

December 15, 2008

Dear Client:

Now is a great time to think of planning moves that will help lower your tax bill this year and possibly next.

Congress has made several tax changes this year including:

- created a new tax credit for first-time homebuyers,
- created a new deduction for property tax for non-itemizers,
- extended the option for those over age 70 ½ to direct their required minimum distribution to a qualified charity, and possibly save Federal tax dollars by not reporting the distribution as income,
- provided an option for those over age 70 ½ to NOT take a required minimum distribution for the year 2009,
- extended for 2008 tax breaks for businesses such as a beefed-up expensing option and a 50% bonus first-year depreciation write-off for most machinery and equipment placed into service this year and a reinstated research credit, and
- reinstated residential energy credits for 2009 – but not for 2008 so you may consider putting off some of the home improvements until 2009.

We have compiled a checklist of actions based on current tax rules that may help you save tax dollars - if you act before year-end:

- 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, then buy back the same securities at least 31 days later.
- If you believe congress will increase taxes on long-term capital gains and dividends, you may want to recognize those gains in 2008 or early 2009. Under current law, long-term capital gains are taxed at a maximum rate of 15%, but taxed at 0% if you are in the lowest two tax brackets (10 or 15% ordinary income tax brackets). These rates are already scheduled to increase to 20% maximum rate and 10%, if you are in the lowest tax brackets, beginning in 2011. (Note: when selling property that has been depreciated, higher rates apply to the extent the gain reported is from the depreciation taken.)

- 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 traditional-IRA money invested in beaten-down stocks (or mutual funds) into Roth IRAs if eligible to do so.
- You may be able to save taxes this year and next by applying a bunching strategy to your itemized deductions if your deductions are close to the standard deduction. By “bunching” property taxes, state & local estimated tax payments, mortgage interest payments, charitable contributions, and “miscellaneous” itemized deductions into one year, and itemizing for a larger deduction, then the following year when your itemized deductions are low, you can take advantage of the standard deduction.
- Cut your energy bills and your taxes with a geothermal heating system. A new geothermal tax credit allows for a tax credit of 30% of the cost of a residential geothermal heat pump system, up to a maximum credit of \$2,000. The commercial building geothermal tax credit is 10% of the cost with no cap. The residential geothermal tax credit is retroactive to January 1, 2008, while the commercial tax credit is effective after October 3, 2008.
- 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 receiving Social Security benefits, there are a number of steps you can take to reduce or eliminate tax on your benefits. One example would be allowing a required minimum distribution from an IRA to be sent directly to a charitable organization. Another example, for those under age 70 ½ with an earned income, would be to fund a traditional IRA. And yet another strategy would be to recognize losses in your investment portfolio by selling those securities before year-end. Please note that these strategies will not work for everyone receiving Social Security benefits.

These are just some of the year-end steps that can be taken to save taxes. If you have any questions about how these strategies may apply to you, please call us at 616-456-6464. We can tailor a particular plan that will work best for you.

Best wishes for a blessed Holiday Season and a healthy and prosperous 2009!

Very truly yours,

Culver, Wood & Culver, CPAs