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Business Advisors/CPAs

Tax & Business Letter

THE MOSS ADAMS CONNECTION

WINTER 2008

New emergency plan extends expired tax breaks

President Bush signed the *Emergency Economic Stabilization Act of 2008* into law on October 3, hoping this plan would bring stability to the financial markets. The new legislation includes a wide range of provisions affecting financial institutions and individuals. For instance, it authorizes the government to spend $700 billion for troubled financial assets, curbs excessive compensation arrangements for executives of financial firms, raises the FDIC insurance limit to $250,000 per account through December 31, 2009, and provides relief for certain homeowners.

Although these provisions have been well-publicized, less attention has been paid to the $100 billion in tax breaks added to the package late in the negotiations. The changes generally extend a series of recently expired tax provisions through 2009. Here is a summary of the key tax extensions.

AMT relief

The new law "patches" the alternative minimum tax (AMT) again by raising the exemption amounts for 2008 to $46,200 for single filers and $69,950 for joint filers. The patch also allows you to offset AMT liability with nonrefundable personal credits.

Tuition deduction

The new law reinstates the above-the-line deduction for qualified higher education expenses paid for yourself, your spouse, or a dependent. The deduction is $4,000 for single filers with adjusted gross income (AGI) of $65,000 or less and joint filers with an AGI of $130,000 or less. It drops to $2,000 for an AGI up to $80,000 for single filers and $160,000 for joint filers. No deduction is allowed over these thresholds.

Sales tax deduction

In lieu of deducting state and local income taxes, you can elect to deduct sales tax paid during the year. The sales tax deduction may be based on amounts in an IRS table plus actual amounts paid for certain big-ticket items like cars, or you can keep actual receipts for taxes paid.

Teacher's deduction

Teachers and other educators may claim an above-the-line deduction for up to $250 of unreimbursed classroom expenses. This covers books, supplies, equipment, and software.

Charitable IRA rollovers

Under the new law, those age 70fi or over can still transfer up to $100,000 directly from an IRA to a qualified charity without paying any tax. This provision is reinstated through 2009.

Nonitemizer's deduction

The new law extends the special property tax deduction for nonitemizers previously available only in 2008. The deduction is actual property tax paid, up to a $500 limit for single filers and $1,000 for joint filers.

Continued page 2

YEAR-END TAX TIPS

- Track down reinvested dividends for any 2008 stock or mutual fund sales. They will add to your cost basis and either reduce taxable gain or increase deductible loss on the sale.
- Use this year's annual gift tax exclusion of $12,000 per recipient by December 31. Once 2008 is history, this opportunity to use the 2008 annual gift exclusion is gone. (Reminder: Gifts to individuals are not tax-deductible.) Good news for annual gift givers: The 2009 exclusion amount increases to $13,000.
- If you do business entertaining over the holiday season, keep records of the cost, the date, the attendees, and the business purpose. Your tax deduction is generally limited to 50% of the cost.

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The Spirit of Giving

On behalf of our clients, James & Co. has provided in-kind services to National Center on Shaken Baby Syndrome, The United Way of Northern Utah, Prevent Child Abuse Utah, The Arc of Utah.

The firm has also made contributions to the following:

Family Counseling Service

OWATC Foundation Scholarship Fund

Normal Jones School of Accountancy

Susan G. Komen for the Cure

Weber State University - Men's Basketball

Beta Alpha Psi (WSU 2008 Youth Impact Thanksgiving Dinner)

Arizona State University Alumni Association

Weber State University - Wildcat Club Scholarship Fund

James E. Kier Memorial Golf Tournament (The Landstuhl Hospital Care Project)

Zac Amidan (US Freestyle Ski Team)

West Clinton Elementary

St. Joseph Catholic Schools

Parent for Choice in Education

Weber State University - Institute for Politics, Decency, and Ethical Conduct Endowment

American Cancer Society

Huntsman Cancer Foundation

This newsletter is published quarterly as a service to our clients and friends. The information is of a general nature and should not be acted upon without further details and/or professional guidance.

Emergency Plan *Continued from page 1*

Business tax breaks

Among other provisions for business owners, the new law extends the research tax credit (with certain modifications), the fast 15-year write-off for restaurant and leasehold improvements, and enhanced charitable deductions for donations of food, books, and computers.

Energy tax breaks

The law extends tax deductions and credits for renewable energy and energy-saving investments by businesses and homeowners.

