



**MOCERI & COMPANY, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

45100 Sterritt Street • Suite 200 • Utica, Michigan 48317-5843  
☎ (586) 254-2010 • Fax (586) 254-4856 • ✉ general@moceri-cpa.net

Joseph P. Moceri, C.P.A.  
Michael Kramer, C.P.A.- kramer@moceri-cpa.net

Mary E. Pruss, C.P.A. – mpruss@moceri-cpa.net  
Ann Walsh, C.P.A. – awalsh@moceri-cpa.net

## OCTOBER TAX ALERTS

### **Reviewing Last Year's Tax Return for 2009 Tax Savings**

Now is a good time for you to take proactive steps by examining your 2008 return to determine what you might do differently this year to change the outcome of your 2009 return to realize greater tax savings.

### **Re-evaluate your portfolio**

The stock market has hit investment portfolios hard over the last year. If the stock market continues to batter your portfolio, evaluate whether it needs a clean up and consider selling off losing stock if you did not do so in 2008. You can use up to \$3,000 in net capital losses to offset your ordinary income in 2009. However, when selling stocks, watch the "wash sale" rule, which prohibits you from taking a loss if you buy back the same stock within 30 days before or after the sale. If you already sold losing stocks in 2008, you may now have substantial loss carryforwards. They can be used in 2009 and later to shelter capital gains that you may realize, with any excess again deductible against ordinary income up to \$3,000. Now might also be a good time to consider short-term trades since loss carryovers can offset any short term gains dollar for dollar to the extent they exceed any long-term capital losses for the year.

Legislation has been introduced in Congress to increase the \$3,000 limit, which has been at that level since 1978. One bill would double the limit to \$6,000; another would raise it to \$10,000. However, with Congress looking to reduce the huge federal budget deficit, it is unlikely that these proposals will be enacted soon so it is best to plan for the immediate future using the \$3,000 limit.

### **Adjust your withholding or estimated tax payments, if necessary**

If you paid too much in withholding, or not enough, in 2008, look to adjust your withholding this year. Or, perhaps you learned this filing season that you should be paying estimated tax. This is not as complicated as many people think, and we can certainly help.

### **Retirement savings and required minimum distributions**

Do not neglect contributing to your retirement savings accounts. Although it may be difficult in light of the current economic downturn, it is always wise to contribute to a retirement plan, or consider starting one if you have not already done so. The contribution limit to an Individual Retirement Account (traditional or Roth), is \$5,000 for 2009. If you are 50-years-old or older you can make "catch-up" contributions for 2009 up to \$6,000.

Moreover, an important development for many involves the temporary suspension, for 2009 only, of required minimum distributions (RMDs) from qualified retirement accounts. For qualified participants, this may require careful financial and tax planning.

### **Coping with unemployment**

The loss of a job creates new tax issues. Unemployment compensation is taxable income; there is a temporary exclusion for the first \$2,400 of unemployment compensation received in 2009. Severance pay and payments for vacation or sick time are also taxable.

Many individuals are tempted to tap retirement savings while unemployed. Withdrawing these funds from an IRA before age 59 1/2 may result in a penalty and inclusion of the amount in income. While there are some exceptions to the penalty, such as using IRA funds to pay for medical insurance premiums while unemployed, withdrawals must be taken under strict rules. If you are considering taking money from a retirement account to pay certain expenses, please contact our office to discuss whether there may be adverse tax consequences and, if not, how best to arrange the withdrawal. We also would want to talk with you about other, more tax-friendly options as well.

### **Credits and deductions**

Understanding what credits and deductions you qualify for can be confusing since the tax laws relating to these incentives often times change from year to year. Moreover, this year you may experience life events -- marriage, births, medical emergencies, home purchases, etc. -- that may qualify you for many tax breaks. Or perhaps you may be ineligible for certain deductions and credits because your income in 2009 is too high, or you qualify for certain incentives because your income drops in 2009.

