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Happy holidays! As in prior years, I've prepared a tax letter that I hope will help you with tax planning and make you aware of recent changes. The following sections are included:

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There are many more tax changes than I have included in this tax letter. I focused on those that are most likely to affect you. While many of the items in the Tax Highlights and Planning Strategies pages are similar to prior years, I wanted to direct your attention to the following:

- 1) If your taxable income (income after deductions) is below \$34,000 (\$68,000 if married), you should consider either a Roth conversion or realizing long-term capital gains as a way to report higher income in 2008 without paying much (or in some cases any) additional tax (see item 6d under Investment Strategies on page 5).
- 2) The "Kiddie Tax" rules have changed (i.e. tax on investment income of children and other dependents). See Income Earned by Children on page 4. This limits realizing long-term capital gains in children's investment accounts at a 0% tax rate.
- 3) If you "bunch" your itemized deductions (i.e. itemize every other year and claim a standard deduction in the "off years"), you need to be aware that there is a new "Property Tax Deduction for Non-Itemizers" (see bottom of this page). If this is your "off year," I recommend paying \$500 of your property taxes before December 31st (\$1,000 if you are married filing jointly) so you can claim the higher standard deduction. As a side benefit, you will also receive part of the Wisconsin property tax credit (otherwise foregone in your "off year").
- 4) If you had storm/flood/tornado damage to property this year, most likely you will benefit from the disaster relief tax breaks enacted in October 2008 (see item 3 on page 2). You will need to calculate the amount of your loss, less any insurance proceeds. Also, if you or your child attends a school in a Midwest federally declared disaster area (which includes schools in most of the southern half of Wisconsin, and many other areas in nine other Midwest states), note the expanded Hope and Lifetime Learning Credit (see items 8a and 8b on page 6).

What's New for Federal Taxes?

- 1) February 2008 – Economic Stimulus Act of 2008:
 - Tax rebates (maximum \$600 per taxpayer + \$300 per child under age 17; phased out at a rate of 5% of adjusted gross income above \$75,000 (\$150,000 for joint returns)). *Note: Rebate checks were based on 2007 tax returns, but reconciliations are required with 2008 returns. If a larger rebate is due because of lower 2008 income or additional children in 2008, then an additional rebate credit will be claimed on the 2008 tax return.*
 - Section 179 limit (for expensing business equipment in the year of purchase in lieu of depreciation over multiple years) is increased to \$250,000 for 2008.
 - Additional first-year depreciation ("50% bonus depreciation") for 2008, except for real estate.
- 2) July 2008 – Housing Assistance Tax Act of 2008:
 - New "Property Tax Deduction for Non-Itemizers" (for 2008; extended to 2009 and future years via the October 2008 tax act). Taxpayers who do not itemize can increase their standard deduction by up to \$500 (\$1,000 if married filing jointly) of real estate taxes paid during the year.
 - New "Homebuyer Credit," which would be more appropriately called an "interest free government loan" since repayment is required (over 15 years via a "credit recapture" starting on the tax return in the second year after purchase; and if the home is sold or no longer used as a primary residence,

any remaining credit balance must be repaid on the tax return in the year of sale). Up to a \$7,500 refundable tax credit (not to exceed 10% of home price) is allowed for home purchase on or after April 9, 2008 and before July 1, 2009, and only for a “first-time homebuyer” (individual who did not own a home during the 3-year period prior to date of purchase). The credit phases out for taxpayers whose gross income is \$75,000 - \$95,000 (\$150,000 - \$170,000 if married filing jointly).

