YEAR-END / YEAR-ROUND

TAX PLANNING

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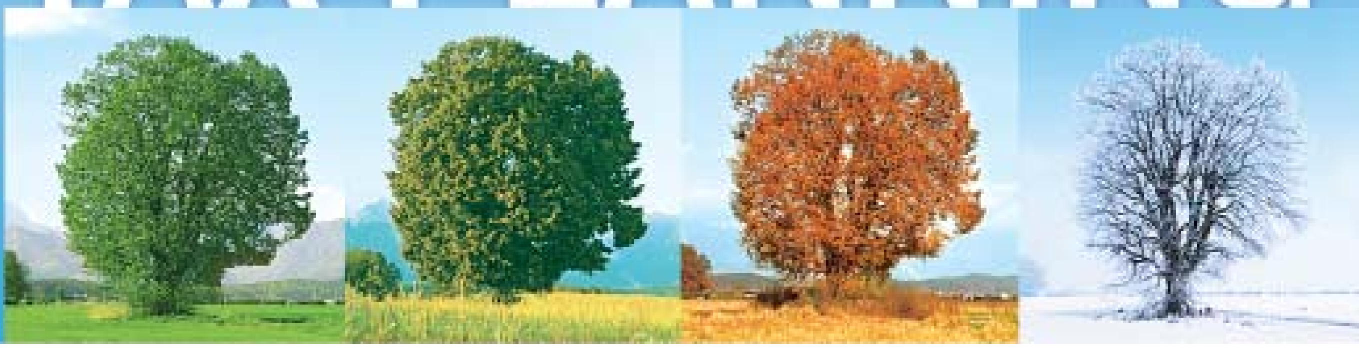

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YEAR-END/YEAR-ROUND 2008/2009
TAX PLANNING

IT'S YOUR MOVE

The last several years have been marked by legislation making numerous changes in the federal tax law. This changing landscape makes it all the more important to review your personal and business tax situations with a trusted advisor. Taking a fresh look at your tax picture can suggest new tax-saving opportunities and remind you of traditional planning strategies that may help trim your federal income taxes considerably.

In *Year-End/Year-Round Tax Planning 2008/2009*, you will find helpful explanations of the current rules along with planning ideas for lowering your 2008 income taxes and planning for 2009. So make your move now and focus on tax planning.

We urge you to secure professional tax advice before you act on any of the ideas discussed in this booklet. Reviewing your specific tax situation with a trusted advisor can help you determine whether a particular planning strategy is right for you.

ASSESS YOUR SITUATION

WHAT'S CHANGED — WHAT'S THE SAME?

Just as changes in the tax law can affect your tax situation, so can changes in your life. Have you married or divorced this year? Your marital status affects your filing status, and your filing status and income will determine your tax bracket.

Have you added a new child to the family, or has a grown child left the nest? If so, you may gain or lose an exemption for a dependent. In 2008, each exemption you claim will reduce your taxable income by as much as $3,500.

As you begin your year-end tax planning, also consider these questions.

- Will your income be substantially different from last year's?
- Will you have any capital gains or losses this year?
- Did you start a business this year or do you intend to?
- Did you retire this year or are you planning to retire soon?

YOUR 2008 TAX PAYMENTS

Most taxpayers have to make payments toward their federal income-tax liability during the year. Employees generally pay their taxes through payroll withholding. If you have non-wage income — rental income, self-employment earnings, alimony, investment income, etc. — you generally must make quarterly estimated tax payments (or have your employer take more tax out of your earnings to cover the tax on your non-wage income).

YOUR TAX BRACKET

Unless there is a change in the tax law, the individual income-tax rates stay the same from year to year. However, the IRS adjusts the tax brackets annually for inflation. You can see the 2008 brackets in the accompanying rate table. Once you know your tax bracket, you can project the tax effect of various planning strategies.

ALTERNATIVE MINIMUM TAX

When reviewing your tax picture, it will be important to determine whether you are likely to be subject to the alternative minimum tax (AMT). Although the AMT system was originally aimed at very wealthy taxpayers, recently it has been a problem for many more taxpayers.

The AMT is designed to ensure that taxpayers who use certain deductions, credits, and exclusions to reduce their regular tax liability still pay a minimum amount of tax. Some of the items that could trigger the AMT are:

- A large deduction for state income taxes

2008 INCOME-TAX RATES

Rate	Taxable Income Brackets: Single	Head of Household	Married Filing Jointly (& Surviving Spouses)	Married Filing Separately
10%	$0 – 8,025	$0 – 11,450	$0 – 16,050	$0 – 8,025
15%	$8,026 – 32,550	$11,451 – 43,650	$16,051 – 65,100	$8,026 – 32,550
25%	$32,551 – 78,850	$43,651 – 112,650	$65,101 – 131,450	$32,551 – 65,725
28%	$78,851 – 164,550	$112,651 – 182,400	$131,451 – 200,300	$65,726 – 100,150
33%	$164,551 – 357,700	$182,401 – 357,700	$200,301 – 357,700	$100,151 – 178,850
35%	Over $357,700	Over $357,700	Over $357,700	Over $178,850

2008 AMT RATES

Taxable AMT Income	Rate
$1 to $175,000	26%
Over $175,000	28%

The 2008 AMT exemption amounts* are:

- $45,000 for married couples filing jointly
- $33,750 for unmarried filers

The exemptions are phased out for higher income taxpayers.

