

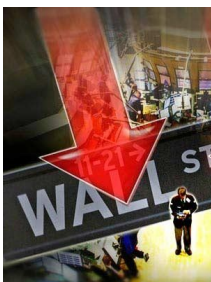
Dear Client's and Friend's:

As we approach year-end, it's again time to focus on last-minute moves you can make to save taxes—both on your 2009 return and in future years. The federal income tax environment is very favorable right now, but may not continue much longer. Review the following money-saving ideas to see which might apply to you. Pay attention to the summary of the just-revised homebuyer credit rules, found at the end of the letter. Call us if you would like to discuss specific strategies.

Make Charitable Gifts of Appreciated Stock. If you have appreciated stock that you've held more than a year and you plan to make significant charitable contributions before year-end, keep your cash and donate the stock (or mutual fund shares) instead. You'll avoid paying tax on the appreciation, but will still be able to deduct the donated property's full value. If you want to maintain a position in the donated securities, you can immediately buy back a like number of shares.



However, if the stock is now worth less than when you acquired it, sell the stock, take the loss, and then give the cash to the charity. If you give the stock to the charity, your charitable deduction will equal the stock's current depressed value and no capital loss will be available. Also, if you sell the stock at a loss, you can't immediately buy it back as this will trigger the wash sale rules, which means your loss won't be deductible, but will be added to the basis in the new shares.



Harvest Capital Losses. If you are sitting on some investments that have dropped in value since you acquired them, now might be a good time to sell part or all of them to cut your tax bill. You can deduct capital losses up to the amount of any capital gains that you'll have for the year. Also, you can claim up to an additional \$3,000 of losses (\$1,500 if you're married but filing a separate return) against your other income. Any losses in excess of these amounts carry over to next year.

If you're selling less than your entire interest in an investment, you can maximize the amount of deductible loss that you realize by telling your broker or mutual fund company to sell the highest basis shares first. In addition, if you think your investments that are currently underwater are poised for a comeback, you can buy them back after taking a loss as long as you don't reacquire them within 30 days before or after the sale.

Take Advantage of 0% Capital Gains Rate before It is Too Late. For 2009, the federal income tax rate on long-term capital gains and qualified dividends is 0% when they fall within the 10% or 15% regular federal income tax rate brackets. This will be the case to the extent your taxable income (including long-term capital gains and qualified dividends) does not exceed \$67,900 if you're married and file jointly (\$33,950 if you're single). This 0% rate will likely continue to apply in 2010, but is scheduled for repeal in 2011.

While your income may be too high to benefit from the 0% rate, you may have children, grandchildren, or other loved ones who can. If so, consider giving them some appreciated stock or mutual fund shares, which they can then sell and pay 0% tax on the resulting long-term gains. Gains will be long-term, as long as your ownership period plus the gift recipient's ownership period is over a year. Giving away stocks that pay dividends is another tax-smart idea. As long as the gift recipient is in the 0% or 15% regular tax rate bracket, the dividends will be federal-income-tax-free.

Watch out though, if during 2009 you give away assets worth over \$13,000 to an individual gift recipient, the excess will generally eat into your \$1 million lifetime federal gift tax exemption and your \$3.5 million federal estate tax exemption. However, you and your spouse can together give away up to \$26,000 per recipient without any adverse effects on your respective gift and estate tax exemptions. Also, if you give securities to someone who is under age 24, the Kiddie Tax rules could potentially cause some of the resulting investment income to be taxed at the parent's higher rates instead of at the gift recipient's lower rates. That would defeat the purpose. Please contact us if you have questions.

Special Tax Break for New Car Purchases in 2009. For 2009, you can deduct state and local sales and excise taxes on purchases of new (not used) passenger autos, pickups, and SUVs, as well as motorcycles and RVs made between 2/17/09 and 12/31/09. The write-off is limited to the amount of taxes on the first \$49,500 of purchase price. You can claim the break whether you itemize or not, and it is allowed even if you owe the AMT. However, a phase-out rule can reduce or completely eliminate the break if your AGI exceeds \$250,000 (\$125,000 if you are single).





Maximize Contributions to 401(k) Plans. Set aside as much as you can on a tax-free basis, especially if your employer makes matching contributions. You give up “free money” when you fail to participate to the max for the match.

