



# Tax Savings Opportunities

## Business

### What's New for Business in 2008

Always take a sensible approach when it comes to tax planning. Structuring transactions strictly on the tax consequences is seldom a good idea. Your investments, family financial planning, and business activities should have economic merit without the tax considerations. However, taxes are a fact of life. A little planning can often save a lot of money.

Business-friendly tax breaks extended in 2008:

- Business tax credit for research and development expenditures.
- 15-year recovery period for certain leasehold and restaurant improvements.

### Business Expenses & Bonus Depreciation

Anticipate business equipment and furnishing needs for 2008. The *new* section 179 deduction allows business owners to deduct up to \$250,000 of the cost of qualifying depreciable property placed in service in 2008 (phase-out threshold \$800,000). Property eligible for the immediate tax write-off can be new or used, and includes "off-the-shelf" computer software.

**Beware!** If more than 40% of 2008 equipment purchases fall in the last quarter, regular depreciation (after the 179 deduction) on all 2008 assets is figured on a quarterly basis.

### Bonus Depreciation

Above and beyond the bumped-up Section 179 deduction, your business can also claim first-year bonus depreciation equal to 50% of the cost of most new (not used) equipment and software acquired and placed in service by December 31, 2008. The 50% first-year bonus depreciation break will expire at year-end, unless Congress takes further action.

### Mileage Rate Increase

The standard vehicle business rate for 2008 is \$.505 per mile from January - June 2008, and \$.585 per mile from July - December 2008. Remember to maintain required records for vehicle odometer mileage on business vehicle with personal use.

### Federal Estate Tax

The Federal estate tax exemption for 2008 is \$2 million. For 2009, the exemption is scheduled to increase to \$3.5 million. For 2010, the federal estate tax is supposed to be repealed—but it appears just for that one year. Whittling your estate down by making annual gifts (\$12,000 annual exclusion per person) continues to be a tax-smart strategy. These gifts will reduce your estate tax exposure without any adverse gift tax effects. Making multiple gifts over multiple years can dramatically reduce your exposure to the estate tax. So the sooner you start an annual gifting program, the better.

### Tax Saving Ideas

#### Defer Income and Accelerate Deductions

Based on recent publicity and the faltering U.S. economy, it is likely that the new President and Congress will move swiftly on tax cuts in 2009. After 2009, tax rates are probable to increase for high income taxpayers. Accordingly, due to the time value of money, it's better to pay taxes later rather than sooner, assuming your tax rates won't be higher next year. Therefore, defer collection of income to next year and accelerate deductions into the current year, where practicable.

#### Shelter Income with a Retirement Plan

Retirement plans are one of the best tax shelters available. There are many kinds of retirement plans to choose from. The kind of plan you should have will depend on the legal form of your business, the number of employees you have, and the amount of retirement income the plan must provide.

#### Employ Your Child

Employing your children shifts income from you to them, which typically subjects the income to the child's lower tax bracket and may actually avoid some tax entirely (due to the child's standard deduction). A child claimed as a dependent is entitled to a standard deduction of actual earned income up to a maximum of \$5,450. Wages paid to your children under 18 are not subject to payroll taxes if you're an unincorporated business, a proprietorship or partnership. Employing your children has the added benefit of providing them with earned income, which enables them to contribute to a ROTH IRA or save for future education.

**Caution:** When employing your child, keep in mind that the wages paid must be reasonable given the child's age and work skills. Also, if the child is in college or entering soon, excessive earned income may have a detrimental impact on the student's eligibility for financial aid.

#### Other Tax Savings Tip

In lieu of buying your client a meal, which is only 50% deductible, give your client a \$25 gift certificate to his or her favorite restaurant, which is 100% deductible.

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