* *These amounts may be affected by proposed legislation.*

REVIEW FILING STATUS

- Filing jointly usually results in a lower tax bill for a married couple, but not always. Depending on your respective itemized deductions and income, you could owe less tax by filing separately.
- Filing as a head of household is usually preferable to filing as a single taxpayer because the tax brackets are more favorable. You may be eligible if you are unmarried and a qualifying child or dependent relative lives with you for more than half the year (or in certain other situations). Various requirements apply.

CHECK WITHHOLDING AND ESTIMATES

- You can avoid an underpayment penalty when you file your taxes by paying enough taxes during the year. It's smart to see where you stand with your withholding and/or estimated tax payments as year-end approaches.
- You might want to ask your employer to withhold more income tax from your remaining 2008 paychecks if it will help you avoid a penalty. An equal part of the total income tax withheld during the year will be considered paid on each quarterly installment date.

PLAN FOR POTENTIAL AMT

- You may want to delay exercising incentive stock options or recognizing a large capital gain if these actions will make you subject to AMT. But don't let tax considerations alone influence your investment decisions.
- Consider pushing expenses that are deductible for regular tax purposes but not for AMT purposes — such as state and local taxes and miscellaneous itemized deductions — into a non-AMT year.
- Accelerating income into an AMT year may be advantageous if you expect your regular income-tax rate to be higher than the 28 percent AMT rate.

YOUR MOVE

- The exercise of incentive stock options
- A higher-than-average number of dependency exemptions
- Significant amounts of tax-exempt interest from "private activity" municipal bonds
- A large capital gain
- A large deduction for unreimbursed employee business expenses or miscellaneous deductions
- Interest on a mortgage not used to buy, build, or improve your home

Computing AMT is complex. We can help you evaluate your potential exposure.

** The deduction for exemptions is reduced if AGI exceeds: $159,950 (single), $199,950 (head of household), $239,950 (married filing jointly), or $119,975 (married filing separately).*

*** Higher income taxpayers are subject to a reduction in certain itemized deductions if AGI is over $159,950 ($79,975 for married taxpayers filing separately).*

ESTIMATE YOUR 2008 TAXABLE INCOME	
Wages, salaries, tips, etc.	$ ________
Interest and dividends	$ ________
Profit (loss) from business	$ ________
Farm income (loss)	$ ________
Capital gain (loss)	$ ________
Rents, royalties, partnerships, S corporations, trusts, etc.	$ ________
Unemployment compensation	$ ________
Alimony received	$ ________
Taxable Social Security benefits	$ ________
Taxable distributions from IRAs, pensions, and annuities	$ ________
Taxable refunds of state and local income taxes	$ ________
Other income	$ ________
Total Estimated Income	$ ________
Minus adjustments (see above-the-line deductions, p. 8)	$ ________
Adjusted Gross Income (AGI)	$ ________
Minus exemptions (up to $3,500 each)*	$ ________
Minus standard deduction or itemized deductions**	$ ________
Taxable Income	$ ________

See footnotes at left.

WATCH YOUR TIMING

INCOME TIMING

A traditional tax planning technique is to delay receiving taxable income until after the end of the year if it is economically feasible to do so. By delaying income, you defer your taxes on that income. It also can keep you from losing tax breaks that are reduced or eliminated at higher income levels and prevent you from being pushed into a higher tax bracket in 2008.

But income deferral isn't for everyone. Some taxpayers can save money by accelerating taxable income into 2008 rather than deferring it to 2009, even though taxes will have to be paid earlier. This may be the case, for example, if you expect to be in a higher tax bracket in 2009. We can help you weigh which income timing strategies would give you the greatest overall tax savings.

REDUCING TAXES ON SOCIAL SECURITY BENEFITS

If you are receiving Social Security, paying attention to the timing of income from other sources may help you avoid or minimize income taxes on your benefits. Under the tax law, Social Security benefits are taxable only if your "provisional income"* exceeds certain levels. Then, up to 85 percent of your benefits may be subject to income taxes. The table below shows the income thresholds.

SELLING YOUR HOME

For tax purposes, your home is a capital asset, which, if sold at a gain, may result in capital gains tax. Fortunately, the tax law gives home sellers a big break. If you have owned and used a home as your principal residence for periods totaling at least two years out of the last five years before the sale, you generally may exclude from income up to $250,000 of gain ($500,000 for joint filers). The exclusion generally may be claimed only once every two years.

If you have to sell your home before you meet the time requirements, it still may be possible to exclude capital gain. The tax law allows an exclusion if the primary reason for a sale is:

- Health
- Change in place of employment
- Death
- Divorce
- Loss of a job that results in eligibility for unemployment compensation
- Other unforeseen circumstances (as outlined in IRS regulations)

In these situations, the maximum exclusion amount is prorated.

A recent tax law change may be helpful to surviving spouses who sell their primary residences. Previously, to take advantage of the higher $500,000 capital gain exclusion, a home sale had to take

WILL YOUR SOCIAL SECURITY BENEFITS BE TAXABLE?

