CLIENT REPORT

2009 Year-End Tax Planning

Dear Client:

Once December 31st has come and gone, your tax liability for the 2009 tax year will be set in stone. Until then, and especially now that your final tax picture for 2009 is becoming more clear, year-end tax planning presents a unique last chance to lower your tax bill. It is an investment in time well worth considering.

By taking certain steps now, before 2009 draws to a close, you can reduce the size of your tax bill otherwise due when you file your return next year. Especially this year, when Congress has inserted a handful of powerful but temporary tax breaks to get the economy moving again, you do not want to overlook any deduction or credit that you can take in 2009 to lower this year's tax bill. Managing what income you recognize or defer also can pay dividends as you focus on balancing your tax rates between 2009 and 2010, and beyond, with tax reform on the horizon.

Year-end tax planning is made more urgent in 2009 because of some significant tax law changes, both those that have taken place to stimulate the economy and those now on the horizon to pay for the recovery.

Many of the tax breaks in recent stimulus tax bills will expire at the end of this year. At this point, Congress cannot be counted on to extend any of them for 2010:

- For individuals, these expiring provisions include the itemized state and local sales tax deduction, the $4,000 higher education tuition deduction; the additional standard deduction for real property taxes; and the above-the-line $250 teachers' classroom expense deduction.
- For businesses, bonus depreciation and enhanced "section 179 expensing," both designed to temporarily encourage business to make capital investments, likely will be headed for extinction at the end of 2009.

These are examples of the tax incentives set to expire. There are many more. As a result, accelerating qualifying expenses into 2009 to take advantage of these incentives, rather than incurring them early in 2010, may make a significant difference in your overall tax bill.

What is on the horizon, for 2010 and beyond, is also crucial to effective year-end tax planning this year.

- In 2010, the opportunity to convert any IRA into a Roth IRA without the long-time $100,000 income restriction has many individuals already setting aside funds. Some individuals, however, may do better to convert to a Roth IRA before the end of 2009, when the value of their accounts, and the consequential income that must be recognized on conversion, are at historic lows.

- Effective for 2011, the Obama administration has proposed to increase the income and capital gains tax rates on single individuals with incomes of more than $200,000 and married couples with incomes exceeding $250,000. For taxpayers in those groups, including unincorporated small businesses from which their owners recognize income on their individual returns, following the traditional year-end planning maxim of deferring income into next year may not work well this year. Deferring too much income into 2010 could result in overloading income next year if you are looking to accelerate income into 2010 to escape the expected higher rates in 2011.

Year-end tax planning is not only about what is happening in Congress and at the IRS. Addressing the changed circumstances in your life has always been a large part of year-end tax planning. What you planned for at the beginning of 2009 may not be what you are faced with now. Changes in your employment status, family, investments, or retirement plans raise new tax issues:

- Self-employment, severance pay, sign-on bonuses, stock options, moving expenses, and COBRA health benefits, to name a few employment-related events, all present unique challenges.
- In your personal life, marriage, divorce, a larger family, and child care or eldercare expenses arising in 2009 can impact your tax situation.
- Investments, too, generally benefit from year-end tax strategies. You can take steps to balance out gains and losses. You also should take a year-end tally of dividends and interest to make certain that are paying the correct estimated tax.

Working to rebuild a retirement nest egg through maximizing deductible 2009 contributions, and making certain that rollovers from former employers are done correctly, should also be a top priority at year end 2009.

A special word about losses, especially as this difficult year draws to a close. Matching losses with gains is not necessarily a simple task in the tax law. Different rules apply to different losses. Losses can be ordinary losses, passive losses, at-risk losses, capital losses, hobby losses, casualty losses, gambling losses, or Code Sec. 1231 losses. Knowing the differences and acting before year-end to match them correctly can mean significant tax savings.

Planning for deductions and credits at year-end can also get complex but can be equally as rewarding. Timing and qualification rules create traps and opportunities:

- Pre-paying certain expenses, such as real estate taxes or mortgage interest, do not necessarily translate into a larger deduction this year.
- Paying a spring college tuition bill in late December instead of early January, however, can impact whether you maximize the benefit of the new American Opportunity Tax Credit for both 2009 and 2010.
- Year-end charitable giving generally has always been a smart way to reduce current year taxes but strict timing rules and revised substantiation requirements for property donations cannot be overlooked.
- Homeowners should also not ignore taking advantage of the new residential energy property credit, which has a unique set of rules on qualifying expenses and deadlines for installations.

Especially during 2009 -- a year of tumultuous change for our economy and our tax laws -- this office considers a year-end tax checkup an essential service for our clients. If you would like more information on any of the planning strategies described in this letter, or if you would like to explore how year-end tax planning can be customized to your individual circumstances, please call this office.

Sincerely yours,

MAS Advisory Services, Inc.