

NEWSLETTER

Put midyear tax planning on your summer agenda



Summer's here, and probably the last thing on your mind is tax planning. The problem is that if you wait until December, there's little time for changes to take effect. But if you take the time to plan now, you still have five months for your actions to make a difference on your 2009 tax return. With the recent tax changes, planning for the reduction of your 2009 taxes is more important than ever. Here are some suggestions to get you started.

- * Pull out your 2008 income tax return, and review your income and deductions. Did you lose any credits or deductions because your income was above a certain threshold amount? If so, what can you do to keep this year's income below the threshold?

- * You might want to schedule home improvement projects to benefit from the tax credits available for energy-saving expenditures on your principal residence.

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Don't let a scam spoil your vacation

Cruises top the list of dream vacation getaways for many families. Unfortunately, fraudsters and thieves view cruises in a different light. They'll scam you with fake bookings before you even set foot on a ship, after you're aboard, or during some exotic port-of-call excursion.

The hook. It may start with an e-mail or phone call offering a "free" or deeply discounted cruise. Bogus travel agencies have made tens of thousands of dollars from gullible would-be travelers without ever contacting a cruise line. Unfortunately, some people respond to these solicitations, book the cruise, pay a down payment, then discover they owe port fees, fuel charges, registration fees, service fees, or anything else the fraudster can think up. In some cases, con artists use the free cruise ploy to entice you into divulging sensitive personal information as a way to steal your identity.

Your defense. How can you defend against these schemes? First, remember that offers received via unsolicited e-mails and phone calls are more likely to be fraudulent. Second, never – never – give personal information, such as bank

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Mortgage debt relief: Answers to frequently asked questions

To compound the financial woes resulting from a foreclosure or other mortgage restructuring for your home, the IRS generally imposes tax when debt is cancelled. In other words, you're taxed on the amount forgiven by the lender as if you actually received it as income. However, Congress provided some relief to homeowners under the Mortgage Forgiveness Debt Relief Act of 2007.

Here are the answers to several common questions in this area.

What relief does the new law provide? Generally, it excludes tax on cancellation-of-debt income realized from a foreclosure, short sale, or other mortgage restructuring. This tax break only applies to debt used to buy, build, or improve your principal residence. It isn't available for vacation homes or investment property.

Is there a limit? Yes. The exclusion can cover the tax due on up to \$2 million of forgiven debt (\$1 million if you're married and file separate tax returns). Any excess is taxable under the general rules.

How does the exclusion affect your basis in the home? You must reduce your basis (the amount used to determine taxable gain or loss from a home sale) by the amount of cancelled debt excluded from taxable income. For example, if a loan restructuring results in cancellation of \$50,000 of debt on a home with a basis of \$450,000, your basis is reduced to \$400,000. This could increase your taxable gain when you sell the home, although the first \$250,000 of gain (\$500,000 for joint filers) may still be sheltered by the home sale exclusion.

How do I know how much debt is excluded? Your lender will send you Form 1099-C (Cancellation of Debt) showing the amount of debt forgiven and the fair market value of property given up through foreclosure. It also sends the IRS a copy of the form. The IRS encourages homeowners to check this information carefully.

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Vacation Scam *(continued)*

account or credit card information, to a business or person you don't know to be genuine. Third, get details in writing before you buy. Finally, don't succumb to high-pressure sales pitches. Take your time. If the person on the other end of the line refuses to provide detailed answers to your legitimate questions, hang up.

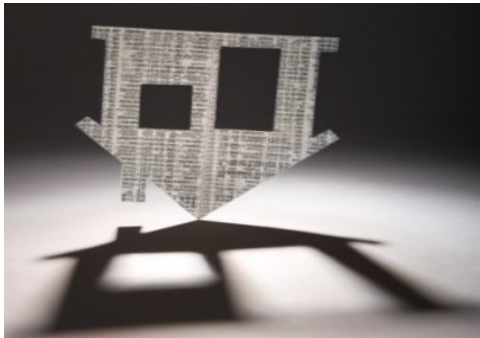
On board. Even after booking a cruise with a legitimate company and boarding the ship, you can become a victim. Modern cruise ships are like small cities with many of the same pleasures and hazards. So be sure to lock valuables in your cabin's safe. Make copies of credit card notification numbers, passports, driver's licenses, and other valuable documents. Leave one set of copies at home, keep another set with you (packed separately from the originals), and place another set in the cabin safe.

When going ashore – which, experts say, is where most petty theft occurs – remain on the alert. Don't display expensive jewelry; it's an invitation to pickpockets. Carry handbags in front of you and use an under-clothing money belt. Stay in organized groups, stick to public areas, and use shore transportation and tours approved by the cruise line.

These days, taking a cruise can be a fun and reasonably priced vacation. A little common sense can keep a swindler from turning it into a nightmare.

Thanks! We appreciate you.

Thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time. Also, thank you for recommending us to your family, friends, neighbors, and associates. We appreciate your referrals.