On a joint return*	
If your provisional income is:	Up to this percentage of your benefits will be taxed:
Less than $32,000	0%
Between $32,000 and $44,000	50%
Over $44,000	85%
On a single or head-of-household return	
If your provisional income is:	Up to this percentage of your benefits will be taxed:
Less than $25,000	0%
Between $25,000 and $34,000	50%
Over $34,000	85%

** For married persons filing separately who do not live apart from their spouse for the entire year, the provisional income threshold is zero.*

** Basically your adjusted gross income (AGI) with certain modifications plus one half of the Social Security benefits.*

DEFER INCOME

- You might delay income by asking your employer to postpone paying your year-end bonus or a late-year commission until after the first of the year.
- Consider investing in Treasury bills that don't mature until next year or in certificates of deposit that won't let you take out interest without penalty until 2009. The interest earned would be reported on your 2009 return.
- Rolling over a qualifying distribution from a former employer's retirement plan to an individual retirement account (IRA) or a new employer's plan can avoid current income taxes on the distribution and allow you to continue building your retirement savings.
- You can avoid mandatory 20 percent tax withholding on your distribution by having it directly transferred to the IRA or new employer's plan.

ACCELERATE INCOME

- If you suspect your tax rate will be higher in 2009, see if you can arrange to receive a bonus or commission payment in 2008 rather than in 2009.
- Or make a withdrawal from your traditional IRA earlier than planned, if you're over age 59½ and won't be subject to the 10 percent early withdrawal penalty.

BUNCH DEDUCTIONS

- One way to deduct more of your medical and miscellaneous expenses is to "bunch" two years of expenses into one year so you exceed the deduction floor. To boost your medical deduction for 2008, you could schedule and pay for elective surgery, dental work, and eye appointments in late 2008.
- You might also consider paying 2009 professional dues, subscriptions to professional journals, and investment management fees in late 2008. These are all included in the "miscellaneous" category.

place in the year of the spouse's death when a joint return was filed. Starting in 2008, however, the $500,000 exclusion is available to surviving spouses who have not remarried and otherwise meet the requirements, as long as the home is sold no later than two years after the date of death.

VACATION HOME RENTALS

If you own a vacation home and rent it out during 2008, keep track of the number of days it is rented compared to the number of days it is used personally. For tax purposes, the home will be treated as a residence if personal use exceeds 14 days (or 10 percent of the rental days, if greater). Otherwise, it will be treated as a rental property. The classification can affect the expense deductions you'll be able to claim. We can provide details and help you determine whether you need to spend more time in the home before the end of the year — or need additional rental days — to maximize your deductions.

DEDUCTION FLOORS

Certain itemized deductions are subject to "floor" amounts set by law. Only amounts over and above the floor are deductible. Deductions subject to floors include medical expenses, which are deductible only to the extent they, in aggregate, exceed 7.5 percent of your AGI, and unreimbursed employee business expenses and miscellaneous expenses, which are deductible only to the extent that together they exceed 2 percent of AGI.

Now may be a good time to review the medical and miscellaneous expenses you've already incurred this year. If it looks like you will exceed the applicable deduction floor, paying additional deductible expenses before year-end may be beneficial.

WELL-TIMED WITHDRAWALS

The Smiths retired last year and started collecting Social Security. They're trying to decide how much they can withdraw from their traditional IRAs without triggering higher taxes on their Social Security. They anticipate that their provisional income — including half of their combined Social Security benefits — will be $40,000 if they take nothing from their IRAs. To avoid going over the $44,000 provisional income threshold (see table), they decide to withdraw $3,000 from their IRAs in 2008. Since they have not reached age 70½, the required minimum distribution rules, discussed on p. 7, aren't a consideration.

PLAN YOUR INVESTMENTS

LOWER RATES ON CAPITAL GAINS AND DIVIDENDS

While the tax rates on ordinary income and short-term capital gains are currently as high as 35 percent, qualified dividends and long-term capital gains generally are taxed at only 15 percent (exceptions apply). And, for 2008 through 2010, a 0 percent rate applies to long-term capital gains and qualified dividends that would otherwise be taxed at a 10 percent or 15 percent ordinary rate — in other words, those gains and dividends are not taxed.

For gains to be classified as long-term gains, investments generally have to be held *more than one year* before sale. And dividends qualify for the lower rates only if the underlying stock has been held for a specified period — in general, for more than 60 days during the 121-day period beginning 60 days before the stock's ex-dividend date (the date on which the stock begins trading without rights to the most recently declared dividend).

INCOME SHIFTING

Shifting income to a child or other family member, such as an elderly parent you help support, is another traditional tax planning technique. Income that might be taxed to you at a rate as high as 35 percent might be taxed to the family member at just 10 percent or 15 percent — or possibly at a 0 percent rate if the income consists of qualified dividends and capital gains.

However, recent changes in the "kiddie tax" have made this strategy less advantageous — at least where gifts to children are concerned. Under the kiddie-tax rules, a child's unearned income in excess of $1,800 (in 2008) is taxed at the *parents'* highest marginal rate. Kiddie tax now applies to children under age 18 — and to 18-year-olds and full-time students ages 19-23 unless they have earned income totaling more than half of their support.

If you decide to transfer assets, be aware that the maximum amount you can transfer in 2008 without federal gift-tax consequences is $12,000 (per recipient). Married couples can transfer $24,000.

PRETAX RETIREMENT CONTRIBUTIONS

Tax Bracket	Tax Savings for Each $1,000 Contributed	See Your Tax Savings
10%	$100	2008 contributions $____________
15%	$150	
25%	$250	Tax rate x ____________ %
28%	$280	
33%	$330	Your tax savings $____________
35%	$350	

Lower income savers may qualify for an additional tax credit on up to $2,000 of contributions. Tax savings on any account investment earnings are not shown. Income taxes are payable at the time of distribution.

