

Tax Strategy Summary

Introduction

How the Tax System Works

Former President Jimmy Carter called the tax code “a disgrace to the human race.” If you’ve ever wondered how it works, here’s a brief introduction. ... page 2

Avoid the Alternative Minimum Tax

The Alternative Minimum Tax has effectively become a “flat tax” for millions of families, wiping out deductions for state and local taxes, miscellaneous itemized deductions, and more. Avoiding AMT has become more important as more taxpayers become subject to the tax. ... page 9

Withholding and Estimated Taxes

Withholding and estimated taxes are the key to making the tax system work. Review these amounts any time your income changes to avoid an April 15 surprise! ... page 12

Family, Home, & Job

Tax-Smart Day-Care Choices

Congress has traditionally used the tax code to favor families with children. Make sure you understand how to claim Dependent Care Credit benefits. ... page 14

Avoid "Kiddie Tax"

Shifting investment income to your children can significantly cut your overall family tax bill. But there are important rules to follow with children under age 19, and full-time students under age 24. ... page 15

Tax Strategies for College Savings

Section 529 plans, Education Savings Accounts, U.S. savings bonds, and permanent life insurance policies all offer tax advantages for your family’s college savings. ... page 16

Make the Most of Home Equity Interest

Borrowing against your home lets you convert nondeductible personal interest (credit cards, auto loans, etc.) into deductible home equity interest. However, there may be limits. ... page 20

Potential Savings: Up to \$150 in income tax for every \$1,000 of personal interest converted to home equity interest.

Make the Most of Health Savings Accounts

Your Health Savings Account lets you make deductible contributions for unreimbursed medical and dental expenses. Make sure you understand how to take advantage of this new opportunity. ... page 21

Potential Savings: Up to \$435 in income tax for single coverage and \$870 for family coverage.

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Your Business

Strategies for Limited Liability Companies

A limited liability company can be used to help avoid self-employment tax and shift income to lower-bracket family members. Make sure you consider all of these opportunities. ... page 23

Potential Savings: Up to \$153 for every \$1,000 no longer subject to employment tax, plus \$303 in income and employment tax for every \$1,000 shifted to lower-bracket taxpayers.

Strategies for "S" Corporations

Consider establishing an "S" corporation. This may help avoid self-employment tax and shift income to lower-bracket family members. ... page 24

Potential Savings: Up to \$153 for every \$1,000 no longer subject to employment tax, plus \$303 in income and employment tax for every \$1,000 shifted to lower-bracket taxpayers.

Strategies for "C" Corporations

Consider establishing a "C" corporation to provide the broadest range of deductible employee benefits. However, be aware that these corporations require the most ongoing administration to avoid double taxation and other potential costs. ... page 25

Maximize Car and Truck Deductions

You can choose two different methods for deducting business car and truck expenses: "actual expenses" or the mileage allowance (58.5 cents/mile for July-December, 2008). The right choice can add thousands in deductions and easily justify recordkeeping requirements. ... page 26

Potential Savings: Up to \$303 in income and employment tax for every \$1,000 in extra car & truck deductions.

Make the Most of Business Meals/Entertainment

Business meals and entertainment, along with business gifts and business travel offer potentially valuable deductions. Be sure to take advantage of every deductible dollar. ... page 28

Potential Savings: Up to \$303 in income and employment tax for every \$1,000 in additional deductible meals and entertainment.

Make the Most of Business Travel

Reporting business travel expenses may seem straightforward. However, combining business with vacation travel can maximize your travel dollar and reward you with tax-deductible fun. ... page 30

Make the Most of Home Office Deductions

Home offices are no longer the "red flag" they have traditionally been feared to be. However, there are strict rules regarding "regular and exclusive use" to follow to preserve your deduction. ... page 31

Potential Savings: Up to \$303 in income and employment tax for every \$1,000 of deductible home-office expenses.

Separate Entities for Business Assets

Segregating business assets such as equipment, vehicles, and real estate in separate entities may offer valuable tax breaks as well as enhanced asset protection. ... page 33

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Take Advantage of "Certain Fringe Benefits"

The tax code offers a variety of little-known fringe benefits, even for startup and sideline businesses. Make sure you take full advantage of these opportunities. ... page 34

Potential Savings: Up to \$303 in income and employment tax for every \$1,000 in qualifying deductible benefits.

