



CRISER | GOUGH | PARRISH

December 2008

“Working together for you.”

Criser, Gough, & Parrish

The Advisor

Stephen M. Criser — Laura B. Parrish — Greg R. Gough

Happy Holidays

You are
cordially invited
to celebrate the
holiday season
with beverages &
hors d'oeuvres
at our
OPEN HOUSE
Thursday
December 11,
2007
4:00 until 7 p.m.
We hope you will
stop by and see us.
(Casual attire)

Be Happy and Give Thanks

Another year has come and gone and it is time for our annual open house at our east office. We look forward to seeing all of you and the food is always wonderful. Please try to drop by even if only for a few minutes.

I'll admit that the economic downturn is scary. This is no time to be complacent and do nothing. Consider the following ideas that may make this an opportunity:

- Consider taking capital losses to offset capital gains distributions or other capital gains. You may even want to buy back the same investment, if you wait 30 days to do so.
- Consider rolling your traditional IRA to a Roth IRA if your adjusted gross income is under \$100,000 and the market value of your IRA is down. When the market comes back you may never have to pay taxes on the potential increase.
- Consider contributing part of your IRA to charity. If done directly from the IRA trustee to the charity, it can replace your minimum required distribution. This may be a nice opportunity to make charitable gifts.
- Continue contributing to your 401K or IRA even though the markets are down. Hey, it's like buying stocks on sale.
- This is a great opportunity to get with your financial planner and get your financial plan and portfolio adjusted to reflect where you really want to go. Remember Gough Financial Group at our east office will be happy to work with you on this.

Finally – be happy and give thanks. Just three months ago a healthy portion of your income was being used on the purchase of gasoline. Today things are much different.

Look to the long term, make decisions deliberately and with patience, love your family and friends and be happy.

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2008 Year-End Tax Planning for Individuals

With the year drawing to a close, now is an ideal time to review your tax situation and evaluate strategies that may help minimize your tax bill. Once December 31 passes, your 2008 tax bill is essentially set. Taking certain steps before then can make a difference.

Favorable changes to the tax laws made in 2008 are also accompanied by unfavorable modifications. This year end, of course, our unprecedented financial crisis looms large. This crisis generates tax loss situations that we may not have faced in recent years, as well as a more urgent need to maximize current income that involves taking steps to minimize tax payments whenever possible.

Year-end tax planning tips typically fall into two general groups: (1) the traditional strategies that have proven themselves useful year after year, and (2) new opportunities and pitfalls that have arisen from recent changes to the tax laws.

TRADITIONAL TAX STRATEGIES

Income Shifting

One of the most fundamental year-end tax planning techniques involves accelerating deductible expenses in 2008 and deferring income, if economically feasible, into 2009. By delaying taxable income you defer taxes. Delaying taxable income may also prevent you from losing lucrative tax breaks that can be reduced or eliminated altogether as your income level rises and propels you into a higher tax bracket.

Shifting income, however, is not always a matter of simply delaying receipt of funds. Tax rules may require you to recognize certain types of income when you have earned the right to receive it, even if you arrange for its delayed payment. This office can help you recognize and navigate the differences.

Deduction Management

Essential year-end tax planning requires determining whether you will take the standard deduction or whether you will itemize your deductions. Consider “bunching” deductible expenses into one or the other year, depending

upon whether the standard deduction may be taken in one year or whether the adjusted gross income limits for medical (7.5 percent) or miscellaneous deductions (2 percent) may be more easily met.

Portfolio Timing

The end of the year is the right time to examine your investments to take the steps necessary to minimize your capital gains income and maximize the benefit of any capital losses. Especially this year, when the stock market took its roller-coaster ride, gathering your portfolio’s records for the entire year can make a difference in not only what you might buy or sell in December, but also what estimated tax you will need to pay (or not pay) for the fourth quarter of 2008.

Long-term capital losses can be used to fully offset long-term capital gains. Losses taken in excess of gains can also be used to offset up to \$3,000 in ordinary income (or \$1,500 for a married couple filing separately). The strategy for short-term gains and losses follows a similar game plan, although coordinating the two sometimes take special care.

Retirement Planning

Year-end planning for 2008 also involves maximizing annual contributions to your retirement plan accounts, since one year’s limit cannot be added to the next year’s if not added in time. Maximizing contributions to your retirement plan(s) before year end also allows you to reduce your adjusted gross income in direct proportion to those contributions. Managing a tax-deferred retirement account is not a “set it and forget it” proposition. It requires careful management and re-allocation of assets whenever appropriate. Losses on any 401(k) plan are not tax deductible; nor can they offset capital gains in non-tax sheltered accounts.