LOSSES CAN OFFSET GAINS

When you are reviewing investments held in taxable accounts, keep in mind that capital losses are fully deductible against capital gains. You can deduct any excess losses against ordinary income of up to $3,000 a year ($1,500 if married filing separately) and carry forward additional losses to later tax years. A traditional approach to reducing taxes is to time capital losses to offset capital gains.

As you plan, you'll want to pay attention to the "wash-sale" rules. Under these rules, if you sell securities at a loss and purchase substantially identical securities within *30 days before or after* the sale, your loss will be disallowed.

RETIREMENT SAVINGS PLANS

If your employer offers a retirement savings plan — such as a 401(k), 403(b), or SIMPLE

YOUR MOVE

MONITOR CAPITAL GAINS AND LOSSES

- When you are going to sell appreciated securities, you might wait to sell them until you have met the more-than-one-year holding period required for long-term capital gain treatment. Remember, though, that taxes are only one consideration in the decision to sell or hold an investment.
- To accelerate losses without significantly changing your investment position, consider selling securities, taking the loss, and replacing them with securities of another company in the same industry having similar prospects. This strategy avoids the wash-sale rules.
- Similarly, you can "double up" on the securities, wait 31 days, and then sell your original securities at a loss. But pay attention to any dividend payments during the wash-sale period. If they are reinvested in additional shares, the 30-day waiting period will not be met with respect to the new shares, and you may lose your ability to deduct part of your original loss.

INVEST MORE FOR RETIREMENT

- You have until April 15, 2009, to open and contribute to an IRA for 2008.
- If you participate in a retirement savings plan at work, contributing more before year-end could cut your tax bill.

PLAN FOR DISTRIBUTIONS

- Eligible distributions from employer plans may be rolled over to an IRA. Many employer plans also accept rollovers. If your rollover is completed within 60 days, you'll postpone current income taxes on the distribution.
- Starting this year, it may be possible to roll a plan distribution into a Roth IRA. Income taxes are payable on Roth rollovers, but the 10 percent early withdrawal penalty doesn't apply. Only taxpayers with modified adjusted gross income of $100,000 or less are eligible, and you must file a joint return if you are married. These restrictions won't apply after 2009.

plan — take advantage of it. Your pretax contributions and investment earnings generally won't be taxed until you receive distributions from the plan.

Some 401(k) and 403(b) plans allow employees to make after-tax Roth contributions. Once in the plan, the contributions grow tax deferred. Withdrawals of both Roth contributions *and* related earnings are not taxed if certain requirements are met. Talk with us about whether Roth contributions would benefit you.

FUNDING AN IRA

Individual retirement accounts (IRAs) come in two basic varieties — traditional and Roth. Each offers tax benefits.

Contributions to a traditional IRA are tax deductible if you and your spouse are not active participants in an employer-sponsored retirement plan. However, if you or your spouse participates in a plan at work, whether you can deduct your IRA contributions (and the amount of your deduction) will depend on your income.

Roth IRA contributions are not tax deductible. However, after you've met a five-year holding period, you can withdraw earnings from your account tax free if you are at least age 59½ or meet certain other conditions. Withdrawals of nondeductible Roth contributions are not taxed.

IRA contributions are generally capped at $5,000 for 2008. For those age 50 and over, the maximum permissible contribution is $6,000. Contributions can't exceed compensation. The allowable Roth contribution is phased out as AGI rises from $101,000 to $116,000 for unmarried filers, $159,000 to $169,000 for joint filers, and $0 to $10,000 for married-separate filers.

TAKING MONEY OUT

Taking money from a retirement savings plan or IRA before age 59½ may trigger a 10 percent early withdrawal penalty in addition to income taxes. However, there are several exceptions. For example, IRA withdrawals before age 59½ to pay qualified higher education expenses aren't subject to the 10 percent penalty.

While the tax law discourages early withdrawals, it generally requires taxpayers who have reached age 70½ to withdraw minimum amounts annually (called "required minimum distributions") from employer-sponsored plans and traditional IRAs.

DON'T MISS DEDUCTIONS AND CREDITS

ABOVE-THE-LINE DEDUCTIONS

Above-the-line deductions are expenses that may be subtracted from your gross income in arriving at your adjusted gross income (AGI). From a tax viewpoint, they are valuable because they work double-time, reducing your AGI *and* helping you preserve tax breaks you might otherwise lose because your AGI is too high. For example, various tax credits — including credits for the payment of college tuition — are available only when AGI falls below a specified threshold. In addition to any above-the-line deductions you may have, you can choose between claiming a standard deduction and itemizing your deductions.

COMMON ABOVE-THE-LINE DEDUCTIONS INCLUDE:

- Alimony paid
- Traditional IRA contributions
- Student loan interest
- Health savings account contributions
- One half of self-employment tax
- Self-employed health insurance premiums
- Self-employed SEP, SIMPLE, and qualified retirement plan contributions
- Penalties on early withdrawals of savings

This list is not all-inclusive, and various requirements and limitations apply.

DEDUCTIBLE TAXES

If you itemize, you can claim deductions for state and local income taxes. You can also deduct real property taxes, personal property taxes, and foreign income taxes. Alternatively, you may be able to claim the foreign tax credit.