- Rental/Vacation home conversion “loophole” is closed. Prior to 2009, a rental/vacation home could be converted into a primary residence, and then once the 2-year period as a primary residence was satisfied (specifically 2 years of the last 5 years prior to sale), the owner could sell the property and exclude up to \$250,000 of gain (\$500,000 if married), except for any depreciation deduction since May 6, 1997. Starting in 2009, the owner will have to prorate and report the gain due to “nonqualified” use. The definition of “nonqualified” use is interesting – it does not include rental/vacation home time before 2009 (this time counts as “qualified”). And it does not include time after the home is used as a primary residence - up to 3 years (this also counts as “qualified” time) or any period of time the owner is temporarily absent for reason of change in place of employment, health or unforeseen circumstances (no matter how the property is used during the absence). Based on the government’s definition of “nonqualified” use, it will take years before this law will have much impact on the amount of taxable gain from sale of “converted properties.”
- 3) October 2008 – Emergency Economic Stabilization Act of 2008 (including the Tax Extenders and AMT Relief Act of 2008 and the Energy Improvement and Extension Act of 2008):
- Many expiring tax provisions were extended to 2008 and 2009, including deductions for tuition, state and local sales tax, and educator’s classroom expenses, and charitable transfers from IRAs.
 - For 2008, the higher AMT exemption was reinstated and certain credits can be used to offset AMT.
 - Foreclosure Debt Relief: Per a tax law passed 12/20/07, debt discharged on a principal residence in 2007, 2008 and 2009 (up to \$2 million) is not taxable income. This was extended to 2010 – 2012.
 - Federally declared disaster relief: Special treatment of “casualty losses” (damage, destruction or loss of property) – entire loss is deductible as either an addition to the standard deduction or an itemized deduction (not reduced by 10% of adjusted gross income as for non-disaster casualty losses). And specifically for “Midwest Disaster Relief” (counties in 10 states impacted by severe storms and flooding, including all counties in the southern half of Wisconsin (except for Lafayette County) that were declared disaster areas effective 6/5/08), the following tax breaks were passed:
 - a) Up to \$100,000 penalty-free early withdrawals from retirement plans and IRAs to individuals living in the Midwest disaster area who sustained a loss. Withdrawals are included in income over 3 years, or can be re-contributed during the 3 years after the withdrawal.
 - b) Additional \$500 exemption may be claimed by anyone who provided free housing for 60 or more consecutive days to a person displaced in the Midwest disaster area. This is limited to a maximum \$2,000 for four people housed, and also applies in 2009.
 - c) The charitable mileage rate (for use of a personal vehicle while performing services related to the Midwest disaster for a charitable organization) is 36¢ through June 2008, and 41¢ for July – December 2008.
 - d) Expanded Hope & Lifetime Learning Credit for 2008 and 2009 for students attending a post-secondary school located in one of the Midwest disaster area counties (e.g. UW-Milwaukee, Madison, Whitewater, etc.). Note that the key is the school’s location, not where the student (or the parent) lives. For students of these schools, the maximum Hope Credit is 100% of the first \$2,400 of expenses and 50% of the next \$2,400 of expenses (versus 100% of the first \$1,200 and 50% of the next \$1,200). The maximum Lifetime Learning Credit is 40% of up to \$10,000 of expenses (versus 20%). Plus the definition of expenses is expanded to include books, supplies and room & board (versus just tuition). Room & board is the greater of actual expenses or an allowance (see footnote ** under 8b on page 6).
 - Refundable AMT credit expanded for 2008 and future years. A prior law (December 2006) allowed taxpayers to claim a portion of their “long-term (more than 3 year) unused minimum tax credit” (LUMTC) starting in 2007. LUMTC is created when AMT is paid because of “timing differences,” for example, due to exercise of Incentive Stock Options or depreciation. The prior law was limited (many people with LUMTC could not claim the credit because of an income phase-out, and only 20% of the LUMTC could be claimed each year). For 2008 and future years, the income phase-out is eliminated and the credit is 50%, so refunds of these long-term unused minimum tax credits will be much easier to claim.

What's New for Wisconsin Taxes?

- Beginning in 2008, Wisconsin no longer taxes Social Security benefits. In prior years, Wisconsin taxed up to 50% of Social Security benefits.
- Beginning in 2009, Wisconsin exempts from income the first \$5,000 of IRA or retirement plan withdrawals for individuals over age 65 if their federal adjusted gross income is below \$15,000 (\$30,000 for married individuals filing jointly).
- Beginning in 2009, Wisconsin allows a subtraction from income for child and dependent care expenses (the same expenses as used for the federal credit). The subtraction is \$750 for one child and \$1,500 for two or more children in 2009, and the amount doubles in 2010, triples in 2011 and quadruples in 2012 and future years.

