

**The Untold Secrets To Cost Cutting & Tax Savings for Individuals**  
**Irwindale Chamber of Commerce**  
Business Solutions Workshop  
November 2008

As a service of the Irwindale Chamber of Commerce, this free report is provided as part of the Business Solutions program with the generous support of member Steven Sorell, esq.

Mr. Sorell brings a valuable and rare set of experience to our community. With CFO experience for over 20 years, an MBA, Enrolled Agent experience for over 20 years, and a growing law and accounting practice over the last 8 years, you will not find a more knowledgeable person on the subject of cost cutting and tax savings. Mr. Sorell is a member of the California Bar Association, the American Institute of Certified Public Accountants, and the Irwindale Chamber of Commerce.

## **Top Individual Tax Planning Tips and Opportunities for 2008 and 2009**

Effective tax planning is a challenging task, even under the best of circumstances. The current economic environment and the upcoming change in administration make sound planning even more important but even more challenging and uncertain.

There are many opportunities for both Federal (IRS) and California tax planning that are currently available for both this year and 2009. Take advantage of them and don't pay any more in taxes than you need to!

The tips discussed here are available for individual wage earners. There is a companion report with important opportunities for self-employed and small business owners.

The following is a brief outline of often-overlooked tips and opportunities. The rules applicable to each are complex and this presentation can only identify the main areas for further inquiry. Always consult your tax and/or legal advisor beforehand.

### **Individuals**

1. Consider "bunching" of certain deductions into either 2008 or 2009.
  - Medical expenses may be deductible as itemized expenses to the extent they exceed 7.5% of your adjusted gross income (AGI), so it may be advantageous to prepay or defer so that you exceed the limit.
2. This may also apply to deductions such as property taxes and state income taxes, but beware of the alternative minimum tax (AMT) trap.
3. Congress has passed another AMT "patch" which increases the allowed deductions to approximately \$70,000 for married filers and \$46,000 for single filers
4. If not covered by an employer pension plan, consider making an IRA or Roth IRA contribution. A contribution can be made on behalf of a non-working spouse. A Roth IRA contribution is not deductible, but withdrawals, including appreciation, are not taxable if the applicable rules are followed.
5. Consider converting IRA accounts to Roth IRA accounts. This may be advantageous given the recent drop in the stock market.
  - Amounts converted are taxable now, but withdrawals are not.
  - Income limit is \$100,000 in 2008, but unlimited in 2010.
6. Take advantage of historically low capital gains rates. Even with the fall in the market, you may have gains.

- It is highly likely that rates will be increased in the future.
  - The capital gains rate in 2009 is ZERO for taxable incomes of \$65,000/\$32,500.
7. Consider selling losing stock positions to realize capital losses.
- Losses of up to \$3,000 can offset ordinary income
  - Excess losses can be carried forward
  - Good but downtrodden stocks can be repurchased after 31 days if they still have good long term prospects.
8. Transferring income to children may still produce benefits, but “kiddie tax” rules have been tightened.
- Up to \$1,800 of dividend/interest income may be claimed by each child.
  - Amounts over that will be taxed at the parent’s rate
  - Now applies to children up to 19, and 24 if attending school full time
  - Exception if child provides more than ½ of own support
9. Credit for qualified educational expenses has been retained; income limitations apply.
10. Energy credits available for qualified purchases
- For 2008, credits available for solar energy, plug-in automobiles and certain appliances
  - More credits will be available in 2009 for energy efficiency improvements, such as doors and windows
11. Relief is available to homeowners who have lost homes through foreclosure and short sale. Cancellation of debt (COD) income was taxable to such homeowners in certain cases, adding further injury to a bad situation.
- New rules allow taxpayers to exclude COD income
  - Does not apply to home equity lines (except if used to improve home)
  - Does not apply to investment properties
  - Other exclusions may still apply if the new relief is not applicable (insolvency)
12. Wage earners may be eligible to deduct non-reimbursed business expenses, such as business-related automobile usage, home office expenses and meals & entertainment.
- Deductible only to the extent that it exceeds 2% of AGI and may be subject to AMT exclusion
  - Rules to qualify such expenses are complex, especially home office
13. Qualified child care expenses may be a credit against taxes.

- Amount allowed depends on actual expenses and taxpayer income.
  - Usual limit is \$600 for one child, \$1,200 for two or more
  - Child care must be paid to qualified provider. An individual is OK, but must report Social Security Number
14. If your property has significantly fallen in value, consider an appeal of your property tax bill.
- Assessors in some areas have already begun to reduce assessments, but do not depend on this. If property is now worth less than its purchase price or has significantly fallen, then an appeal may be worthwhile.

### **Estate Planning**

No part of the tax law is more uncertain than estates. Current rules are very favorable, but expire after 2010 and revert to comparatively harsh limits. Given the uncertain economy and the new administration, it is unlikely that substantial relief in the form of “tax relief for the rich” will be forthcoming.

This subject area is far too complex to be covered in this presentation.

1. Current rules permit a decedent to pass \$2 million dollars tax free to his or her heirs. That exemption amount will increase to \$3.5 million for decedents dying in 2009, with an unlimited exemption in 2010.
  - Unless modified by Congress, the exemption amount will decrease to \$1 million for decedents dying in 2011 and thereafter.
2. The tax bite on amounts in excess of the exemption is 45%, and will increase to as high as 55% in 2011 and thereafter.
3. Larger estates can do much to minimize or avoid this substantial tax bite through the effective use of family trusts.
  - The family trust is the basic building block of an estate plan, and can be supplemented by other techniques such as gifting, FLP, special trusts
4. ***Even modest estates should have a trust.*** Without a trust, an estate passing to children will be subject to probate. In California, a probate can cost 5% to 8% of the total estate value, and the estate property may not be available for as long as two years.