HOME MORTGAGE INTEREST

One of the advantages of home ownership is the ability to deduct mortgage interest as an itemized deduction. Interest on up to $100,000 of home equity debt also may be deductible, regardless of how you use the loan proceeds. You also may be able to deduct:

- Mortgage "points" (prepaid interest) in full in the year you purchase the home
- Points paid on a mortgage refinancing for home improvements in full in the year you enter the loan, provided you pay the points from separate funds
- Points you pay to refinance an existing mortgage over the life of a loan
- Remaining unamortized points in the year you pay off or refinance your loan

If you obtained a qualified mortgage during 2008, your mortgage insurance premiums may be deductible (as if they were interest). The deduction is phased out with AGI over $100,000 ($50,000 if married filing separately).

INVESTMENT INTEREST

Along with home mortgage interest, be sure to include any deductible investment interest you pay in 2008 in your itemized deductions. You can deduct interest paid on loans used to buy or carry taxable investments — a margin loan, for example.

However, the amount of your deduction can't be more than your net investment income. In computing your net investment income for purposes of the limit, you can't include net capital gain or qualified dividends unless you elect to tax that income at ordinary tax rates rather than the more favorable lower rates. The good news: You may carry forward any excess investment interest expense to future tax years, subject to that year's limitation.

DEDUCT TAXES

- To increase your itemized deduction for taxes, pay state or local income taxes by making any January 2009 estimated payments in 2008.
- Or increase your state or local tax withholding for the rest of 2008.
- But watch out for AMT. These strategies may not be appropriate if they will cause an AMT problem for you in 2008.

MAKE CHARITABLE GIFTS

- Consider donating publicly traded stock that is showing a paper gain. If you've held the stock for more than one year, you'll be entitled to deduct not just your cost, but also the paper gain on which you've paid no tax. (Limits may apply.)
- Because you can't deduct a capital loss when you donate stock or other assets that are worth less than your cost basis, you'll generally obtain a better tax result if you sell the asset first, realize the loss, and then donate the sale proceeds.
- You can increase your deductible charitable contributions for the year by using a credit card to make a tax-deductible gift in 2008 that you can pay for in 2009.
- Create a charitable remainder trust to make a substantial gift to charity while retaining an income from the gifted property for life or for a period of years. You could receive a 2008 tax deduction for a gift that will actually be made in the future. Talk with us. We can give you more details.

CHARITABLE CONTRIBUTIONS

You can help your favorite charities and your tax situation by making year-end contributions. A check mailed on December 31, 2008, can be counted as a 2008 contribution even though the organization does not receive it and it does not clear the bank until 2009. For all your cash contributions, you must have a bank record or a receipt from the charitable organization showing the name of the charity, the contribution date, and the contribution amount.

EDUCATION CREDITS

The Hope Scholarship Credit is available for payment of your, your spouse's, or your claimed dependent's first two years of post-secondary tuition and related expenses. For 2008, the maximum credit is $1,800 (100 percent of up to $1,200 of expenses plus 50 percent of the next $1,200 of expenses) for each eligible student in your family. Students must be enrolled at least half-time.

A Lifetime Learning Credit is available for qualified tuition and related expenses for courses to acquire or improve job skills, as well as for undergraduate and graduate-level courses at an eligible educational institution. The credit is 20 percent of up to $10,000 of expenses, to a maximum of $2,000 per return.

The education credits are phased out for joint filers with modified AGI between $96,000 and $116,000 and for single filers with AGI between $48,000 and $58,000. No credit is allowed for married persons filing separately.

CHILD-RELATED CREDITS

In 2008, you may be eligible for:

- A child tax credit of $1,000 for each qualifying child who is under age 17 on December 31. This credit begins to be phased out with modified AGI in excess of $110,000 for married taxpayers filing joint returns, $75,000 for unmarried taxpayers, and $55,000 for married taxpayers filing separately.
- A credit for 20 percent or more of your eligible employment-related child care expenses, up to a maximum of $3,000 of expenses for one dependent or $6,000 for two or more dependents.
- A credit of up to $11,650 for qualified adoption expenses. The credit begins to phase out with modified AGI over $174,730.

ENERGY-RELATED TAX BREAKS

If you buy a new vehicle powered by fuel cells, advanced lean-burn technology, or alternative fuels in 2008, you may be eligible for a tax credit. Qualified hybrid vehicles are also eligible. The credit amount varies with the type of vehicle, and a credit may not be available once sales of a particular model exceed a certain number. Installing solar equipment in your home also may qualify you for a tax credit.

MAKE THE MOST OF TAX-FAVORED BENEFITS

RETIREMENT PLANS

As a business owner, you can lower your business taxes — and help build up funds for your own retirement — by maximizing contributions to your company's retirement plan. The table below summarizes the 2008 contribution and deduction limits for several types of plans.

CAFETERIA PLANS

Many employers that offer health benefits have raised the amount that employees must contribute for coverage. Offering the coverage through a tax-favored cafeteria plan may be a way to cut employees' out-of-pocket costs.

Although many employers offer several benefits through their cafeteria plans, it is possible to provide only health insurance. If eligible employees don't want the coverage, you must pay them in cash. Other benefits that your company may be able to offer through a cafeteria plan include medical expense reimbursement, group term life insurance coverage of up to $50,000, and dependent-care reimbursement, among others.