Tax Highlights for Individuals

Rates: Tax rates remain the same except for increases in income levels for inflation, as shown below:

Federal Tax Rate	10%*	15%*	25%**	28%**	33%**	35%**
2008 Taxable Income:						
Single	\$0-\$ 8,025	\$ 8,026-\$32,550	\$32,551-\$ 78,850	\$ 78,851-\$164,550	\$164,551-\$357,700	>\$357,700
Head of Household	\$0-\$11,450	\$11,451-\$43,650	\$43,651-\$112,650	\$112,651-\$182,400	\$182,401-\$357,700	>\$357,700
Married	\$0-\$16,050	\$16,051-\$65,100	\$65,101-\$131,450	\$131,451-\$200,300	\$200,301-\$357,700	>\$357,700
2009 Taxable Income:						
Single	\$0-\$ 8,350	\$ 8,351-\$33,950	\$33,951-\$ 82,250	\$ 82,251-\$171,550	\$171,551-\$372,950	>\$372,950
Head of Household	\$0-\$11,950	\$11,951-\$45,500	\$45,501-\$117,450	\$117,451-\$190,200	\$190,201-\$372,950	>\$372,950
Married	\$0-\$16,700	\$16,701-\$67,900	\$67,901-\$137,050	\$137,051-\$208,850	\$208,851-\$372,950	>\$372,950

* Except 0% rate on qualified dividends and long-term capital gains (for 2008 – 2010).
 ** Except 15% rate on qualified dividends and long-term capital gains.

Personal Exemption: \$3,500 subtraction from income for yourself and each dependent (\$3,650 for 2009). For 2008, up to 1/3 of personal exemptions can be phased-out (once income exceeds \$159,950 (single), \$199,950 (head of household) and \$239,950 (married)). Personal exemptions do not apply for AMT. New for 2008 and 2009 – an additional \$500 exemption may be claimed (in either or both years) if you provided free housing for 60 consecutive days to a person displaced in the Midwest disaster area (almost all counties in the southern half of Wisconsin), limited to \$2,000 per year for four people housed.

Standard or Itemized Deduction: You are allowed to subtract from taxable income the higher of your “standard deduction” or itemized deductions (primarily state income taxes, real estate taxes, mortgage interest and charitable donations). Itemized deductions begin to phase-out once income exceeds \$159,950 (\$166,800 for 2009), but note that the phase-out occurs at a much slower rate than in prior years. The standard deductions are as follows:

	Married	Head of Household	Single	Extra for Age 65 or Blind	Dependent
2008	\$10,900	\$8,000	\$5,450	\$1,050 married; \$1,350 single	\$900
2009	\$11,400	\$8,350	\$5,700	\$1,100 married; \$1,400 single	\$950

New – standard deduction is increased by the following:

- + \$500 (single) or + \$1,000 (married) for real estate taxes paid during the year (beginning 2008)
- + property loss in Midwest disaster (not compensated by insurance or otherwise) (2008 & 2009 only)

Social Security: No change in Social Security (6.2%) and Medicare (1.45%) tax rates. The rate for self-employed persons remains 15.3% (i.e. (6.2% + 1.45%) x 2). Social Security taxes are paid on the first \$102,000 of earnings in 2008 (\$106,800 in 2009). If you are already collecting Social Security, the federally taxable portion of your Social Security benefits depends on the level of your other income (up to 85% may be taxable). Wisconsin no longer taxes Social Security benefits (starting 2008).

Child Tax Credit: The child tax credit remains \$1,000 per qualifying child under age 17. The credit is gradually phased-out once income exceeds \$110,000 (\$75,000 if single or head of household) at a rate of \$50 per \$1,000 of extra income (so for a married couple with two children, the \$2,000 total credit is lost once income exceeds \$150,000).

Income Earned by Children:

- a) If the child is a dependent:
- No tax on first \$900 of investment income in 2008 (increased to \$950 in 2009)
 - If the child has wages, up to \$5,450 is tax-free (\$300 investment income + up to \$5,150 of wages); increased to \$5,700 for 2009
- b) Kiddie Tax (new rules for 2008 and future years):
The portion of investment income (interest, dividends, capital gains) **that exceeds \$1,800** (\$1,900 for 2009) is taxed at the **parent's tax rate** if one of the following applies:
- 1) Child is under age 18
 - 2) Child is 18 at year-end and didn't have earned income (i.e. wages) >50% of the child's support
 - 3) Child is 19-23, a full-time student, and didn't have earned income >50% of the child's support
- Caution – a child who is not a dependent can still be subject to the Kiddie Tax. One example would be a child who is 18 (or a 19-23 year old student), and who provides >50% of their own support but it is from investment income (not from wages).*