Mortgage debt relief

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What is a short sale? Instead of foreclosing on a home, a lender may allow you to sell it for less than the mortgage amount and take the proceeds in full satisfaction of the debt. For instance, let's say you still have a mortgage of \$250,000 on your home, but the home's value has dropped to \$225,000. Assuming the bank agrees to a short sale and you incur \$15,000 in selling expenses, you turn over the remaining \$210,000 to the bank. The \$40,000 difference, which will be reported on Form 1099-C, qualifies for the new tax exclusion on cancellation-of-debt income.

Is the new tax relief permanent? No. Initially, the tax exclusion only applied to debt forgiven in 2007, 2008, or 2009. But the economic stimulus law passed last year – the Emergency Economic Stabilization Act of 2008 – extended this tax break for three years through 2012.

This is just a brief overview of the new mortgage debt relief available to homeowners. Call us if you have questions pertaining to your situation.

Tax Planning *(continued)*

* Evaluate your investment portfolio. If you have been avoiding the disheartening news, now is the time to reassert control over your investments. Review your holdings to see if you should take some losses to offset other income. If you're considering investment purchases, analyze the type of income you'll be receiving from the assets you buy. Then stash the investment in the proper account (taxable, deferred, or nontaxable) to achieve maximum return and tax savings.

* Adjust your retirement plan contributions. Are you still making contributions based on last year's numbers? Maximum amounts have increased for some plans in 2009. You can contribute up to \$11,500 to a SIMPLE, up to \$16,500 to a 401(k), and up to \$5,000 to an IRA. Remember to add catch-up contributions if you'll be 50 by the end of December.

* Factor two recent tax changes into your planning for retirement fund withdrawals if you're 70½ or older. First, the option to make a direct nontaxable donation of up to \$100,000 from your IRA to a charity has been reinstated. Second, the requirement to take a minimum distribution from your retirement plan is waived for 2009. This applies to 401(k) plans, 403(b) plans, certain 457(b) plans, and IRAs.

* Now is the time to do tax planning for the upcoming fall college expenses. Check out the various tax breaks, including the new, enhanced Hope credit (renamed the American opportunity credit).

* Do some business tax planning, too. Plan your equipment purchases to benefit from the extension of 50% bonus depreciation for new equipment and up to \$250,000 first-year expensing for new or used equipment.

* Mix business with your summer vacation and you might be able to deduct some of your travel expenses on your 2009 tax return. To benefit, the primary reason for your trip has to be business.

Making time for 2009 tax planning now not only helps reduce your taxes, but also helps to put you in control of your entire financial situation. Tax planning should be a year-round process, but it's especially effective at midyear. Give us a call for guidance in implementing the best moves for your particular situation.

What employers and employees need to know about the new COBRA subsidy

Job loss brings many challenges to families, and that often includes obtaining affordable health insurance coverage. Under a 1985 federal law referred to as "COBRA," many employees who are discharged can keep health insurance coverage provided by their former employer for as many as 18 months. But to do so, the employee has to pay 100% of the COBRA premiums.

Employees' subsidy

The economic stimulus law enacted last February significantly reduces the cost of COBRA health coverage for those who lose their jobs.

Qualified individuals who timely elect COBRA coverage are required to pay only 35% (instead of 100%) of these premiums. The remaining 65% of premiums are paid by the employer, but reimbursed by the federal government through tax credits. This subsidy is available for up to nine months after the job loss.

Those qualified for the subsidy include terminated employees and their family members who are eligible for COBRA coverage at any time from September 1, 2008, to December 31, 2009. Employees who voluntarily terminate employment or who are qualified to participate in another group health coverage plan (such as a spouse's employer's plan or Medicare) are not eligible for the subsidy.

The subsidy is phased out for higher-income taxpayers. For singles, the phase-out starts once modified adjusted gross income (AGI) exceeds \$125,000. It is fully phased out at \$145,000. The phase-out for married taxpayers filing jointly begins with modified AGI of \$250,000 and is complete at \$290,000. Any part of the subsidy paid to an individual that is subject to phase-out because of these income limitations must be repaid as an additional tax on the employee's federal income tax return.

Employers' credit

COBRA coverage is only required for employers with 20 or more full- and part-time employees, but many states sponsor plans similar to COBRA for small employers.

An employer that sponsored a health insurance plan that included COBRA coverage is required to pay 65% of COBRA premium if the terminated employee pays the remaining 35%. The government reimburses the employer through tax credits on the employer's quarterly payroll tax returns.

If you need more information about the COBRA subsidy, give us a call.

A new vehicle could bring tax savings

If you're thinking of buying a new car, truck, motorcycle, or motor home this year, you might benefit from a tax break included in the Recovery Act of 2009. Here are the details.

* You can deduct state and local sales taxes paid on up to \$49,500 of the purchase price of a qualifying vehicle.

* Qualifying vehicles generally include new (not used) cars, light trucks, motorcycles, and motor homes purchased after February 16, 2009, and before January 1, 2010.

* The deduction can be claimed on your 2009 tax return regardless of whether or not you itemize other deductions.

* The deduction phases out for single taxpayers with income between \$125,000 and \$135,000. For joint filers, the phase out range is \$250,000 to \$260,000.