A flexible spending account (FSA) gives employees the opportunity to elect to contribute pretax dollars to an account which can be used to pay health- and/or dependent-care expenses on a pretax basis. The plan reimburses participants from their accounts for amounts spent on expenses allowed by the plan. Some plans

COMPARING PLAN CONTRIBUTION AND DEDUCTION LIMITS

	401(k)	Profit Sharing	Simplified Employee Pension (SEP)	SIMPLE IRA	Defined Benefit
Maximum Contribution	Employee: Defer up to $15,500; $20,500 if age 50 or older Employer: May contribute; total employee and employer contributions not to exceed smaller of $46,000 or 100 percent of participant's compensation	Smaller of $46,000 or 100 percent of participant's compensation	Employer: Smaller of $46,000 or 25 percent of participant's compensation For Salary Reduction SEPs established before 1997, employees may defer up to $15,500; $20,500 if age 50 or older	Employee: Defer up to $10,500; $13,000 if age 50 or older Employer: Match employee contributions up to 3 percent of compensation *or* make fixed 2 percent nonelective contributions	Amount needed to provide an annual benefit no larger than the smaller of $185,000 or 100 percent of participant's average compensation for highest three consecutive years
Maximum Deduction	25 percent of all participants' compensation plus employee deferrals	25 percent of all participants' compensation	25 percent of all participants' compensation	Same as maximum contribution	Based on actuarial calculations

Compensation is generally limited to $230,000 in 2008. Calculating the contribution limit for a self-employed individual's profit sharing contribution involves a special computation. SIMPLE IRAs are available only to small employers.

YOUR MOVE

CONTRIBUTE TO A RETIREMENT PLAN

- To increase your deduction, consider modifying your 401(k) plan before year-end to allow discretionary employer profit sharing contributions.
- Declaring a profit sharing contribution for 2008, even if your business won't have the cash to contribute until after the end of the year, is another way to increase your deduction. You have until the due date of your return to contribute (possibly 8½ months after year-end if your corporation received a valid six-month filing extension). Consider this approach even if you have the funds available at year-end. Your business can invest the cash or use it for business purposes until the contribution is due.
- If you don't have a retirement plan, look into establishing one. We can review your choices and help you decide which type of plan would be best.
- Should you decide to start a plan, you may be eligible for a tax credit equal to 50 percent of administrative and retirement-related education expenses for the first three plan years, up to a maximum credit of $500 a year.

REVIEW HEALTH BENEFIT OPTIONS

- With the rising cost of health care, making the best use of tax incentives is imperative. We can help you review your situation and weigh the pros and cons of the options available to your business.

allow employees to use a plan-provided debit or credit card to pay expenses directly. Employees forfeit amounts not spent by the plan deadline (year-end or within a subsequent 2½-month grace period).

HEALTH SAVINGS ACCOUNTS

A health savings account (HSA) is a tax-favored account that can be used to pay out-of-pocket medical expenses. An HSA is used in conjunction with a high-deductible health plan. The annual deductible must be at least $1,100 for self-only coverage or at least $2,200 for family coverage in 2008.

HSA contributions are tax deductible, within limits. Or, if the HSA is offered through a cafeteria plan, the plan can allow employees to make paycheck contributions on a pretax basis. In 2008, a maximum contribution of $2,900 is generally allowed ($5,800 for those with family coverage). Individuals age 55 and older can make additional catch-up contributions of up to $900. Earnings on HSA investments accumulate tax deferred, and HSA withdrawals used to pay qualified medical expenses are tax free.

Under special rules in effect through 2011, money may be transferred into an HSA from a health FSA, a health reimbursement arrangement (HRA), or an IRA. Various restrictions apply.

HEALTH INSURANCE FOR S SHAREHOLDERS

If you are a shareholder-employee of an S corporation, your company can provide health coverage for you and your family. You are required to include the benefit in your gross income if you own more than 2 percent of the corporation's outstanding stock. However, assuming certain requirements are met, you may take an offsetting above-the-line deduction on your personal return, effectively making the benefit income-tax free.

In the past, the IRS had said that this advantageous tax treatment wasn't available for insurance purchased in the name of the sole shareholder-employee of an S corporation instead of in the corporation's name. However, the IRS has now relaxed its position and will allow the above-the-line deduction.

A NEW APPROACH

Acme is a small employer that is considering switching to a high-deductible health plan. Savings on premiums may allow the company to make limited contributions to health savings accounts for its employees. Employees could also make pretax contributions to their accounts, which would help fund their out-of-pocket health-care costs.

TAKE ADVANTAGE OF BUSINESS ASSET STRATEGIES

ASSET PURCHASES

Being able to recover some of the cost of newly acquired business assets over time through depreciation is an important tax benefit for businesses. *When* you purchase assets and *how* you choose to depreciate them can make a difference in your tax bill. Coordinating the various tax breaks that may be available to you can make an even greater difference.

SECTION 179 EXPENSING

The Economic Stimulus Act of 2008 has temporarily increased the limit on the amount of asset purchases that may be "expensed" under Section 179 of the tax code. For 2008 only, the expensing deduction can be as much as $250,000. However, you cannot expense more than the amount of your taxable income from active trades or businesses, and the amount of the available expensing election is reduced dollar-for-dollar as annual asset purchases rise from $800,000 to $1,050,000. (Real property doesn't qualify for the expensing election.) Any part of an asset's cost that is expensed cannot also be depreciated.

DEPRECIATION ASSET CLASSES

Property Class	Assets Included
3-year	Tractor units for over-the-road use
5-year	Automobiles, trucks, computers, copiers and other office equipment
7-year	Office furniture and fixtures, agricultural machinery and equipment
10-year	Vessels, barges, tugs
15-year	Certain land improvements
20-year	Farm buildings (other than certain single-purpose structures)
25-year	Water utility property
Residential rental property	Apartment buildings, single-family rental properties
Nonresidential real property	Office buildings, stores, warehouses

These asset classes are used when computing depreciation under the Modified Accelerated Cost Recovery System (MACRS). The lists of property included in each class are not all-inclusive.