Gift-Giving

Before year-end 2008, you can transfer up to \$12,000 per family member, per year, without paying gift tax on the amounts transferred. Married couples can gift \$24,000 per person by “splitting” their gifts. (continued on page 3)

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NEW OPPORTUNITIES

AMT patch. For the 2008 tax year, the alternative minimum tax (AMT) exemption amounts are raised to once again insulate most middle-income taxpayers from the reach of the AMT. The patch is only for 2008. Hopes are high that in 2009 Congress finally will face up to the need to find a permanent solution to the AMT and pass AMT reform rather than yet another patch.

Income for forgiveness of mortgage indebtedness.

Those principal-residence homeowners who have part of their mortgage debt forgiven as part of a workout or foreclosure have been spared having to pay income tax on that forgiven income. The Mortgage Indebtedness Relief Act of 2007 first applied this tax-free treatment to debt forgiveness taking place from 2007 through 2009. The Emergency Economic Stabilization Act (EESA) of 2008 extended it through 2012.

Property tax standard deduction. The Housing Assistance Act of 2008 gives non-itemizers a limited deduction for state and local real property taxes for 2008, to a maximum \$1,000 (\$500 for single individuals). The EESA extends the same relief to 2009.

State and local sales tax deduction. Under this deduction, taxpayers who itemize deductions have the option of claiming either state and local income taxes or state and local general sales taxes. The EESA extended this deduction for 2008 and 2009.

Tuition and fees deduction. Taxpayers may continue to deduct qualifying tuition and fees paid in 2008 that are required for the student's enrollment or attendance at a post-secondary school. This deduction can reduce taxable income by as much as \$4,000. They are frequently more valuable than taking a Hope or Lifetime learning credit. Since this deduction has also been extended for 2009, deciding in which tax year an upcoming tuition payment will be made can help maximize your overall education deductions and credits.

Classroom deduction. Full-time teachers, instructors,

counselors, and other educators can deduct up to \$250 worth of books, supplies, software, and other qualifying materials that they provide out of pocket expenses. The deduction had been set to expire at the end of 2007, but Congress now has extended it for 2008 and 2009. Educators should remember that this deduction is based on the calendar year rather than the school year.

Tax-free IRAs charitable contributions. The EESA extends through December 31, 2009, the opportunity for certain taxpayers age 70 1/2 or older to make tax-free distributions from IRAs for charitable purposes. This contribution can include any required minimum distribution that the taxpayer would be otherwise required to take.

Residential energy property. If you are contemplating installing energy-efficient doors and windows, water heaters or other items in 2008, you may want to wait until 2009. The nonrefundable lifetime credit could reach as high as \$500. The EESA reinstates the credit but not for 2008. The new law reinstates the credit for 2009 through 2016. The EESA also expands the credit to include certain stoves that use renewable plant-derived fuel along with other enhancements.

Another incentive is available in 2008 for certain **energy efficient improvements**. Solar electric property, small wind energy property and some heat pump property may qualify for the residential alternative energy tax credit. Additionally, you can use the residential alternative energy credit against AMT liability in 2008.

GIVE OUR OFFICE A CALL.

There are many more techniques that can be used depending on a client's individual circumstances.

For a more detailed plan that can be customized to your particular circumstances, please don't hesitate to give our office a call.

Pursuant to federal regulations imposed on practitioners who render tax advice ("Circular 230"), we are required to advise you that any tax advice contained herein is not intended or written to be used for the purpose of avoiding tax penalties that may be imposed by the IRS.

(Source: CCH's Client Letters)

Vacation Home Conversions

Gain from the sale of a principal residence that is allocable to periods of “nonqualified use” can no longer be excluded from the taxpayer’s gain realized on its sale.

A technique that has been used by many vacation home owners is to eventually convert that second home into a principal residence before its sale and claim a full \$250,000 principal residence exclusion (\$500,000 for joint filers) on the gain.

Due to a loophole closing provision in the 2008 Housing Assistance Tax Act, any conversion made after December 31, 2008, cannot shelter the portion of that gain allocable to post-2008 appreciation.

Did You Know...

Half of all identity thieves are either relatives, friends, or neighbors of their victims.

Biking to Work

Another new tax break that doesn’t begin until 2009 is a new employer-provided transportation fringe benefit.

In addition to transit passes and van pooling, employers starting in 2009 can offer their employees up to \$20/month as a tax-free benefit if they commute to work by bicycle.

To inaugurate this benefit starting in January, however, employers must incorporate it into their written fringe benefit plan, a process that should start soon.

Tax Facts

- In 1916 Congress deleted the word “lawful” before the word “income” making illegal income taxable.
- The IRS employees tax manual has instructions for collecting taxes after a nuclear war.

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