Some of the major adjusted gross income limited tax benefits applicable to 2009 include:

- \* The New Making Work Pay Credit (phase out starts at \$75,000 for singles/\$150,000 AGI for married joint filers)
- \* The new sales tax deduction for purchasing a new vehicle (phase out starts at \$125,000 for singles/\$250,000 AGI for married joint filers)
- \* The first-time homebuyers credit (phase out starts at \$75,000 for singles/\$150,000 AGI for married joint filers)
- \* New American Opportunity Tax Credit (phase out starts at \$80,000 for singles/\$160,000 AGI for married joint filers)
- \* Contributions to Roth IRAs (phase out starts at \$105,000 for singles/\$156,000 AGI for married joint filers)
- \* IRA deductions for Qualified Plan participants (phase out starts at \$55,000 for singles/\$89,000 AGI for married joint filers)
- \* Education deduction (phase out starts at \$65,000 for singles/\$130,000 AGI for married joint filers)

Many factors affect what credits and deductions you can take. We are happy to sit down with you and thoroughly review your options and what deductions and credits you may qualify to take in 2009.

## **Education expenses**

Perhaps you are considering returning to school, or preparing for your children's education. Some tax-friendly savings incentives available in 2009 include education credits and deductions, 529 plans, education savings accounts, and even employer educational assistance.

## **Estate planning**

Often times when looking to maximize your income tax savings in preparation for another filing season, many people forget about looking more long term at tax breaks that are part-and-parcel with estate planning. This outlook is especially important in 2009 since legislation is on the horizon that may make major changes to the estate tax starting next year. You may have heard that the federal estate tax is set to be repealed completely for 2010, but legislation is in the works in Washington to repeal the repeal.

In the meantime, one tax-related estate planning tool that is very simple and can be utilized often over the year is gift-giving. You can make tax-free gifts in 2009 of up to \$13,000 per recipient. If you are married, you and your spouse can gift, tax-free, up to \$26,000 per person.

## **Tax Issues for Higher Income Individuals**

You have worked hard for your money and you would like to reap the benefits to the greatest extent possible. Your ultimate goal is to sustain a successful wealth-building strategy while avoiding unnecessary and expensive tax consequences. You will be happy to know that we are willing and able to help you achieve these objectives.

For instance, did you know that if you contribute highly appreciated stock shares instead of cash to your favorite qualified charity, you are able to take a deduction for the stock's fair market value, and avoid paying taxes on the unrealized capital gain? The cash you save could be used to buy new shares of the contributed stock, effectively accomplishing a step-up in basis. Or if you wish, you could use the money to invest in other stocks or mutual funds, and rebalance your investment portfolio.

Have you considered swapping your investment property for another of a "like-kind?" You may be able to transfer your old basis to the new property, and defer any gain you may otherwise realize had you sold the property outright. For transfers occurring on or after March 10, 2008, you may even exchange a vacation property that you occasionally use for personal purposes, if you follow specific "qualifying use" standards.

There are several tax incentives that are available only through the 2009 tax year:

- \* There is no required minimum distribution for 2009 from individual retirement plans.
- \* Qualified individuals with small business income may base their estimated tax payments on 90 percent of the prior year's tax liability. The qualified individual's AGI for the preceding tax year must be less than \$500,000 (or \$250,000 for a married person filing separately) and more than 50 percent of the preceding tax year's gross income must be from a business which employed less than 500 employees.
- \* The percentage exclusion for qualified small business stock sold by an individual is increased to 75 percent for stock acquired after February 17, 2009 and before January 1, 2011. This results in a reduction in the effective tax on the entire gain to seven percent of the regular tax and 12.88 percent under alternative minimum tax (AMT).
- \* Qualified charitable distributions from a traditional or Roth IRA of up to \$100,000 per individual IRA owner (up to \$200,000 for married individuals filing jointly) are excluded from gross income, and are not taken into account in determining the limit on charitable deductions. Qualified charitable distributions must be made directly by the IRA trustee to eligible organizations, and they are not deductible as a charitable contribution.

These are just some of the many federal tax developments so far this year, and we expect many more. Please contact our office if you have any questions about these or other developments.

**Any U.S. Federal income tax advice contained in this communication is neither intended nor written to be used and cannot be used to avoid penalties under the Internal Revenue Code or to promote, market or recommend to anyone a transaction or matter described herein.**