

NEWSLETTER

Tax filing reminders

- * October 15 - Filing deadline for 2008 individual tax returns on automatic six-month extension of the April 15 deadline.
- * October 15 - If you converted a regular IRA to a Roth in 2008 and now want to switch back to a regular IRA, you have until October 15, 2009, to do so without penalty.

The IRS wants taxpayers to use new tax breaks



The IRS recently issued a news release reminding taxpayers to take advantage of the tax breaks provided in the American Recovery and Reinvestment Act of 2009, the stimulus law passed earlier this year.

Among the tax benefits that are available for a limited time:

- * First-time homebuyer credit of up to \$8,000 for homes purchased before December 1, 2009.
- * Deduction for state and local sales and excise taxes paid on the purchase of a new car, light truck, motor home, or motorcycle. No limit on the number of vehicles you may buy, but the deduction per

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Review your investments to increase after-tax returns

This is a good time of year to review and rebalance your investment portfolio. Although the recent market volatility has been disastrous for many investors, there may still be some year-end moves you can make that will cut your 2009 taxes and increase your after-tax returns. As you identify investments to buy and sell, keep the following tax implications in mind:

* First, remember that any sales you make within your retirement accounts are free of tax. If you need to trade just to rebalance your portfolio, consider doing it in your IRA or 401(k) plan.

* If you're selling investments to weed out poor performers, remember that losses can cut your tax bill. You can use capital losses to offset taxable gains, plus up to

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Investment Returns *(continued)*

\$3,000 of other income. If you still have losses left over, you can carry them forward to use in future years.

* Not all dividends on stocks and mutual funds are taxed at the same rate.

"Qualified" dividends paid by most U.S. and some foreign companies enjoy lower rates of 5% or 15%, depending on your tax bracket.

* You can often manage the size of your gain or loss when you decide to sell some, but not all, of a particular stock or mutual fund. To do this, you must have kept good records of the date and the price for each share purchase. By selling the highest cost shares first, you'll minimize your taxable gain or maximize your loss. You must specify the particular shares you are selling at the time you sell.

* Don't forget to include any reinvested dividends when you calculate your cost basis for mutual fund shares.

* If you're planning to buy or sell mutual fund shares close to year-end, take the tax consequences of the fund's year-end distribution into account.

* If you want to dispose of stock that has appreciated, consider donating it to your favorite charity. You can generally claim a deduction for the appreciated value and avoid paying any tax on your gain.

Give us a call to find out more about year-end investment tax planning.



IRS urges small businesses to use tax breaks

The American Recovery and Reinvestment Act, the economic stimulus law passed earlier this year, included a number of tax-saving opportunities for businesses. Because some of these tax breaks are available for a short time only, the IRS is urging small businesses to act now to benefit from the provisions.

* **Equipment purchases.** The \$250,000 limit for immediately expensing qualified equipment purchases was extended through 2009. The deduction is gradually reduced once annual equipment acquisitions exceed \$800,000. Both new and used equipment qualify for this tax break. Sport utility vehicles are still subject to the \$25,000 expensing limit.

In addition to the expensing option, purchases of new equipment, software, and qualified leasehold improvements can qualify for 50% first-year bonus depreciation through the end of 2009.

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It's time to start year-end tax planning

An important part of our service to you is helping to identify actions you can take before year-end to minimize your 2009 income tax bill. Accelerating deductions, delaying income, contributing to

retirement plans, and taking investment losses are all strategies you might want to consider. There are also tax credits that require careful planning or they may be lost.