BONUS FIRST-YEAR DEPRECIATION

Also thanks to the Economic Stimulus Act of 2008, your business can claim a special first-year depreciation "bonus" equal to 50 percent of the adjusted basis (generally, the cost) of qualified business property purchased and placed in service in 2008. This allowance is *in addition to* a modified regular deduction for first-year depreciation.

The 50 percent bonus depreciation provision is available only for new property. So, for example, if your business buys a used piece of machinery, it would not qualify for the accelerated write-off.

TIMING MATTERS

A special "half-year convention" rule allows businesses a full half year's depreciation deduction for non-real-estate assets purchased and placed in service late in the year. Thus, last-minute purchases of business assets may achieve significant tax savings.

An exception applies where the aggregate cost of assets placed in service during the last three months of the year exceeds 40 percent of the year's total purchases. Then, assets are treated as though they were acquired in the middle of the appropriate quarter. When this "mid-quarter convention"

YOUR MOVE

MAXIMIZE SECTION 179 EXPENSING

- Think about purchasing equipment (with a loan, if necessary) that you'll need next year if you'll be able to claim the Section 179 deduction for the equipment in 2008.
- If you plan to make the expensing election but find that your total asset purchases for 2008 are already close to the $250,000 limit, you may want to postpone buying additional items until 2009. In 2009, your business may be able to write off up to $128,000 (as adjusted for inflation) in asset purchases.
- If you will elect Section 179 treatment for only some of your company's asset purchases and depreciate others, it may make sense to use the Section 179 election for the assets with the longest lives.

CAPITALIZE ON BONUS DEPRECIATION

- Or you may be able to combine the tax break available to you through Section 179 expensing with the 50 percent bonus depreciation provision to write off more of your cost in 2008. See the example below for an illustration of how this might work.

GO GREEN

- Make your commercial building more energy efficient. In 2008, businesses can make a special election to expense the costs of making such improvements to commercial buildings. The deduction is limited to $1.80 per square foot, and several requirements apply.

applies, the first-year regular depreciation deduction is higher for assets acquired in the first two quarters of the tax year and lower for assets acquired in the third and fourth quarters of the tax year.

HIGHER VEHICLE LIMITS

Special depreciation limits apply to cars, light trucks, and vans purchased for business use. The Economic Stimulus Act of 2008 offers businesses an incentive to purchase a vehicle in 2008 by increasing by $8,000 the depreciation limits for vehicles placed in service in 2008. As a result, the first-year limits are boosted to $10,960 for autos and to $11,160 for light trucks and vans. If a vehicle is not used strictly for business, then the depreciation amount must be reduced to reflect the personal use.

MAKING THE MOST OF DEPRECIATION

Marie's business will spend $350,000 on new equipment in 2008. Here's how the business can coordinate the expensing election, the 50 percent additional first-year depreciation deduction, and the regular depreciation deduction to write off a substantial portion of its cost in 2008.

Equipment purchase	**$350,000**
2008 Deduction	
Expensing election	$250,000
Bonus first-year depreciation (50 percent × $100,000 remaining basis)	$50,000
Regular depreciation (20 percent × $50,000 remaining basis)*	$10,000
Total 2008 Deduction	**$310,000**

** Assumes a five-year recovery period under the Modified Accelerated Cost Recovery System (MACRS), using IRS tables, and that the half-year convention applies.*

LOOK AT THE BIG PICTURE

INCOME TIMING

Like individual taxpayers, business owners may find various timing strategies useful in lowering taxes. For example, if you expect your C corporation to be in a substantially higher tax bracket in 2009, you may want to accelerate corporate income into 2008. If not, deferring income is probably the way to go.

The tax accounting method used by your business determines when income must be recognized for tax purposes and when expenses are deductible. Cash-method taxpayers report income when it is actually or constructively received and deduct expenses when payments are actually disbursed. Accrual-method taxpayers report these items for tax purposes in the year that their right to the income becomes final and all events have occurred creating the liability to pay the deductible expenses. In addition, you must be able to determine the amounts with reasonable accuracy.

EXPENSE TIMING

As year-end approaches, your business may be able to accelerate certain deductible and credit-eligible expenses into the current tax year. However, if you anticipate a substantial increase in business income next year — with a corresponding higher tax rate — postponing expenses until 2009 may be more tax effective.

LOSSES

You're certainly not in business to generate losses. However, if you do incur a loss, be sure you use it to lower your taxes. If you own an unincorporated business or are an S corporation shareholder, business losses generally are deductible on your personal tax return. Regular C corporations deduct allowable losses on their corporate returns.

A net operating loss (NOL) is generated when your business' deductions for the tax year are more than its income. NOLs generally may be carried back two

CORPORATE TAX RATES

If your company is a C corporation other than a personal service corporation,* you can estimate your corporation's regular 2008 federal income taxes using this table.

