tax return!!!

4. MAKE YOUR STATE ESTIMATED TAX PAYMENT BEFORE DEC 31
Fourth quarter estimated tax payments are due January 15, and state tax estimates are deductible on Schedule A. The catch is - they are deductible in the year that they are paid. So...if you make the state payment on January 15, it is deductible on your 2009 tax return, but if you make it by December 31, it is deductible on your 2008 return. And sadly, this one won't work either in AMT Land.

5. BUY NECESSARY EQUIPMENT FOR YOUR SMALL BUSINESS
If you need a computer or a fork lift or a CNC machine or dynamometer or whatever...buy it before December 31 and it may be fully deductible in 2008 - even if you purchase it on a credit card or with a financing. It can be new OR used. This is a Section 179 election. **Good news for NEW car purchases, 50% bonus depreciation is back, making a new car of any size much more deductible in 2008.** Call us for more details. Bonus depreciation works only for NEW stuff.

6. INVESTIGATE A HIGH DEDUCTIBLE HEALTH PLAN THAT WILL ALLOW YOU TO FUND A TAX FREE (!) HEALTH SAVINGS ACCOUNT
It is probably too late to set up a qualifying high deductible health plan for 2008, but maybe not. A lot of employers offer these plans in lieu of costlier insurance. And most private insurers also offer this option. With a qualifying high deductible plan in place, you can set up a Health Savings Account (HSA) at virtually any financial institution.

You have until April 15 to contribute to the HSA tax deductibly for 2008. If you use the money in the HSA for any medical purpose, it is withdrawn TAX FREE. Best bet - treat it like an IRA and save a lot of money for health needs later in your life. And if you don't live long enough to use the HSA, you can bequeathe it! Call us if you have questions about HSAs.

7. SET UP A MEDICAL REIMBURSEMENT ARRANGEMENT TO DEDUCT HEALTH CARE COSTS "ABOVE THE LINE" (MEANING MORE DEDUCTIBLY THAN ON ITEMIZED DEDUCTION SCHEDULE)
This can be a great tax saving's device for shareholder-employees of C corporations and for the family members of a sole proprietor (does not work so well for S corporations or multi member LLCs/LLPs, if at all - the jury is out). An MRA allows you to have your company pay your medical expenses directly or through reimbursement. The expense is deductible to the company, but not taxable to you. Win/win. It is straightforward for C corporations, but tricky for sole proprietors (your spouse must be on your payroll earning wages). If you would like to explore this strategy, call us ASAP for deductibility in 2008.

EMPLOYEES: If you are COVERED BY AN MSA - turn in your eligible health care receipts before the end of the year!!! Free money!!!

8. USE YOUR FLEXIBLE SPENDING ACCOUNT
If you deferred income in your company's health/dependent care flex spending accounts, make sure you use all of the money set aside that cannot be carried over to the new year—make dentist and doctor appointments now. Get with HR and set up your 2009 deferral while you are at it. And don't forget to take advantage of the distributions allowed by companies like AFLAC for certain health screenings you have had during the year. Money in your pocket! But you've got to put it there.
9. EMPLOYEES-TOTAL YOUR UNREIMBURSED BUSINESS EPXENSES
If your employer EXPECTS you to purchase your own dedicated computer, drive your car between appointments (NOT your commute), belong to certain professional associations, office in your home,

entertain/feed clients and on and on - and does NOT give you an allowance or reimburse you fully, you may be able to take a deduction for those expenses. Mileage rates vary in 2008, but use an average of 56 cents per mile to estimate this deduction. Add up your expenses including mileage and tolls. If they exceed 2% of your income, then the excess is possibly deductible. We will probably have you dig even deeper to make it worth your while. Hint: scour your credit card statement for those expenses. You could be startled at how much you spend. Remember though, taking yourself to lunch everyday...even between client calls...is NOT deductible. Take a client with you - then it's deductible.

10. CONSIDER PAYING YOURSELF A DIVIDEND TO TAKE ADVANTAGE OF THE 15% TAX RATE ON CAPITAL GAINS

This is not a tax reduction strategy. At least, not in the short term. If you have a shareholder loan on your books - C or S shareholders alike (you have *borrowed* money from your company - not the other way around) - consider wiping it clean in 2008 and paying only 15% tax rate. We have heard rumors that the capital gains rate will go up to 20% soon. The IRS hates shareholder loans and even with documentation and good reasons, we have seen shareholder loans disallowed. Take the loan amount into income in 2008, pay the tax at 15% and potentially save yourself 5% in taxes in future years.

