CLIENT REPORT:
2009 Planning: Tax Issues for Higher-Income Individuals

Dear Client:

You have worked hard for your money and you would like to reap the benefits to the greatest extent possible. Your ultimate goal is to sustain a successful wealth-building strategy while avoiding unnecessary and expensive tax consequences. You will be happy to know that we are willing and able to help you achieve these objectives.

For instance, did you know that if you contribute highly appreciated stock shares instead of cash to your favorite qualified charity, you are able to take a deduction for the stock's fair market value, and avoid paying taxes on the unrealized capital gain? The cash you save could be used to buy new shares of the contributed stock, effectively accomplishing a step-up in basis. Or if you wish, you could use the money to invest in other stocks or mutual funds, and rebalance your investment portfolio.

Have you considered swapping your investment property for another of a "like-kind?" You may be able to transfer your old basis to the new property, and defer any gain you may otherwise realize had you sold the property outright. For transfers occurring on or after March 10, 2008, you may even exchange a vacation property that you occasionally use for personal purposes, if you follow specific "qualifying use" standards.

This past year has been a busy one for legislation; consequently, there are several tax incentives that are available only through the 2009 tax year:

- An additional $500 exemption per displaced individual housed, up to a maximum of $2,000 over the 2008 and 2009 tax years, is available if you provide free housing to individuals displaced by the Midwestern disaster area storms.
- There is no required minimum distribution for 2009 from individual retirement plans.
- Qualified individuals with small business income may base their estimated tax payments on 90 percent of the prior year's tax liability. The qualified individual's AGI for the preceding tax year must be less than $500,000 (or $250,000 for a married person filing separately) and more than 50 percent of the preceding tax year's gross income must be from a business which employed less than 500 employees.
- The percentage exclusion for qualified small business stock sold by an individual is increased to 75 percent for stock acquired after February 17, 2009 and before January 1, 2011. This results in a reduction in the effective tax on the entire gain to seven percent of the regular tax and 12.88 percent under alternative minimum tax (AMT).
- Qualified charitable distributions from a traditional or Roth IRA of up to $100,000 per individual IRA owner (up to $200,000 for married individuals filing jointly) are excluded from gross income, and are not taken into account in determining the limit on charitable deductions. Qualified charitable distributions must be made directly by the IRA trustee to eligible organizations, and they are not deductible as a charitable contribution.

Although these are just a few examples, there are many more that you should consider. However, as you can imagine, there are complex rules that must be followed in order to perfect these types of transactions. We'd like to meet with you to discuss the options that are best suited to meet your personal financial goals, while minimizing your tax liability. Please contact our office at your earliest convenience to make an appointment.