Mileage Rates:	<u>Business</u>	<u>Medical & Moving</u>	<u>Charitable</u>
Jan. – June 2008	50.5¢	19¢	14¢ (36¢ for Midwest disaster-related)
July – Dec. 2008	58.5¢	27¢	14¢ (41¢ for Midwest disaster-related)
2009	55¢	24¢	14¢

Planning Strategies

- 1) **Itemized Deductions:** To increase your itemized deductions, consider the following:
- a) You can deduct up to 13 months of mortgage interest. Consider making your January mortgage payment early (by December 31st). Be sure your payment reaches your lender before December 31st and that they include the interest on Form 1098 for 2008.
 - b) Pay your real estate taxes by December 31st. (See page 1 regarding “bunching”)
Note: Paying property taxes does not reduce your federal tax if you are subject to AMT, but there is still a state benefit - the first \$2,500 paid each year gives you a \$300 Wisconsin tax credit.
 - c) If you pay estimated taxes quarterly, pay your 4th quarter state amount (due January 15th) by December 31st. *Note: Does not help reduce federal tax if you are in AMT.*
- 2) **Alternative Minimum Tax:** Not much has changed from 2007. If you paid AMT in 2007 and your 2008 income and deductions are about the same, you will pay about the same amount of AMT in 2008. AMT mainly impacts taxpayers with income between \$150,000 and \$400,000, especially people with high property and state income taxes (not deductible for AMT), and numerous dependents (no personal exemptions for AMT). What can you do to minimize AMT? Avoid doubling up on real estate tax payments (if you pay your real estate taxes in December, continue this pattern; same if you normally pay your taxes in January). Similarly, if you pay your 4th quarter state estimated taxes before December 31st, do so again (but if you paid in January 2008, delay your payment until after January 1st again this year). We will see if any permanent tax changes are passed in 2009 to reform AMT.
- 3) **Charitable Donations:** Charitable contributions mailed or charged by December 31st are deductible in 2008. Laws passed in 2006 require a bank record or written communication from the charity showing the donation amount and date for all donations under \$250, and both a bank record and written communication for donations to any charity of \$250 or more on a single day. For donations done through payroll (like United Way), keep something from the employer showing the payroll deduction (i.e. year-end pay stub) and a pledge card or document prepared by the charity. As always, the value of any goods or services received must be subtracted from the donation (i.e. girl scout cookies, item purchased at auction, etc.). Non-cash donations over \$5,000 (except publicly traded stock) require a written appraisal. Car or boat donations over \$500 are limited to the amount reported by the charity on Form 1098-C (which must be sent to the IRS with the tax return).

4) Pre-Tax Medical Savings Plans: If you participate in a medical savings plan at work where you “use it or lose it,” remember that many over-the-counter items can be reimbursed under these plans. If you have money left over at year-end, don’t forfeit it. Ask your company for a list of items you can buy. You get about a 1/3 discount (depending on your tax bracket) for purchases through the plan.

5) Health Savings Accounts (HSA): If you have a high deductible health insurance plan (i.e. an annual deductible of at least \$1,100 (\$2,200 family)), you can contribute to an HSA. Contributions are limited to \$2,900 for individuals and \$5,800 for families (\$3,000 and \$5,950 for 2009). Individuals age 55 or older can contribute an extra \$900 (\$1,000 for 2009). The deadline is April 15th of the following year. Contributions cannot be made after age 65, but withdrawals after age 65 continue tax-free. Wisconsin still does not recognize HSAs (contributions are added back to determine state income).

