

Make time for tax planning this summer

Summer's here, and probably the last thing on your mind is tax planning. The problem is that if you wait until December, there's little time for changes to take effect. But if you take the time to plan now, you still have six months for your actions to make a difference on your 2009 tax return. With the recent tax changes, planning for the reduction of your 2009 taxes is more important than ever. Here are some suggestions to get you started.

- **Pull out your 2008 income tax return**, and review your income and deductions. Did you lose any credits or deductions because your income was above a certain threshold amount? If so, what can you do to keep this year's income below the threshold?

- **You might want to schedule home improvement projects** to benefit from the tax credits available for energy-saving expenditures on your principal residence.

- **Evaluate your investment portfolio.** If you have been avoiding the disheartening news, now is the time to reassert control over your investments. Review your holdings to see if you should take some losses to offset other income. If you're considering investment purchases, analyze the type of income you'll be receiving from the assets you buy. Then stash the investment in the proper account (taxable, deferred, or nontaxable) to achieve maximum return and tax savings.

- **Adjust your retirement plan contributions.** Are you still making contributions based on last year's numbers? Maximum amounts have increased for some plans in 2009. You can contribute up to \$11,500 to a SIMPLE, up to \$16,500 to a 401(k), and up to \$5,000 to an IRA. Remember to add catch-up contributions if you'll be 50 by the end of December.

- **Factor two recent tax changes** into your planning for retirement fund withdrawals if you're 70? or older. First, the option to make a direct nontaxable donation of up to \$100,000 from your IRA to a charity has been reinstated. Second, the requirement to take a minimum distribution from your retirement plan is waived for 2009. This applies to 401(k) plans, 403(b) plans, certain 457(b) plans, and IRAs.

- **Now is the time to do tax planning for the upcoming fall college expenses.** Check out the various tax breaks, including the new, enhanced Hope credit (renamed the American opportunity credit).

- **The estate tax is still alive and well**, so as part of your midyear review, do any updating that's needed to your will and other estate documents.

- **Do some business tax planning, too.** Plan your equipment purchases to benefit from the extension of 50% bonus depreciation for new equipment

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SUMMER TAX TIPS:

Check your eligibility for the deduction of up to \$4,000 for qualifying higher education expenses.

If you're a teacher, keep receipts in order to deduct up to \$250 of classroom supplies you purchase.

Summer is a good time to do business entertaining. Keep records of the cost, the date, the attendees, and the business purpose. Your deduction is limited to 50% of the cost.

If you have an unincorporated family business, hire your children to work this summer. Their wages are deductible to your business and will be taxed in their lower tax brackets. There's no social security tax on wages paid to your children who are under age 18.

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and up to \$250,000 first-year expensing for new or used equipment.

Mix business with your summer vacation and you might be able to deduct some of your travel expenses on your 2009 tax return. To benefit, the primary reason for your trip has to be business.

Making time for 2009 tax planning now not only helps reduce your taxes, but also helps to put you in control of your entire financial situation. Give us a call for guidance in implementing the best moves for your particular situation.

New NOL rules could benefit your business

Essentially, a net operating loss or NOL is generated when a business has more deductions than income.

Under prior rules, a business that had an NOL could carry that loss back only two years for a refund of taxes paid in those earlier years. (The business could also choose to carry the loss forward for up to 20 years.)

The American Recovery and Reinvestment Act of 2009 changed the carryback period to as many as five years. The new rule applies only to 2008 net operating losses in companies with average gross receipts over the last three years of \$15 million or less.

Planning opportunities

The carryback periods of either three, four, or five years are elective. That means that the taxpayer can choose how long to carry back the NOL as long as it doesn't exceed five years.

This opens up many tax planning opportunities, especially if taxable income has fluctuated significantly over the years. Not only that, it's a terrific benefit to taxpayers with NOLs larger than could be absorbed over the traditional two-year period.

As an alternative to carrying the loss back to prior years, you can still elect to forgo the carryback altogether and simply carry your losses forward to reduce future taxes.