Hire Your Family

Hiring your children lets you shift income that would otherwise be taxable to you (at your top rate) to them, to be taxed at their lower rate. This, in turn, lets you “deduct” the private or parochial school tuition, summer camps and activities, and college savings you fund with their income. ... page 35

Potential Savings: Up to \$303 in income and employment tax for every \$1,000 paid to a “zero-bracket” taxpayer.

Consider Health Savings Accounts

New Health Savings Accounts let you cut health insurance premiums with high-deductible policies, then establish deductible savings accounts for you and your employees to fund unreimbursed expenses. Make sure you understand the pros and cons of this new opportunity. ... page 36

Potential Savings: Up to \$435 in income tax for single coverage and \$870 for family coverage.

Consider a Medical Expense Reimbursement Plan

A Medical Expense Reimbursement Plan lets your business reimburse you for your family’s uninsured medical expenses. This avoids the usual limit for deducting medical expenses (7.5% of Adjusted Gross Income) and may also save self-employment tax if your business is taxed as a sole proprietorship or partnership. ... page 38

Potential Savings: Up to \$303 in income and employment tax for every \$1,000 in qualifying expenses.

Consider a SIMPLE IRA

A SIMPLE IRA lets you and your employees defer up to \$10,500 of income, plus \$2,500 more at age 50 and up. It’s easy to establish and administer, and may offer the maximum savings for incomes under \$42,000. ... page 39

Potential Savings: Up to \$1,575 in income tax for employee deferrals, plus \$150 for every \$1,000 in employer contributions.

Consider a Simplified Employee Pension (SEP)

SEP accounts are the workhorse retirement plan choice for many small businesses and most self-employed individuals. Make sure you understand how to take full advantage of the opportunity. ... page 40

Potential Savings: Up to \$150 in income tax for every \$1,000 in deductible contributions.

Consider a 401(k) Plan

401(k) plans let you and your employees make the largest allowable contributions at most income levels. These have become increasingly popular choices for self-employed individuals as well as larger employers. ... page 41

Potential Savings: Up to \$2,325 in income tax for deferral contributions, plus \$150 for every \$1,000 in deductible employer contributions.

Your Investments

Understand Mutual Fund Distributions

Different funds can have vastly different tax implications, even for funds with similar investment objectives. Be sure you understand how your funds are taxed before you buy, to build the most tax-efficient portfolio possible. ... page 43

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Consider Low-Income Housing Tax Credits

Low-income housing tax credits offer a little-known opportunity to invest a lump sum in exchange for ongoing tax credits. However, these programs aren't for everyone, and there are many circumstances that can disqualify you from participating. ... page 48

Potential Savings: Up to \$3,750 in income tax per year.

Tax Opportunities for "Real Estate Professionals"

Claiming "real estate professional" status lets you avoid "passive income" limits on real estate losses. Be sure to take advantage of this valuable break. ... page 49

Cashing Out

Understand Capital Gains

Tax on most long-term capital gain is capped at 15%. But capital gains can cost you valuable deductions, credits and allowances, and subject you to the Alternative Minimum Tax. Be sure you understand how your gains affect your total bill. ... page 51

Section 1031 Exchanges to Defer Tax on Sales

Real estate investors can take advantage of Code Section 1031 to exchange, rather than sell, their properties. This defers the tax on your gain you would otherwise pay, so you can use the savings to further build your investment. ... page 52

Potential Savings: Up to \$150 in income tax for every \$1,000 of long-term capital gain deferred.

Charitable Trusts for Appreciated Assets

Charitable trusts let you sell appreciated assets such as stocks, real estate, or a business, avoid the tax you would otherwise pay on the gain, and take valuable charitable deductions. ... page 53

Potential Savings: Up to \$150 in income tax for every \$1,000 of long-term capital gain deferred.

Avoid Probate on Taxable Assets

Probate imposes an indirect tax on assets held in your name at your death. Avoiding probate is generally not difficult, and helps maximize the after-tax legacy you leave your family. ... page 54

Minimize Estate Tax

Federal income tax rates top out at 35% for taxable incomes over \$349,700. But estate tax rates start at 46% for estates over \$2 million. Good estate planning can minimize or eliminate this most devastating tax. ... page 55

Potential Savings: 46-90% of assets above \$2.0 million.

Disclaimers

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“Potential Savings” are based on your marginal federal income tax bracket, and where applicable, marginal employment tax bracket (FICA and Self-Employment tax), as calculated using the information you provided. These estimates do not include additional savings which may be available at the state and local tax levels.

Any tax advice contained in the body of this presentation was not intended or written to be used, and cannot be used, by the recipient for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code or applicable state or local tax law provisions.