6) Investment Strategies:

- a) In your taxable accounts (not IRA or retirement plans), consider selling losing investments before year-end so that you can deduct the loss in 2008. Gains and losses are first netted, but if the net result is a loss, you are allowed to deduct up to \$3,000 (\$500 for Wisconsin) against ordinary income. Any excess loss is carried over to future years. A popular year-end strategy is to sell stocks or mutual funds where you have losses and buy similar (not the same) stocks or funds to maintain your position. If you buy back the same exact investment within 30 days of sale (including reinvestment of distributions), your loss will be limited under the “wash sale” rules.
- b) In your taxable accounts, be careful of large investments in mutual funds late in the year. You may wind up paying tax on a large distribution (in effect, part of your principal is returned to you and taxed as income). Before a large December investment, check if a distribution is still planned. If the income would be significant, consider waiting to invest until after the dividend record date.
- c) If you are in the 25% or higher tax bracket, consider tax-exempt investments (for example, a tax-exempt money market fund) to increase your after-tax return.
- d) If your 2008 taxable income (income after subtracting deductions) is below \$34,000 (\$68,000 if married), consider increasing your taxable income (especially if your deductions exceed your income, which in effect wastes your deductions). The following are two alternatives:
 - Consider a Roth conversion (i.e. converting some or all of your Traditional IRA into a Roth IRA). This is allowed if your AGI (adjusted gross income) is below \$100,000. Conversions are especially attractive now because of stock market declines, since the amount taxed as income is the value at the time you convert (and subsequent income/gains in your Roth are tax-free).
 - Because of the 0% tax rate on long-term capital gains realized in 2008 – 2010 (to the extent your taxable income is below the 25% federal tax bracket), it may make sense to realize gains if you qualify for the 0% rate. Caution: Children whose income is subject to the “Kiddie Tax” (see “Income Earned by Children” under “Tax Highlights”) do not benefit from the 0% rate.
 - Please call if you would like to discuss whether either of these strategies is appropriate for you.

7) Education Savings:

- a) Section 529 plans (such as EdVest in Wisconsin) are one alternative for education savings. Earnings are not taxed if the money is used to pay for education costs. There is no federal tax deduction for contributions, but parents, grandparents, aunts, uncles and great-grandparents receive a Wisconsin tax deduction on up to \$3,000 of EdVest contributions per child per year (or for yourself or your spouse), saving about \$200 in state taxes for each \$3,000 contribution.
- b) Another alternative is a Coverdell Education Savings Account (CESA). The annual contribution limit remains \$2,000, but is further limited if your joint income is over \$190,000 (\$95,000 for single taxpayers). However, other family members (including your child) can contribute to the CESA if the parents’ income is too high. CESA contributions can be made as late as April 15th of the next year. There is no tax deduction, but earnings are tax-free if the money is used to pay education costs.
- c) Before depositing money into education accounts, be sure to first take full advantage of IRAs and retirement plans since this is better for taxes and financial aid. If you save enough for retirement, you will be in excellent financial shape and can help your child with college costs, but there are no “student loans” for retirement. Contribute to Roth IRAs if you are eligible. You can withdraw Roth contributions at any time, without tax or penalties, so you can always use Roths for college costs.

8) Tuition: Review tuition paid this year and expected for next year (including tuition paid using loans). Shifting payments between years may allow you to take advantage of one of the following tax breaks:

- a) Federal Hope Credit* (for Freshman & Sophomore tuition only):
- Up to \$1,800 tax credit (100% of first \$1,200 of tuition paid + 50% of next \$1,200)
 - For 2008 & 2009 only, up to \$3,600 tax credit for schools in Midwest disaster counties (100% of first \$2,400 expenses + 50% of next \$2,400 expenses; expenses include tuition, books, supplies and room & board**)

- b) Federal Lifetime Learning Credit*:
- Up to \$2,000 tax credit (20% of first \$10,000 of tuition paid)
 - For 2008 & 2009 only, up to \$4,000 tax credit for payments to schools in Midwest disaster counties (40% of first \$10,000 tuition, books, supplies and room & board**)

**Both of the above credits are phased-out in 2008 for married filers with income between \$96,000 - \$116,000 (\$48,000 - \$58,000 all others). Choose between the Hope and Lifetime Learning Credit for each student.*

***Room & board is the greater of actual costs assessed by the institution or the amount published by the institution as an allowance for room & board in their cost of attendance (typically found on the school's website). Unless a child's room & board is unusually high, use the institution's room & board allowance.*

- c) Federal Tuition Deduction (amount is a total, not per student):
- \$4,000 tuition deduction if income is \$65,000 or less (\$130,000 or less for married filers)
 - \$2,000 tuition deduction if income is \$65,001 - \$80,000 (\$130,001 - 160,000 for married filers)
- Tuition deduction is only available for students for whom no Hope or Lifetime Learning Credit is claimed.*
- d) Wisconsin Tuition Deduction: Up to \$5,114 state tuition deduction per student (\$6,000 for 2009) if income is \$50,000 or less (\$80,000 or less for married filers)

Deduction is reduced if income is \$50,000 - \$60,000 (\$80,000 - \$100,000 for married filers).