Take Advantage of Flexible Spending Accounts (FSAs). You must specify how much of your 2010 salary to convert into tax-free contributions to the plan. You can then take tax-free withdrawals next year to reimburse yourself for out-of-pocket medical and dental expenses and qualifying child care costs. Watch out, though, FSAs are “use-it-or-lose-it” accounts—you don’t want to set aside more than what you’ll likely have in qualifying expenses for the year.

Make Energy Efficiency or Renewable Energy Improvements to Your Home. A great

way to cut energy costs and save up to \$1,500 in federal income taxes this year is to make energy efficiency improvements to your principal residence. Basically, if you install energy efficient insulation, windows, doors, roofs, heat pumps, hot water heaters or boilers, or advanced main air circulating fans to your home during 2009 or 2010, you may be entitled to a tax credit of 30% of the purchase price, up to a maximum credit of \$1,500. For 2009, the credit is allowed against the AMT. However, unless Congress changes the rules, this will not be the case for 2010. If there is any possibility you’ll be subject to AMT next year, you may want to make these improvements this year.



A nonrefundable energy tax credit will help pay for qualified alternative energy equipment such as solar electric systems, solar hot water heaters, geothermal heat pumps and wind turbines. The credit is equal to 30% of what is spent on qualifying property. There is no cap on the amount of the credit except on fuel cell property.

Take Advantage of Temporary Tax Breaks for Equipment and Software Purchases. If your business will be making furniture and/or equipment purchases you might consider doing so before year-end to maximize your 2009 deductions. Here’s why:



- **Bigger Section 179 Deduction.** Your business may be able to take advantage of the temporarily increased Section 179 deduction. Under the Section 179 deduction privilege, an eligible business can often claim first-year depreciation write-offs for the entire cost of new and used equipment and software additions. For tax years beginning in 2009, the maximum Section 179 deduction is \$250,000. However, the allowable deduction is reduced dollar-for-dollar to the extent the amount of qualifying



property placed in service during the year exceeds \$800,000. For tax years beginning in 2010, the maximum deduction is estimated to drop back to about \$134,000, with reductions estimated to begin when more than \$530,000 of qualifying property is placed in service.

- **50% First-year Bonus Depreciation.** Above and beyond the Section 179 deduction, your business can also claim first-year bonus depreciation equal to 50% of the cost (reduced by the Section 179 deduction) of most new (not used) equipment and software acquired and placed in service by December 31 of this year. The 50% first-year bonus depreciation break will expire at year-end unless Congress takes further action.

Maximize the Benefit of the Standard Deduction. For 2009, the standard deduction is \$11,400 for married taxpayers filing joint returns. For single taxpayers, the amount is \$5,700. Currently, it looks like these amounts will be about the same for 2010. If your total itemized deductions are normally close to these amounts, you may be able to leverage the benefit of your deductions by bunching deductions in every other year. This allows you to time your itemized deductions so that they are high in one year and low in the next. You claim actual expenses in the year they are bunched and take the standard deduction in the intervening years.

Bunch Deductions Subject to an Adjusted Gross Income Limit. Miscellaneous itemized deductions are deductible to the extent they exceed 2% of your adjusted gross income (AGI). Medical expenses are deductible only to the extent they exceed 7.5% of AGI. To lessen the effect of these AGI limitations, try to bunch your miscellaneous and medical expense deductions into every other year.

Make Charitable Donations Directly from Your IRAs. If you've reached age 70½, you can arrange to transfer up to \$100,000 of otherwise taxable IRA money to the public charity of your choice (such as your church or other favorite charity). The distribution is federally income tax free. You don't get to claim it as an itemized deduction on your



Form 1040. However, the tax-free treatment equates to a 100% write-off, and you don't have to itemize your deductions to get it. Additionally, since it is tax-free, it may reduce your Social Security benefits subject to tax. Be careful though—to qualify for this special tax break, the funds must be *transferred directly* from your IRA to the charity (you can't receive cash and then donate it). Also, this provision expires at the end of 2009 unless

Congress extends it. So, this could be your last chance.



Don't Take Your Minimum Required Distribution for 2009. The tax laws generally require individuals with retirement accounts to take withdrawals based on the size of their account and their age every year after they reach age 70½. Failure to take a required withdrawal can result in a penalty of 50% of the amount not withdrawn. However, a temporary tax law change made in late 2008, waives the minimum distribution requirement for 2009. This means you can leave the amounts in your account without suffering the 50% penalty. This waiver applies to IRAs and defined-contribution plans, including distributions from 401(k), 403(b), and state-sponsored 457(b) accounts and is available to everyone regardless of their total retirement account balances.

