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Business Advisors/CPAs

Tax & Business Letter

THE MOSS ADAMS CONNECTION

SPRING 2009

2008 losses offer planning opportunities

Checking your IRA statement may be stressful these days, but there are some planning options that could ease the pain a bit.

Retirement plan losses

Trillions of dollars disappeared from taxpayers' retirement accounts in the closing months of 2008, thanks to the crisis in the financial markets. If your IRA lost value, you might have a tax opportunity to consider.

■ **Convert your traditional IRA to a Roth IRA.** Converting to a Roth triggers income tax on the value of your IRA, but since your IRA's value has dropped, the tax would also be lower. The benefit: Qualified withdrawals from Roth IRAs are tax-free while withdrawals from traditional IRAs are subject to ordinary income tax. There is a $100,000 income threshold to qualify for a Roth conversion in 2009; this income limit ends in 2010.

■ **Recharacterize a Roth to a traditional IRA.** What if you converted your traditional IRA to a Roth IRA in 2008 before the market took a dive and are now facing income tax on a higher value than your Roth IRA currently has? In this situation, you might consider what is called a "recharacterization" making a trustee-to-trustee transfer from the Roth back to a traditional IRA, essentially canceling out the original conversion to a Roth and any taxes due.

2010 rule change

Thanks to a 2006 tax law change, more individuals will be able to convert a regular IRA into a Roth IRA, starting in 2010.

■ **Basic rules**. With a regular IRA, contributions may be wholly or partially deductible, depending on your adjusted gross income (AGI) and whether you (or your spouse) participate in a qualified retirement plan. Distributions are taxable to the extent they represent tax-deductible contributions and earnings.

In contrast, Roth IRA contributions are never tax-deductible, but distributions are tax-free provided you meet the age and holding period rules. In 2009 you can convert a regular IRA to a Roth only if your AGI is $100,000 or less, and you have to pay tax on the conversion.

■ **New rules.** Next year the $100,000 cap is removed, and the income tax due on the conversion can be spread over two years 2011 and 2012.

If you anticipate converting to a Roth in 2010, you might build up your regular IRAs this year. For instance, even if you don't qualify for deductions, you can contribute to an IRA on a nondeductible basis.

Finally, you don't have to convert the entire balance in an IRA or all of your IRAs. So you can effectively reduce tax by arranging partial conversions over time.

The rules governing IRAs are complex, so see us before you do anything. We can help you analyze the options available in your specific circumstances.

Inside this issue...

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Expect frequent tax revisions this year

Expect to see a number of new tax laws this year, starting with the *American Recovery and Reinvestment Act of 2009*. This two-year plan is intended to stimulate the economy and cut taxes for the middle class. Areas to watch for change this year include the following:

- Increased incentives for first-time homebuyers.
- Tax breaks for businesses.
- Middle-class tax cuts, probably in the form of payroll tax cuts.
- Extension and expansion of the work opportunity tax credit for hiring employees from various targeted groups.
- Extension of the $250,000 expensing limit and 50% bonus depreciation for the purchase of business equipment.
- Expanded net operating loss carryback period for businesses.
- “Patching” the alternative minmum tax for 2009.
- Expanded education tax credits.
- Expanded energy tax breaks for individuals and businesses.
- Expanded relief for the unemployed.
- Changes to the estate tax (which is scheduled to expire in 2010 and reappear at higher levels in 2011).

As tax law changes, opportunities for tax savings may become available to individuals and businesses. Contact our office for the latest rules before making important financial decisions.

What’s New for 2009

2009 retirement plan contribution limits:

- IRA – $5,000 ($6,000 if 50 or older)
- 401(k) – $16,500 ($22,000 if 50 or older)
- SIMPLE – $11,500 ($14,000 if 50 or older)

- Though the top estate tax rate remains at 45% for 2009, the exemption amount increases to $3.5 million. The annual gift tax exclusion increases to $13,000.
- The standard mileage rate for business driving is 55¢ a mile. The rate for medical and moving expenses is 24¢ a mile.
- The “kiddie tax” threshold increases to $1,900.
- The “nanny tax” threshold increases to $1,700.

IRS clarifies rules on S corporation insurance

If you own more than 2% of the shares in an S corporation, there are specific rules you must follow to get a tax deduction for your medical insurance premiums.

Assuming the insurance plan is in the name of the corporation, the company is required to include the medical insurance premiums in your Form W-2 as additional compensation. You are then entitled to take an “above-the-line” deduction for the premiums on your personal tax return.