Only tuition paid to a Wisconsin post-secondary school (or Minnesota school under reciprocity) qualifies.

Keep in mind that a tax credit is usually much more valuable than a deduction (since a \$100 tax credit reduces your taxes by \$100, while a \$100 deduction saves you only \$10 - \$35, depending on your tax bracket). Also, you can't claim a credit or deduction for tuition paid out of a Coverdell Education Savings Account or Section 529 plan (that would be "double dipping").

9) Retirement Contributions:

a) The chart below shows contribution limits by year for IRAs and various plans.

	IRAs		401(k), 403(b), 457 Plans		SIMPLE Plans	
	< Age 50	Age 50+	< Age 50	Age 50+	< Age 50	Age 50+
2008	5,000	6,000	15,500	20,500	10,500	13,000
2009	5,000	6,000	16,500	22,000	11,500	14,000

b) The income limits for allowing IRA contributions are as follows:

	<u>Joint Taxpayers</u>	<u>Single/HOH Taxpayers</u>
Roth IRA for 2008	\$159k - \$169k phase-out	\$101k - \$116k phase-out
Roth IRA for 2009	\$166k - \$176k phase-out	\$105k - \$120k phase-out
Traditional IRA - deductible:		
No employer plan	Always allowed	Always allowed
Covered by employer plan:		
For 2008	\$85k - \$105k phase-out	\$53k - \$63k phase-out
For 2009	\$89k - \$109k phase-out	\$55k - \$65k phase-out
Spouse has employer plan:		
For 2008	\$159k - \$169k phase-out	NA
For 2009	\$166k - \$176k phase-out	NA
Traditional IRA – nondeductible	Always allowed	Always allowed

c) Remember that IRA contributions are only allowed to the extent of earned income (wages and self-employment income). It's fine if only one spouse earns the income; both individuals can contribute to an IRA to the extent of joint income. Children can contribute to IRAs if they have earnings (there is no minimum age). If you are age 70½ or older at year-end, you can contribute to a Roth IRA but not a Traditional IRA. You have until April 15th to make IRA contributions for the prior year.

- d) If you are self-employed, consider a SEP IRA, SIMPLE IRA or single-person 401(k). SEPs can be set up even after December 31st (not SIMPLE and 401(k) plans). Funding can be as late as April 15th (or later with an extension). Except for corporations, contributions are based on net business income, therefore your exact contribution limit is determined when I prepare your return.
- e) If your employer allows you to contribute to Roth 401(k) accounts (versus pre-tax contributions), I recommend taking advantage of Roth accounts under two scenarios: 1) If you think you are likely to be in a higher tax bracket in the future (either because your income will be higher or tax rates rise, or 2) if you already have significant pre-tax retirement savings and want to diversify from a tax perspective. Please call me if you want to discuss your particular circumstances.
- f) Taxpayers whose income exceeds \$100,000 are currently not allowed to convert Traditional IRAs into Roth IRAs. *Note: Starting in 2010, the \$100,000 income limit is eliminated.*
- g) For defined contribution plans, the maximum contribution (employee + employer) is the lesser of 25% of compensation or \$46,000 (\$49,000 for 2009). Individuals age 50 or older are allowed \$5,000 more (\$5,500 for 2009). "Compensation" is capped at \$230,000 (\$245,000 for 2009).
- h) There is a "saver's credit" on the first \$2,000 of contributions to IRAs and employer plans. The credit reduces federal tax at various rates depending on income, as shown in the table below:

<u>Married</u>	<u>Head of Household</u>	<u>Single</u>	<u>Credit Rate</u>
Up to \$32,000	Up to \$24,000	Up to \$16,000	50%
>\$32,000 - \$34,500	>\$24,000 - \$25,875	>\$16,000 - \$17,250	20%
>\$34,500 - \$53,000	>\$25,875 - \$39,750	>\$17,250 - \$26,500	10%
>\$53,000	>\$39,750	>\$26,500	0%