Remember that the new NOL rules are elective, and you may choose to carry losses back as you see fit for up to five years.

There are filing and time restrictions on this tax break for businesses, so contact us if you need details and filing assistance.

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COBRA health subsidy: What you need to know

Job loss brings many challenges to families, and that often includes obtaining affordable health insurance coverage. Under a 1985 federal law referred to as "COBRA," many employees who are discharged can keep health insurance coverage provided by their former employer for as many as 18 months. But to do so, the employee has to pay 100% of the COBRA premiums.

Employees' subsidy

The economic stimulus law enacted last February significantly reduces the cost of COBRA health coverage for those who lose their jobs.

Qualified individuals who timely elect COBRA coverage are required to pay only 35% (instead of 100%) of these premiums. The remaining 65% of premiums are paid by the employer, but reimbursed by the federal government through tax credits. This subsidy is available for up to nine months after the job loss.

Those qualified for the subsidy include terminated employees and their family members who are eligible for COBRA coverage at any time from September 1, 2008, to December 31, 2009.

Employees who voluntarily terminate employment or who are qualified to participate in another group health coverage plan (such as a spouse's employer's plan or Medicare) are not eligible for the subsidy.

The subsidy is phased out for higher-income taxpayers. For singles, the phase-out starts once modified adjusted gross income (AGI) exceeds \$125,000. It is fully phased out at \$145,000. The phase-out for couples filing jointly begins with modified AGI of \$250,000 and is complete at \$290,000.

Any part of the subsidy paid to an individual that is subject to phase-out because of these income limitations

must be repaid as an additional tax on the employee's federal income tax return.

Employers' credit

COBRA coverage is only required for employers with 20 or more full- and part-time employees, but many states sponsor plans similar to COBRA for small employers.

An employer that sponsored a health insurance plan that included COBRA coverage is required to pay 65% of the COBRA premium if the terminated employee pays the remaining 35%. The government reimburses the employer through tax credits on the employer's quarterly payroll tax returns.

The new subsidy may make it possible for laid-off workers to continue affordable health insurance coverage until new employment and coverage can be found.

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take what you have
spent a lifetime building!**



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SUMMER 2009

Tax & Business

Letter

IRS TAX NOTES



Private tax collection ends

The IRS began using private debt collection agencies to collect overdue taxes back in 2006. Now, after reviewing the cost effectiveness

of the program, the IRS has decided not to renew contracts with the private agencies.

This change will not lessen the IRS's efforts to collect overdue taxes, however. The agency expects to hire an additional 1,000 collection personnel this year. According to IRS Commissioner Shulman, tax collection work is best handled by IRS employees.

2009 vehicle deductions

Each year the IRS publishes depreciation limits for business vehicles first

placed in service that year. Because 50% bonus depreciation is allowed only for new vehicles, these limits are different for new and used vehicles.

For new business cars, the first-year limit is \$10,960; for used cars, it's \$2,960. After year one, the depreciation limits are the same for both new and used vehicles purchased in 2009: \$4,800 in year two, \$2,850 in year three, and \$1,775 in all following years.

The 2009 first-year depreciation limit for trucks and vans is \$11,060 for new vehicles and \$3,060 for used vehicles. Limits for both new and used vehicles in year two are \$4,900, in year three \$2,950, and in each succeeding year \$1,775.

For details relating to your 2009 business vehicle purchases, contact us.

TAX CALENDAR SUMMER 2009

June 15 - Second quarter 2009 individual estimated tax is due.

June 15 - Second quarter 2009 estimated tax is due for calendar-year corporations.

July 31 - 2008 retirement and employee benefit plan returns are due for calendar-year plans.

September 15 - Third quarter 2009 individual estimated tax is due.

September 15
Third quarter 2009 estimated tax is due for calendar-year corporations.

September 15 - Deadline for filing 2008 calendar-year tax returns for corporations with extensions of the March 16 deadline.

September 15 - Deadline for filing 2008 partnership returns with extensions of the April 15 deadline.



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