11. TEACHERS - ADD UP THOSE CLASSROOM COSTS!

We have the teacher deduction renewed for 2008 and 2009 for teachers who have worked at least 900 hours (that is pretty close to full time). You may take a great deduction for the first \$250 of classroom materials and equipment that you purchased. You need receipts as proof at audit. If you spent more than \$250 (and what teacher did not?) or took continuing education or had other out of pocket expenses, you may deduct those on Schedule A, but the deduction is limited.

AND LAST BUT NOT LEAST (AND MY FAVORITE).....

12. MAKE A CHARITABLE CONTRIBUTION - TAKE YOUR CHOICE AND BE A BLESSING TO SOMEONE DURING THIS HOLIDAY SEASON:

- GIVE MONEY

- ✓ You can use your credit card as long as the date processed is in 2008 (even if you don't pay until January or even later). Or mail checks early because the charity may process your contribution on the date received rather than the date of post mark. For a gift over \$250 at one time - you MUST get a receipt!!!! Your cancelled check is not good enough.
- ✓ To give on line, simply go to your favorite charity's web site - almost all allow you to make a contribution on line with a credit card. Otherwise, try www.guidestar.com .
- ✓ For your friend who has everything, make a contribution in his/her name to his/her favorite charity. It is deductible to YOU.

- CLEAN OUT CLOSETS, GARAGE, KITCHEN AND MAKE A CHARITABLE CONTRIBUTION OF NONCASH GOODS TO GOODWILL OR ARC OR DISABLED VETERANS ETC ETC.

To assure that your contribution is deductible - DOCUMENT it. Take photos, make a list of items along with their original purchase price and their current thrift store value. BE REALISTIC. You can use www.itsdeductible.com as a guide, but remember that the IRS does NOT sanction that web site's valuations. You are now required to have receipts to prove the purchase price. Just be aware of that. Get a signed and dated receipt if your gift exceeds \$250 per trip. Be sure to give us your lists to use in preparation of your tax return.

- GO SHOPPING

Pick up an "angel" ornament in almost any store or mall and buy a gift for someone who really needs a smile. Keep the receipt - it is deductible.

- GIVE AT THE GROCERY STORE/PET STORE CHECK OUT.

Grocery stores and the big box pet stores collect money regularly for a variety of charities throughout the year. It is EASY to simply ask the checker to add a few dollars to your

grocery or pet store purchases AND the gift shows up right on the receipt. Keep the receipt with your tax papers so you don't forget about it. Get in the habit. \$5 a week adds up to \$260 a year. And it is painless.

- **CONSIDER GIVING AWAY THAT OLD CLUNKER CAR (OR BOAT OR TRAILER OR TIMESHARE OR...OTHER BIG THING).**

If you give a car to charity before the end of the year, you could get a big deduction. Here are the rules, briefly. If the charity sells the car at auction, your deduction is the amount the car sold for and the charity will supply you (and the IRS) with a 1099. If the charity will use the car in its mission or gift the car to a needy person, you will get a fair market value deduction and the charity will give you a letter indicating that it will indeed make use of the car itself. Big difference. Shop around to find a charity that can use your car. If it isn't running, how about a school for mechanics?? ☺

- **VOLUNTEER MILEAGE IS DEDUCTIBLE!**

If you drive your car to do volunteer work...your mileage is deductible. Pull together your log showing date, reason, and miles. Don't overlook this deduction! If you drive thousands of miles, have the organization give you a letter thanking you for driving A LOT (have them use your specific amount from your well maintained log). For 2008, the deduction is 14 cents per mile - which doesn't sound like much, but if you drive 1,000 miles (a mere 20 miles a week) driving seniors to doctor appointments (for example), you will have a \$140 deduction.

- **GIVE WITHOUT GIVING A CENT**

For a nondeductible, but ongoing gift, to your favorite charity, look at www.goodsearch.com. Goodsearch will give money to your charity EVERY TIME you do an on line search through Goodsearch. It works! Try it!

See our December 2008 Tax Tome (look on home page) for more information about Charitable Giving, Section 179, and Bonus Depreciation on new assets.

WE HOPE YOU HAVE A LOVELY DECEMBER - FINDING TIME TO ENJOY
FAMILY, FRIENDS, AND YUMMY FOOD WHILE MINIMIZING YOUR
TAXES!