- 10) Required Withdrawals from IRAs/Retirement Plans:** For individuals who have reached age 70½ during 2008, it is very important to start withdrawing money from Traditional IRAs and retirement plans. The government imposes a nasty (**50%!**) penalty on under-withdrawals. You must withdraw your required minimum distributions ("RMD") by December 31st each year, except in the year in which you first turn 70½, when the deadline is extended to April 1st of the following year. There is an exception if you have not yet retired from a job (but the exception doesn't apply if you own the company). Also, there is no required distribution from Roth IRAs. If your IRA or plan custodian has not contacted you and calculated the RMD for you to withdraw, call me right away.
- 11) Energy Credits:** The only residential credit for energy-efficient property in 2008 is for certain solar, fuel-cell, geothermal and wind-energy property. You may remember that there was a \$500 federal tax credit available for qualified energy-efficient improvements to existing homes during the two-year period 2006-2007, and this has been resurrected as a new \$500 credit for 2009. So if you are planning some home improvements, wait until 2009 when you may benefit. There is still a credit for hybrid cars and light trucks (varies by vehicle, \$250 - \$3,400). Once a manufacturer sells 60,000 vehicles, the credit is phased out over the next year (credits for Toyota/Lexus hybrids ended for purchases after 9/30/07; Honda credits end for purchases after 12/31/08). There is a new credit for plug-in electric vehicles (for years 2009 - 2014).
- 12) Business Purchases:** If you are planning to purchase business equipment soon, consider doing so by December 31st to get a write-off ("Section 179" expense) against your 2008 income. Note that Section 179 doesn't apply to landlords, as rental properties are not considered "businesses." You can expense up to \$250,000 of capital items on your federal return for 2008 (versus depreciating the cost over many years). This limit is currently set at \$133,000 for 2009. For Wisconsin taxes, only \$25,000 of capital items can be expensed under Section 179 each year, and off-the-shelf software is excluded.

13) Business/Rental/Farm Expenses: Don't forget small out-of-pocket costs. If you own a corporation, partnership or LLC, reimburse yourself for business expenses paid out of your own pocket. If you are a sole proprietor, comb through your records now to maximize your deductions. Remember that amounts charged to a credit card are considered paid (it's an expense in the year the item is charged to your credit card, not when you pay the credit card balance due). The key to being able to deduct an expense is that it's "ordinary and necessary" to your business or rental activity. Here is a reminder of expenses that may be overlooked:

- Office and computer supplies, miscellaneous software and postage
- Entertainment costs (for clients and employee gatherings, including in your home)
- Gifts for business reasons (up to \$25 to an individual)
- Business subscriptions and dues to professional groups
- Repairs
- Promotional and advertising costs
- Travel expenses (keep track of mileage to deduct business use of your vehicle)
- Internet and cell phone costs, and long-distance charges to your home phone
- Interest on credit cards, if the interest and charges are due to business charges
- Legal and accounting fees

14) Business Form 1099s: Your business may need to file 1099-MISC Forms (due January 31st). If your business paid more than \$600 to a vendor for services (not products), you are required to send a 1099-MISC to the vendor, the IRS and the state. This does not apply if the vendor is a corporation (except for attorneys and medical care providers). Call me if you have any questions or would like me to prepare your 1099s.

15) Estate Planning & Gifts: If you have significant wealth (i.e. assets over \$3.5 million, including life insurance) and you have not met with an attorney in the last few years to review your wills, trusts, and other estate planning documents, I recommend you do so. If you do not have a will or health care power of attorney, have the documents prepared. If you give more than \$12,000 to any individual in 2008 (\$13,000 in 2009), you are required to report the gift to the IRS on Form 709. Gift tax (paid by the giver) is not due until lifetime gifts reported on Form 709 exceed \$1 million. Certain gifts are not reported on Form 709, such as gifts to spouses and payment of someone's medical and education expenses.

I hope this summary is helpful to you. This is only a summary and additional "details" may have a material impact. Please feel free to call or e-mail if you would like to discuss any of these items or other issues, especially before you decide to proceed with a large transaction. Thank you for your business and I look forward to working with you next year!

Judy