

# Tzinberg & Dowdy, P.C.

An Asset, not an Expense!™



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Tzinberg, Goldenberg & Dowdy, P.C. and Stone Carlie & Company, L.L.C. agreed to combine in July, 2007. Both firms believed there would be significant benefits to the combination, and both firms share the same mission - to proactively contribute to the financial success of our clients. But the efficiencies and synergies didn't materialize.

Accordingly, both firms have decided to part ways on a very amicable basis along the same lines that we came together. Both firms will continue their ongoing friendship, will refer engagements to each other when appropriate, and will continue to put the needs of clients first.

The staff at our office did not change as a result of the combination, and will not change now. We will continue to serve you as we have in the past. We will still be able to meet with clients in Clayton when needed, although we may meet at a different location. Our name will now be Tzinberg & Dowdy, P.C.

For over twenty-five years our growth has been generated entirely by your referrals — for which we are grateful. If you know someone that might benefit from our services, please call Alex Tzinberg, our Director of Marketing, at (618) 205-4026, or email him at [alex@tzinberg.com](mailto:alex@tzinberg.com).

*Thanks for the referrals! If you think this newsletter would be of interest or help to friends or associates, let us know and we will add them to our mailing list.*

The information in this newsletter is of a general nature, omits many details and special rules, is current only as of its published date, and accordingly cannot be regarded as tax advice. Please contact our office for more information regarding your specific situation.



Financially volatile 2008 is almost over. You should still review your tax situation with the objective of identifying moves you might still make in the remaining days of 2008 to minimize your tax bill.

Congress passed the Emergency Economic Stabilization Act of 2008 after the initial three-page "bail-out" bill ballooned to more than 400 pages with the inclusion of provisions on energy, disaster relief, the alternative minimum tax, and expiring tax breaks. President Bush signed the bill on October 3. The tax portion of the new law increases the 2008 exemption amounts for the alternative minimum tax, extends through 2009 the deductions for state and local sales taxes, tuition expenses, and teachers' out-of-pocket expenses, and extends the provision allowing older taxpayers to make tax-free contributions of IRA funds to charity. Credits and deductions for energy-saving investments are extended, and the business credit for research and development expenses is modified and extended through 2009.

Most tax planning is concerned with the timing and method of reporting income and deductions. The basic philosophy is to defer the payment of tax. Accelerating deductions and postponing recognition of income items typically accomplish this.

In this issue of our newsletter we are listing some of the major areas for both individuals and business taxpayers to consider. Remember that all of these items may not be relevant to your specific situation. Therefore, it is a good idea to check with us before taking any significant steps.

### **Individual Income Tax Considerations**

- **Bonuses and Salaries** – It may be to your advantage to arrange with your employer to defer a bonus that may be coming your way until 2009. (Your employer may still be able to claim a deduction on its 2008 tax return.)
- **Stock and Bond Sales** – Consider accelerating realized losses on stocks while substantially preserving your investment position. One way this can be achieved is by selling the original holding, and then buy back the same securities at least 31 days later. Up to \$3,000 of net losses from security transactions can offset other taxable income. Current year losses in excess of \$3,000 will carry over to next year. Remember, gains and losses are determined on the trade date, not the settlement date.  
You may want to postpone until January the sale of stock with a gain to defer income recognition. You also need to be mindful of the length of time that you have held the investment – favorable long-term capital gain rates are applicable when you have held the property for more than one year. Think carefully about not spoiling that favorable long-term capital gain rate with a short-term capital loss.  
The future of historically low capital gains tax rates is uncertain, to say the least. It may be advisable for us to discuss year-end trades you may be considering making.
- **Deductible Expenses** – Consider using a credit card to prepay expenses that can generate deductions for this year. Also, taxpayers have the option of deducting the higher of state and local income taxes or state sales tax. It may be appropriate to defer or accelerate the payment of the fourth quarter state estimated tax payment to take advantage of a higher sales tax deduction in one year and state income taxes in the other.
- **Charitable Donations** – A transfer of appreciated property may avoid taxable capital gains from a sale of such property while, at the same time, allowing a charitable deduction for its fair market value. For property whose fair market value is less than your cost, consider selling the property to recognize the loss and then contribute the sale proceeds.

### **Individual Income Tax Considerations (Continued)**

The Emergency Economic Stabilization Act of 2008 (the Act) temporarily waives, for 2008, the limitations for charitable deductions for cash donations that exceed 50% of an individual's AGI, as long as they are used for the Midwest disaster area. For corporations, the Act temporarily waives the 10% limitation. Taxpayer's may fully deduct qualifying charitable donations and such donations are not subject to the overall limit on itemized deductions.

Remember that all charitable contributions must be substantiated with bank records or receipts to be deductible. Qualifying Midwest disaster relief donations must be substantiated in writing by the organization stating the contributions have been used in relief efforts in the Midwestern disaster area.

- **Retirement Contributions** – Make the maximum contribution to retirement arrangements whether employer sponsored or an IRA (see chart below).  
If you believe a Roth IRA is better than a traditional IRA, and want to remain in the market for the long term, consider converting traditional-IRA money invested in beaten-down stocks or mutual funds into Roth IRAs if eligible to do so. The market decline provides a chance to convert a traditional IRA to a Roth at a much lower tax cost than would have been possible when stock market values were high.
- **Tax Basis** – Review your tax basis in partnerships or S corporations that may have a current-year loss. If the tax basis is insufficient to claim the loss, you may need to make a capital contribution to the business in order to deduct the loss. Otherwise the 2008 loss will be carried forward and the basis issue can be addressed in 2009.
- **'Kiddie Tax'** – This area has seen many changes in the last few years. For 2008, a dependent child under age 19 (or age 24 if a full-time student) may be subject to tax at the parents' higher marginal rate on unearned income in excess of \$1,800. In computing the parents' rate, all unearned income of all children under 19, in excess of \$1,800, is added to the parents' taxable income. This could result in the children's income taxed at the highest rate of 35 percent while the parents' top rate may be lower.

### **Tax Considerations for Business Entities**

**New Equipment** – Consider making expenditures that qualify for the higher business property expensing option (up to \$250,000 for 2008) for assets purchased and placed in service this year. Limitations may apply if total expenditures exceed \$800,000. In addition, for other property placed in service in 2008, an additional 50 percent bonus depreciation allowance is available. These amounts are scheduled to decrease substantially or be eliminated for next year.

### **Gift and Estate Tax**

Estate tax rates are higher than the income tax rates. The top estate tax rate is 45 percent. It makes sense to ensure that the largest amount possible ends up with your heirs, not with the federal or a state government.

Gift giving provides a good opportunity to transfer income-producing assets to heirs who may be in a lower income tax bracket. The 2008 federal annual exclusion for gifts is \$12,000 per donee (\$13,000 for 2009 gifts). If you are married and your spouse consents, the effective annual exclusion can be \$24,000 per donee. In addition, it is possible to transfer an additional \$1 million of gifts without incurring a current gift tax payment.

Payments of tuition and medical expense for an individual are not subject to gift tax. There is an unlimited exclusion of amounts paid directly to educational organizations for tuition (not books, fees, etc.) and healthcare providers for medical expenses.

During these times of uncertainty, remember that we are here to help you. To ensure compliance with requirements imposed by the IRS, we inform you that any tax advice contained in this communication was not intended or written to be used, and may not be used, for the purpose of avoiding penalties that the IRS might attempt to impose on a taxpayer.