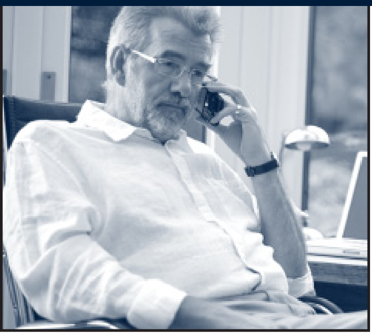

YEAR-END TAX PLANNING UPDATE

Enacted on October 3, 2008, PL 110-343 (the Emergency Economic Stabilization Act of 2008, Energy Improvement and Extension Act of 2008, and Tax Extenders and Alternative Minimum Tax Relief Act of 2008) contains core provisions to help the financial services sector and boost the economy, along with various tax provisions that will affect individuals and businesses. Add in new tax law provisions included in the Housing Assistance Tax Act of 2008, also enacted after *Year-End Tax Planning 2008* had gone to press, and you may find several additional opportunities to cut your federal income taxes.

The following are some of the changes in the new acts that may affect your year-end 2008 and 2009 tax planning.

ALTERNATIVE MINIMUM TAX RELIEF

For 2008, the AMT exemption amounts had been scheduled to drop from the 2007 figures of $66,250 (married individuals filing jointly), $44,350 (unmarried filers), and $33,125 (married individuals filing separately) to $45,000, $33,750, and $22,500, respectively — the exemption amounts in effect in 2000. Under PL 110-343, these exemption amounts are increased to $69,950 (married individuals filing jointly), $46,200 (unmarried filers), and $34,975 (married individuals filing separately) for 2008 *only*. Absent further legislation, the exemptions will drop back to the 2000 amounts in 2009.

STATE AND LOCAL TAXES

PL 110-343 extends two deductions for state and local taxes. The Housing Act had provided an additional standard deduction of up to $500 ($1,000 for married individuals filing jointly) for state and local real property taxes paid, available only for 2008. PL 110-343 extends the deduction through 2009. Also under PL 110-343, taxpayers who itemize their deductions again have the option of deducting state and local general *sales* taxes instead of state and local *income* taxes on their 2008 and 2009 returns.

TAX CREDIT FOR ELIGIBLE HOMEBUYERS

Under the Housing Act, eligible "first-time" homebuyers who purchase a principal residence after April 8, 2008, and before July 1, 2009, can receive a refundable tax credit of up to $7,500 (or 10% of the home's purchase price, if less). The credit may be available to you even if you've previously owned a home. It includes buyers who haven't owned a principal residence in the U.S. for three years before the purchase.

The available credit phases out for married individuals filing jointly with modified adjusted gross income (AGI) between $150,000 and $170,000 and for other taxpayers with AGI between $75,000 and $95,000. In effect, the credit is equivalent to an interest-free loan, since it must be repaid to the government (as an additional tax) in equal installments over 15 years.

HOME SALE EXCLUSION

On a less positive note, taxpayers who convert certain residences, including a vacation home or rental property, into their principal residence may not be able to fully exclude capital gain on a post-2008 sale of the home under the tax law's $250,000 ($500,000 for joint filers) capital gain exclusion provision. Generally, the exclusion won't apply to the portion of gain allocable to periods after 2008 when the residence was not used as a principal residence. So, if you are considering making your second home your principal residence, you may want to do so before January 1, 2009, to avoid application of the new rule.

EDUCATION-RELATED DEDUCTIONS

PL 110-343 also extends two popular education-related deductions through 2009. Eligible taxpayers may once again be able to deduct a limited amount of tuition and related expenses paid for higher education. The above-the-line deduction is capped at either $2,000 or $4,000, depending on income. No deduction is available if modified AGI is more than $80,000 ($160,000 on a joint return) or if an education credit is claimed with respect to the student. And eligible K-12 educators can claim an above-the-line deduction for up to $250 of classroom-related expenses they incur.

CHARITABLE CONTRIBUTION PROVISIONS

PL 110-343 extends expired charitable contribution provisions for both individual and business taxpayers. Individual taxpayers who have reached age 70½ can roll over money in individual retirement accounts (IRAs) to qualified charities on a tax-free basis through 2009. As much as $100,000 may be donated annually.

Through 2009, C corporations can claim enhanced charitable deductions for donations of books to schools, public libraries, and literacy programs. They can also claim enhanced deductions for charitable contributions of computer equipment and software to elementary, secondary, and post-secondary schools. Any business can take advantage of an enhanced charitable deduction for contributions of food inventory.

ENERGY INCENTIVES

PL 110-343 includes a variety of energy incentives. For individual taxpayers, it extends the tax credit of up to $500 for the costs of making certain energy-efficient improvements to your principal residence, including energy-saving exterior doors, windows, insulation, and certain metal roofs, and for the installation of equipment (such as a furnace or water heater) that meets specified standards for energy efficiency. The credit, which expired December 31, 2007, will now be available for 2009 (but not for 2008).

The new law also extends the 30% credit for installing solar equipment in your principal residence or second home through 2016 and, starting in 2009, eliminates the former $2,000 cap on the credit for solar electric equipment. Also extended is the credit for installing fuel cell property in a principal residence. The law also adds a new credit for the installation of small wind turbine systems to generate electricity and for expenditures on qualified geothermal heat pump property.

For businesses, PL 110-343 extends numerous energy credits and deductions — some through as late as 2016 — and adds several new ones. Among the new provisions, starting in 2009, employers can reimburse employees who ride bicycles to work for expenses of up to $20 a month on a tax-free basis. This benefit can't be funded through pretax salary deferral.

OTHER BUSINESS PROVISIONS

The research and development credit is extended through 2009, with an increase in the alternative simplified research credit rate from 12% to 14% for tax years ending after December 31, 2008. The alternative incremental research credit is repealed for tax years beginning after December 31, 2008. In addition, businesses can depreciate qualified leasehold and restaurant improvements placed in service before 2010 over 15 years. Improvements made to qualifying retail space in 2009 are also eligible for a 15-year depreciation period.

We would be happy to discuss with you how these recent tax law changes might affect your tax situation.