

# Clothier & Head Tax Insight

## Tax Planning Guide

As a valued tax client, we are pleased to send you our 2008 Year-End Planning Best Ideas which includes suggestions for tax planning and savings for 2008 and the years to come.

### Capital Gains/Losses

When planning for capital gains, it is advisable to realize capital losses in order to minimize tax on gains. The deduction of these losses can be made in the amount of one's capital gains plus \$3,000. Excess capital losses will be carried over indefinitely, so there is no harm in realizing more losses than gains. Losses must be realized (sold) by December 31, 2008 to be used in 2008.

When planning, please be aware of "wash sale rules." Meaning, an individual cannot buy significantly identical securities within 30 days of realizing a loss.

### Estimated Tax Payments

Fourth quarter estimated tax payments are due on or before January 15, 2009. Those facing a penalty for underpayment of estimated tax may be able to eliminate or reduce the penalty by increasing their withholding between now and the end of the year. Individuals are encouraged to review their fourth quarter estimated tax payment prior to year end to determine if they have underpaid, or possibly overpaid and do not need to make a fourth quarter payment.

### Gift and Estate Taxes

Potential estate taxes can be reduced by gifting your annual exclusion of \$12,000 prior to the end of 2008. Beginning in 2009, gifts of up to \$13,000 can be made to an unlimited number of individuals. Keep in mind, carryovers of any unused exclusions from one year to the next are not permitted.

### Self Employed Individuals and Businesses

Self employed individuals and/or business owners may want to consider setting up a retirement plan. A qualified plan must be adopted by December 31<sup>st</sup>. SEP/IRA's can be set up by the extended due date of the return. Contributions, generally, can be made by the extended due date.

Under Section 179, expensing of new asset purchases is \$250,000 if total acquisitions are less than \$800,000. There is an additional 50% bonus depreciation for assets purchased in 2008. Qualified leasehold improvements may also get 50% bonus depreciation and 15 year lives.

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In addition to these tax planning ideas, we have included a list of common tax changes from recent legislation that should be considered:

### Alternative Minimum Tax

The Alternative Minimum Tax (AMT) exemption amount has increased to \$46,200 (\$69,950 if married and filing jointly or a qualifying widow(er); \$34,975 if married and filing separately).

### First-time Homebuyer Credit

A taxpayer purchasing a primary residence after April 8, 2008 and prior to July 1, 2009 may be eligible for a first-time homebuyer credit. The credit applies to individuals or couples that have not owned a primary residence during the prior three years. Please be aware that the credit phases out for taxpayers with a modified adjusted gross income (MAGI) between \$75,000 and \$95,000 (\$150,000 and \$170,000 for joint filers) for the year of purchase.

### Personal Exemptions and Itemized Deductions

Personal exemption and itemized deduction phase-outs have been reduced for 2008. Taxpayers with an adjusted gross income above a certain dollar amount may lose 1% of their deduction for personal exemptions and itemized deductions in 2008.

### IRA Deductions and 401(k) Contributions

For 2008, IRA deduction and 401(k) contribution limits have increased. To be eligible to make such a deduction or contribution you must meet several requirements.

1. An individual (and/or their spouse, if married) must have "earned income" (compensation or self-employment net income) for the year at least equal to the amount contributed.
2. An individual (and/or their spouse, if married and filing jointly) may be able to deduct up to \$5,000 each (\$6,000 if age 50 or older at the end of the year).
3. For 2008, the maximum dollar amount that can be contributed to a 401(k) is \$15,500. For 2009, the amount will increase to \$16,500.
4. An individual may be eligible to take an IRA deduction if covered by a retirement plan, and if their 2008 modified adjusted gross income (MAGI) is less than \$63,000 (\$105,000 if married and filing jointly or qualifying widow(er)). If the individual's spouse is covered by a retirement plan, but they are not, the individual may be able to take an IRA deduction if their 2008 MAGI is less than \$169,000.

### Tax-free Charitable Contributions from IRA

The provision allowing qualified taxpayers to make tax-free contributions from their IRA plans to qualified charitable organizations has been extended through 2009.

If you have any questions, please do not hesitate to contact us at 206.622.1326.

*Any tax advice in this communication is not intended to be a "covered opinion" as described under IRS Circular 230. It is therefore not intended to be used, and cannot be used, by a client or any other person or entity for the purpose of avoiding penalties that may be imposed on any taxpayer.*