If you haven't already received your required distribution during 2009 and you do not need the funds, you can just leave them in your retirement account for another year. If you have already received the distribution and now wish you hadn't, you may be able to roll the funds back into your retirement account, even if the normal 60-day rollover period has already expired. However, this may require action before 11/30/09. If this situation applies to you, please give us a call.

Don't forget the estate tax. The federal estate tax exemption for 2009 is \$3.5 million. For 2010, the federal estate tax is supposed to be repealed—but just for that one year. It now seems clear that if the promised repeal ever happens at all, it will just be for 2010. The more likely scenario is that we will continue to have a federal estate tax for 2010 and beyond with a \$3.5 million or somewhat larger exemption. Therefore, planning to avoid or minimize the federal estate tax should still be part of your overall financial plan.



Make Annual Gifts to Reduce Your Estate. Whittling your estate down by making annual gifts continues to be a tax-smart strategy. If you have some favorite relatives or unrelated persons, you and your spouse both can give each of them up to \$13,000 this year. These gifts will reduce your estate tax exposure without any adverse gift tax effects. Making multiple gifts over multiple years can dramatically reduce your exposure to the estate tax. So, the sooner you start an annual gifting program, the better.



Capitalize on Depressed Security Values to Boost Giving Power. The current depressed security values may mean that more assets can be transferred within the limits of the gift tax annual exclusion amount (\$13,000 for 2009) and the lifetime applicable exclusion amount (\$1 million). Thus, if a security's value is expected to participate in the economic recovery (and especially if the security is expected to significantly appreciate) this may be the perfect time to give the security to the intended recipients. However, *do not* give away loser shares. Instead, sell the shares, and take advantage of the resulting capital loss, and then give away the cash.

BRAND NEW LAW--*There is a new lease on life for the homebuyer credit!*

The homebuyer credit is extended to apply to a principal residence bought before May 1, 2010 or by a person who enters into a written binding contract before May 1, 2010 and closes before July 1, 2010. In general, a home is considered bought for credit purposes when the closing takes place. So the extra two months (May and June of 2010) help buyers who find a home they like but can't close on it before May 1, 2010.



They can go to contract on the home before May 1, 2010, close on it before July 1, 2010, and get the homebuyer credit (if they otherwise qualify).

- The homebuyer credit may be claimed by existing homeowners who are “long-time residents.” For purchases after November 6, 2009, you can claim the homebuyer credit if you (and, if married, your spouse) maintained the same principal residence for any 5-consecutive year period during the 8-years ending on the date that you buy the subsequent principal residence. For example, if you and your spouse are empty nesters who have lived in your suburban home for the past ten years, you are potentially eligible for the credit if you “move down” and buy a smaller townhome. There's no requirement for your current home to be sold in order to qualify for a homebuyer credit on the replacement principal residence. Thus, the replacement residence can be bought to beat the new deadlines (explained above) before the old home is sold. For that matter, you can hold on to your prior principal residence in the hope of achieving a better selling price later on.
- The maximum allowable homebuyer credit for qualifying existing homeowners is \$6,500 (\$3,250 for a married individual filing separately), or 10% of the purchase price of the subsequent principal residence, whichever is less.
- The homebuyer credit is available to higher income taxpayers. For purchases after November 6, 2009, the homebuyer credit phases out over much higher modified AGI levels, making the credit available to a much bigger pool of



buyers. For individuals, the phaseout range is between \$125,000 and \$145,000, and for those filing a joint return, it's between \$225,000 and \$245,000.

- There's a new home-price limit for the homebuyer credit. For purchases after Nov. 6, 2009, the homebuyer credit cannot be claimed for a home if its purchase price exceeds \$800,000. It's important to note that there is no phaseout mechanism. A purchase price that exceeds the \$800,000 threshold by even a single dollar will cause the loss of the entire credit. The new purchase price limitation applies whether you are buying a first-time principal residence or whether you are a qualifying existing homeowner purchasing a replacement principal residence.

Call us at 858.481.7702 if you would like to discuss specific strategies.