<p>Develop three habits to stay out of debt</p> <p>Staying out of debt is simple, but it's not easy. It requires fortitude. It means foregoing impulsive purchases in exchange for long-term financial freedom. Staying out of debt requires that you deny cravings, at least temporarily, for the "must-have" stuff that beckons from every mall, television advertisement, and slick magazine.</p> <p>Personal debt can be categorized as necessary or unnecessary. Necessary debt can generally be linked to appreciating assets, such as your home mortgage, or assets used to generate income, such as a basic car for getting to work or a college degree. Unnecessary debt, on the other hand, might include routine credit card charges or installment loans for depreciable items.</p> <p>If your goal is long-term financial freedom, avoiding unnecessary debt is crucial.</p>	<p>Three simple habits can help you achieve this goal.</p> <p>1. Live below your means. Much of the stuff that seems so essential today will, in fact, grow less desirable over time. Of course, living below your means requires that you discover what those "means" are. For many people, this means tracking your income and expenses over a period of time – a month or more – to learn where your money comes from and how it's spent. You might be surprised. That cup of gourmet coffee on the way to work, that weekly meal at the fine dining establishment, that car payment for the latest sedan – all cut into your disposable income. By spending less on such items, you'll be able to save for the future and develop long-term wealth.</p> <p>2. Save for emergencies. By setting aside money in easily accessible accounts,</p>	<p>you avoid racking up credit card bills when unexpected expenses occur. Such expenses could include trips to the emergency room, replacing the water pump on the family car, or patching a hole in the roof. A reserve fund can also help you survive periods of unemployment without incurring additional debt.</p> <p>3. Use debt wisely. If you decide to incur debt, know what you're doing. Slow down, take a deep breath, think about how valuable this item will seem three months from today. Also ask yourself whether you can pay off these new charges out of next month's income.</p> <p>Staying out of debt isn't glamorous, and it requires more than a little self discipline. But the long-term benefits are substantial. If you'd like additional suggestions for developing habits of financial discipline, give us a call.</p>
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IRS Tax Breaks

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vehicle is limited to tax on up to \$49,500 of the purchase price. Higher-income taxpayers won't qualify for the deduction, and the deduction ends after 2009.

* Credit for energy-efficient home improvements of up to \$1,500 for improvements done in 2009 and 2010.

* American opportunity tax credit of up to \$2,500 for qualifying higher education expenses for 2009 and 2010.

The IRS is so concerned that taxpayers will not utilize these tax breaks that it has also posted a video to YouTube and an iTunes podcast with information about these tax breaks.

Consider incremental cost in business purchasing decisions

If you run a business, you probably make many different kinds of purchasing decisions. You might buy some items infrequently and only one at a time (for example, computers). At the other extreme, there are probably some items that you buy regularly and in relatively large quantities. For a print shop, paper might be your highest volume purchase. For a manufacturing business, it might be plastic or steel.

If you are responsible for buying large quantities of a single item, you'll want to become familiar with the concept of "incremental cost." It sounds forbidding, but it's relatively easy to understand, and it can be a powerful tool.

Example: Product X is a vital part of your business, and it's available at the following prices:

Units of X	<u>1,000</u>	<u>2,000</u>	<u>3,000</u>	<u>4,000</u>
Total price	\$2,500	\$4,750	\$6,750	\$8,750
Avg. price	\$2.50	\$2.38	\$2.25	\$2.19

Based on average price per unit, an order of 4,000 would seem to offer the best deal, at \$2.19 per unit. But take a closer look. In this example, it costs an additional \$2,000 to order 4,000 units instead of 3,000 units, which means that each of the additional 1,000 units has an incremental cost of \$2.00.

However, the incremental cost to go from 2,000 to 3,000 units is exactly the same – \$2.00 per unit, or a total of \$2,000. In this example, your incremental cost does not decline after 3,000 units, so that's the quantity you might decide to order.

In real life, your purchasing decisions may be more complex, and you may need to consider issues like cash flow and storage costs. Even so, the concept of incremental cost can be a help. For assistance with cost decisions in your business, give us a call.

Small Business Tax Breaks

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* Expanded net operating loss carryback. The 2009 law extended the carryback period for 2008 net operating losses from two years to as many as five years. To be eligible for the extended period, a business's average annual gross receipts for the last three years must be \$15 million or less.

This option is available to eligible taxpayers for a limited time. A corporation that operates on a calendar-year basis, for example, must file a claim by September 15, 2009, while eligible individuals (sole proprietors, partners in a

business partnership, and S corporation shareholders) have an October 15, 2009, deadline.

* COBRA credit. Employers providing the 65% COBRA health insurance premium for former employees claim credit for this subsidy on their quarterly or annual employment tax returns. According to the IRS, businesses can ease cash flow problems by reducing their employment tax deposits by the amount of the credit. The IRS website at www.irs.gov provides details.

For guidance in identifying and utilizing both new and old tax breaks for your business, give us a call now.

If you'd like to discuss tax-cutting options that fit your particular situation, please contact us soon for a year-end tax planning review.

This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.