Contact us for details on the new law and its impact on your personal and business tax situation.

James & Co. Spotlight

James & Co. Attends National Auto Dealership Conference

Team members from James & Co. Business Advisors / CPAs recently attended the AICPA National Auto Dealership Conference.

Dan E. James, Deb Kelley, Mary Markeson, Dave Edwards, and Terry Ferran attended two days of auto industry sessions and met with other dealership experts to share best practices.

In addition to general industry, IRS, and regulatory updates, sessions provided tools for making dealerships more profitable. "James & Co. is committed to making a measurable difference in our clients' businesses by delivering expert and industry-specific insight," said Dan E. James, MBA, CPA. The team attended concurrent sessions on: reinsurance programs, practical A&A applications for dealerships, and what's working with dealership pay plans.

New car sales generate a significant percentage of our local tax base. "By making our clients more efficient, we are doing our part to ensure continued tax revenue for our communities, and we encourage the community to do their part by buying local," said James.

Payne Attends National Forensic Accounting Conference

Sandra Payne, CPA, CFE, and Manager, Assurance Services for James & Co., recently attended a two-day forensic accounting conference on fraud and litigation services. The conference was hosted by the American Institute of Certified Public Accountants (AICPA).

Extensive fraud prevention, litigation and investigative audit sessions were offered including: internal investigations, issues of privileged confidentiality; taking effective depositions; perennial types of financial statement fraud; as well small business forensics. "The conference provided updates to stay current with today's atmosphere in litigation issues," said Payne.

She benefits clients with more than eight years of CPA practice and holds the designation of Certified Fraud Examiner, CFE. James & Co. specializes in investigative auditing and litigation support. For more information on how to protect yourself from imbezzlement, contact Sandra at (801) 399-3377.

James & Co. is passionately pink for a cure

On September 24, 2008, employees of James & Co. went Passionately Pink for the Cure® to raise funds for the fight against breast cancer. Employees were encouraged to wear pink, and to make a donation of $5 or more to Susan G. Komen for the Cure®, the leader of the global breast cancer movement. James & Co. hosted a team lunch for everyone to gather in honor breast cancer survivors, and remember those who are no longer with us. 100% of the office wore pink, and James & Co. made a donation, and matched employee donations. A total of $987.00 was raised to help with research to end breast cancer.

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Recent housing law will affect many taxpayers

The housing assistance law passed by Congress in July 2008 will give many taxpayers a fresh opportunity to enter the housing market. But it will also slam the door on a long-time tax break. How will the new rules affect you?

First home purchase

The *Housing and Economic Recovery Act of 2008* provides "first-time" home buyers who purchase a home between April 9, 2008, and July 1, 2009, a tax credit equal to 10% of the purchase price, up to a maximum credit of $7,500. The credit is reduced for those married filing jointly whose adjusted gross income exceeds $150,000 ($75,000 for single filers). To qualify for the credit, the home buyer cannot have owned a principal residence in the three previous years.

But there is a catch. Unlike most tax credits, this one must be paid back. The amount of the credit is repaid over 15 years, interest-free, beginning two years after the year of purchase. If you sell your home before then, the unpaid balance becomes due in the year of the sale. However, the credit due back cannot exceed the gain on the sale of the home, thus providing a measure of protection if the value of your home drops.

Property tax deduction

Another feature of the new housing law allows homeowners who use the standard deduction on their tax return to deduct real estate property taxes, too. Before this change, property tax deductions were limited to taxpayers who itemize.

The deduction is the lesser of the actual property taxes paid or $1,000 per married couple ($500 filing single). The deduction was extended through 2009 by the recent bailout law.

Home sale rules

Generally, up to $500,000 ($250,000 for singles) of gain on the sale of your principal residence is tax-free, as long as you meet time and use requirements. One of the requirements is that you must have used the home as your primary residence for two of the five years prior to the sale.

Under these rules, those who owned a vacation home could sell their primary home, move into their second or vacation home for a couple of years, and then sell it tax-free by applying the exclusion to that property as well.

The new legislation changes all that. Now the exclusion is adjusted for the number of years the home was not used as your primary residence. The new rules, effective for sales after December 31, 2008, reduce the excludable gain for "nonqualified use," such as use as a rental or as a vacation home.