If taxable income is over	But not over	Your tax is	Of the amount over
$0	$50,000	15%	$0
$50,000	$75,000	$7,500 + 25%	$50,000
$75,000	$100,000	$13,750 + 34%	$75,000
$100,000	$335,000	$22,250 + 39%	$100,000
$335,000	$10,000,000	$113,900 + 34%	$335,000
$10,000,000	$15,000,000	$3,400,000 + 35%	$10,000,000
$15,000,000	$18,333,333	$5,150,000 + 38%	$15,000,000
$18,333,333		a flat 35%	

* *Personal service corporations pay a flat 35 percent tax.*

YOUR MOVE

TIME INCOME

- If your business uses the cash method of accounting, you might defer income by delaying billing notices so that payment won't be received until early next year.
- As an accrual-method taxpayer, you might defer income by delaying shipping products or providing services until the beginning of your 2009 tax year.
- Making year-end shipments free-on-board (FOB) destination, rather than FOB shipping point, can delay the transfer of title until next year. Income won't be realized until title passes.
- Advance payments received for the sale of goods or services may be deferred until next year if your business reports income on the accrual basis and meets other requirements.

ACCELERATE/INCREASE DEDUCTIONS

- You might have equipment or vehicle repairs done or purchase supplies before year-end if these expenses would be incurred in 2009 anyway.
- If you're an accrual-method taxpayer, you have more freedom to accelerate deductions into 2008. Look at deducting employee bonuses that you don't plan to pay until early next year (within the first 2½ months of 2009). You generally can't use this strategy for employees who own a greater-than-50-percent interest in the business.
- You also may be able to deduct vacation pay that is vested at year-end and will be paid within 2½ months after year-end.
- To deduct charitable contributions that you have planned for early 2009, make sure you note the charitable obligation in the corporate minutes before the end of 2008.
- Another way you might increase your 2008 deductions is to hire your children to work in your business during school breaks. As long as you pay them a reasonable amount for the work they do, you can deduct their compensation — potentially moving highly taxed business income into your child's lower personal tax bracket. And, if your business is unincorporated, you don't have to pay FICA tax on the wages paid to your child if he or she is under age 18.

years.* By carrying back an NOL realized in 2008, you may secure a refund of income taxes paid for 2006 and 2007. Unused NOLs may be carried forward to offset future income for as long as 20 tax years. A special election to forgo the carryback period is also available.

** Proposed legislation would extend the NOL carryback period.*

Other potentially deductible losses include:

- Business bad debts
- Casualty and theft losses (including natural disaster losses)
- Capital losses
- Losses on the sale of business assets

DISTRIBUTING CORPORATE EARNINGS

If your business is a C corporation and you anticipate having a profitable year, you may want to look at alternatives for distributing corporate earnings. Dividends paid to shareholders are not deductible by the corporation and represent taxable income to you and the other shareholders who receive them.

TAX REFUND OPPORTUNITY

Steve expects his company to show a $50,000 net operating loss (NOL) for 2008. The company, a regular C corporation, is not carrying forward any NOLs, and its tax history for the previous two years is as follows:

Year	Taxable Income	Income Tax
2006	$10,000	$1,500
2007	$37,000	$5,550
	$47,000	**$7,050**

Steve's company may carry back its $50,000 NOL for 2008 to offset all of its 2006 and 2007 income and obtain a refund of the $7,050 of tax paid for those years. The remaining $3,000 loss may be carried forward to offset future taxable income.

YOUR MOVE

USE LOSSES EFFECTIVELY

- If you expect to have an NOL for 2008 that can be carried back and used to offset your taxable income for a prior year, you might want to increase the loss by accelerating deductions into 2008.
- S corporation shareholders should make sure they have sufficient basis and amounts at risk to claim their full share of any loss passed through from the corporation. Making a direct loan to the corporation or an additional capital contribution before the end of the corporation's tax year can serve to increase basis. See us for more information.

AVOID THE ACCUMULATED EARNINGS PENALTY

- If your corporation has a reasonable business purpose for accumulating earnings greater than the $250,000/$150,000 that may trigger the accumulated earnings tax penalty — the anticipated purchase of new equipment or the purchase or construction of new facilities, for instance — document why the additional money is needed in the corporate minutes.

However, shareholders pay tax on qualified dividends at a maximum rate of only 15 percent through 2010.

Compensation is deductible by the company (as long as it is reasonable in amount) and taxable to you and other shareholder-employees as ordinary income. Thus, the income is taxed only once, at the individual's ordinary tax rate.

Amounts not distributed can be retained by the corporation for later use. However, if a company accumulates excessive amounts of retained earnings to avoid paying taxable dividends to shareholders, the IRS can assess a 15 percent accumulated earnings tax penalty. Generally, a corporation can accumulate up to $250,000 of earnings ($150,000 in the case of certain service corporations) without penalty.

ALTERNATIVE MINIMUM TAX

Like individual taxpayers, corporate taxpayers may have to pay alternative minimum tax. The AMT exemption amount for corporations is $40,000 (subject to an income-based phaseout) with AMT income taxed at a flat 20 percent rate.

Small corporations that meet a gross receipts test are *exempt* from AMT. To qualify for the exemption, a corporation's average annual gross receipts for all three-tax-year periods beginning after 1993 and ending before the current tax year generally can't exceed $7.5 million. A $5 million threshold applies for the first three-tax-year period taken into account in the test.

Computing corporate AMT is very complex. If you have any concerns that your corporation may be subject to the tax, please discuss them with us.

CONTACT US

Your next move may be to talk with us as soon as possible. By starting your year-end planning now, you'll have more time to accomplish your tax-saving goals. As skilled professionals, we have the experience, knowledge, and expertise to help you with all your planning needs — now and in the coming years. For more information about any of our services, contact us today.

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