If the insurance plan is in your name and you have paid the premiums, you will need to be reimbursed by the corporation. Again, the corporation is required to show the reimbursement in your W-2 as additional compensation, and you get an above-the-line deduction on your personal return.

The insurance premiums are considered wages subject to income tax withholding, but not wages subject to FICA (social security and Medicare) or unemployment (FUTA) taxes.

If you have questions about this IRS requirement, please contact our office.

Going green could benefit your business

We see, hear, and read every day that the world is becoming more environmentally conscious and taking steps to "go green." While many of these may be out of reach for smaller businesses, there are several things that even small businesses can do to head toward going green.

Recycle
Most communities these days provide recycling centers. Therefore, businesses should find it fairly easy to provide internal receptacles and to transport or purchase recycling pick-up services for such recyclables as paper (including shredded), newspapers and magazines, aluminum cans, and plastic bottles.

Make lighting efficient
Compact fluorescent light bulbs are more energy-efficient than incandescent bulbs, offering a greener alternative. Also, watch for the next generation of commercial-use energy-efficient LED (light-emitting diode) bulbs. While LED pricing currently is rather high, LED bulbs typically use one-tenth the power of traditional light bulbs and last up to 20 times longer. Also, as volumes increase, prices should fall.

Cut out smoking
One way for businesses to create a cleaner, healthier environment is to go smoke-free. This might involve eliminating smoking indoors, while providing limited smoking areas outside; or a business might go totally smoke-free, prohibiting smoking anywhere on the premises – indoors or outdoors. Further, a business might offer its employees complimentary or discounted programs to assist them in their efforts to quit smoking.

Provide favored parking
Businesses might consider offering special parking spaces for hybrid vehicles and transportation forms that use lesser amounts of fuel (e.g., motorcycles, scooters). The provision of easily accessible bicycle racks also is important.

Go "paperless"
While most would agree that going totally paperless probably is unachievable, many companies already have begun to make progress in decreasing the amount of paper they use. To reduce paper, consider offering electronic portals to clients or utilizing other electronic means of sharing and working with data.

Offer "green" bags
As you shop these days, you will see that many stores are selling reusable shopping bags. Consider distributing to your customers, clients, and prospects a green shopping bag with your business logo. You take a step toward environmental consciousness, while garnering some publicity at the same time.

These are just a few steps a small business can take toward "going green." The benefits include energy cost savings and maybe a bit of positive publicity, plus making a contribution to a healthier environment.

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Celebrating 25 Years of Making Businesses More Successful

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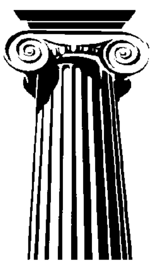
IRS TAX NOTES



2009 HSA limits rise

Health savings accounts (HSAs) permit taxpayers who have high-deductible health insurance plans to set aside pretax dollars that can be withdrawn tax-free to pay unreimbursed medical expenses. The IRS announced that the 2009 contribution limit to an HSA increases to $3,000 for an individual and to $5,950 for a family. A catch-up contribution of an additional $1,000 is permitted for individuals who are 55 or older.

Recovery rebate credit available in 2009

The Stimulus Act of 2008 provided qualifying taxpayers with rebate checks last year. People who did not receive the maximum allowed or whose circumstances have changed since last year may be eligible for the 2009 version of the rebate – a "recovery rebate credit."

The recovery rebate credit will be based on 2008 tax return information, so filing a 2008 return is necessary. Circumstances that could make a person eligible for the credit include a 2008 income change from 2007, the birth or adoption of a child in 2008, a change in the amount of social security or veterans' benefits received in 2008, and a change in dependency status (no longer being claimed as a dependent on someone else's return in 2008).

The IRS Web site at www.irs.gov provides information on eligibility and procedures for claiming the credit.

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TAX CALENDAR SPRING 2009

March 31 Deadline for taxpayers who file electronically to file 2008 information returns (such as 1099s) with the IRS.

March 31 Deadline for employers who file electronically to send copies of 2008 W-2s to the Social Security Administration.

April 15 Deadline for filing 2008 individual tax returns.

April 15 Deadline for filing 2008 partnership returns.

April 15 Deadline for filing 2008 gift tax returns.

April 15 Deadline for making your 2008 IRA contribution.

April 15 First installment of 2009 individual estimated tax is due.

June 15 Second installment of 2009 individual estimated tax is due.

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