The amount of the reduction is based on the amount of time after December 31, 2008, when the home is not the principal residence of you, your spouse, or former spouse. Some exceptions apply.

For more information on how these tax changes could affect you, give us a call.

Season's Greetings

Merry Christmas to our valued clients and friends.
Thank you for your continued confidence.

Wishing you good health, peace and prosperity in the coming year.

The James & Co. Team

Employee morale

Fringe benefits are important to your employees. Wage levels often don't differ much between companies, so the fringes you offer can be an important factor in hiring and retaining workers.

Major fringe benefits such as health insurance are expensive. But if you're willing to be creative, you can design other attractive benefits at low or no cost. Often these benefits are tax-free to your employees. The exact benefits will depend on the size of your work force and the nature of your business. But here are some ideas to consider.

- **Flexible schedules.** If the nature of your business allows, offer flexibility in working hours. Canvass senior employees for suggestions on changes. Consider ideas such as closing earlier on summer Fridays to give employees a longer weekend. Make up the time with slightly longer hours on other days.
- **Transportation benefits.** If you're in a metropolitan area, help your employees solve their commuting problems. Work with your local transit authority to offer free bus passes. Consider offering subsidized parking or even van pools in major urban areas.
- **Company discounts.** Give employees discounts on your own products. Negotiate discounts with other businesses – health club memberships, for example.
- **Free seminars.** Arrange lunchtime seminars on topics such as basic financial planning or health issues. It's not difficult to find professionals willing to speak for no fee as part of their business development.

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Celebrating 25 Years of Making Businesses More Successful

Happy Holidays!

WINTER 2008 Tax & Business Letter

Explore ideas to reduce your 2008 tax bill

Year-end is fast approaching, but it's not too late to reduce your 2008 taxes. Consider the following possibilities for actions you can take to cut your 2008 tax liability.

Stock losses
With the stock market in turmoil, be aware that you can sell stocks at a loss and use that loss to offset gains on other stock sales. Additionally, if your losses outstrip your gains, you can deduct up to $3,000 of those losses to offset other income.

Capital gains
There is a new zero tax rate on long-term capital gains and qualified dividends for taxpayers in the regular 10% and 15% tax brackets. If you're single with taxable income under $32,551 or married filing jointly with income under $65,101, the zero rate applies to you. A review of your portfolio might allow you to identify stocks that can be sold with no tax on the gains.

IRA contributions
Contributions for Roth and traditional IRAs have been increased to $5,000 for 2008. And those age 50 or older by the end of the year can add an additional $1,000 as a "catch up" contribution, making their total contribution $6,000.

Kiddie tax
The kiddie tax now applies to children with more than $1,800 of unearned income if they are under age 19 (under age 24 for full-time students). If you have dependent children with investment income, they could be subject to this tax. Now is the time to review their income sources and consider moving them into investments that are more kiddie tax friendly.

Equipment purchases
Business owners can elect to expense the cost of buying equipment rather than depreciating the cost over the life of the asset. For 2008, the expensing limit is $250,000, and it applies to both new and used equipment purchases. Another 2008 provision applies only to new equipment purchases. It lets you take 50% bonus depreciation on qualified assets placed in service by December 31, 2008.

Tuition expenses
The deduction for qualified tuition expenses was reinstated in the financial bailout law. This allows for an above-the-line deduction of up to $4,000 in qualified tuition expenses paid, depending on the taxpayer's income level. Paying tuition before the end of the year could create a valuable deduction. Also reinstated was the teacher expense deduction, which allows for a deduction of up to $250 for the purchase of classroom supplies.

For a review of tax-cutting options appropriate for your particular situation, contact our office soon.

TAX CALENDAR WINTER 2007

January 15, 2009 Fourth installment of 2008 estimated tax is due.

February 2 Employers must furnish W-2 statements to employees. 1099 information statements must be furnished by banks, brokers, and other payers.

February 2 Employers must file 2008 federal unemployment tax returns and pay any tax due.

March 2 Payers must file information returns (such as 1099s) with the IRS.*

March 2 Employers must send W-2 copies to the Social Security Administration.*

March 2 Farmers and fishermen who did not make 2008 estimated tax payments must file 2008 tax returns and pay taxes in full.

March 16 Deadline for calendar-year corporations to elect S status for 2009.

March 16 2008 calendar-year corporation income tax returns are due.

**March 31 if filing electronically*

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