



Tax Savings Opportunities

Individuals

What's New for Individuals 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, and a little planning can often save a lot of money.

Family-friendly tax breaks have been extended through 2008:

- Qualified tuition and fees expense above-the-line deduction
- Educator's qualified expenses of \$250 above-the-line deduction
- State and local sales tax deduction, in lieu of state and local income taxes

AMT Exposure

Although Alternative Minimum Tax (AMT) was originally designed to apply only to taxpayers who took too much advantage of certain tax breaks, the current rules encompass many unsuspecting taxpayers. Certain items can increase your risk of AMT, including exercising incentive stock options, recognizing substantial long-term capital gains, claiming a high number of personal exemptions, and deducting a significant amount of state and local taxes.

! BEWARE: Although the AMT provision has provided a one-year "fix" through 2008, the AMT exemption of \$69,950 (Joint) and \$46,200 (Single) may revert back to prior year levels, increasing the exposure of taxpayers to the AMT.

Unfavorable New Rule for Properties Converted into Residences

Under current law, you can convert a former rental property or vacation home into your principal residence, live in it for at least two years, sell it, and take advantage of the federal home-gain exclusion privilege. The maximum exclusion is \$250,000 for unmarried individuals and \$500,000 for married joint filers.

However, for property sales that occur after 2008, a new tax law will reduce the home-gain exclusion, based on the amount of post-2008 time that you don't use the property as your principal residence. More specifically, the new rule makes a portion of your gain from selling the residence ineligible for the gain exclusion privilege, resulting in a taxable income.

New "Kiddie Tax" Rule

For 2008, unearned income in excess of \$1,800 of dependent children who are under age 19 by 12/31/08, or who are full-time students age 19-23, will be taxed at the parent's higher marginal Federal income tax rate.

There are a few methods to avoid the dreaded "kiddie tax". Monitor your child's investment income for the \$1,800 threshold, emphasize tax-deferred investments such as growth-oriented investments, tax-exempt municipal securities, or fund their college education through a 529 plan or Coverdell education savings account.

Tax Saving Ideas

Capital Loss Strategy

Consider selling "loss" securities (outside of retirement plans) before December 31, 2008, to reposition portfolios, offset capital gains and offset ordinary income with capital losses of up to \$3,000. However, be careful of the "Wash Sale rule", which results in a disallowed loss if the same security is acquired within 30 days before or after the sale date of the loss security. A technique to avoid the "Wash Sale rule" is a "sector index fund swap." This is a strategy to sell investments within a certain industry for a loss, and immediately purchase shares in a mutual fund or ETF that approximates the type of investment opportunities represented by the group of investments previously owned.

Capital Gains Tax Brackets

Most long-term capital gains (LTCG) from 2008 sales and qualified dividends are now taxed at a maximum federal rate of only 15%. Even better, long-term gains that fall within the 10% and 15% brackets are taxed at 0%. If you hold appreciated securities in taxable accounts, owning them for at least one year and a day is necessary to qualify for the preferential long-term capital gains tax rates (max 15%). In contrast, short-term gains are taxed at your regular rate, which can be as high as 35%. *Note:* For 2008, take advantage of LTCG gain rates of 0% in 2008 if you expect taxable income, including LTCG, to be below \$65,100 for *Joint* filers or \$32,550 for *Single* filers.

ROTH IRA Conversion

Based on current market conditions, consider **converting** an IRA to a ROTH IRA before December 31, 2008. Planning long-term, this would allow you to pay the income taxes while your investments are low, and take advantage of the tax-free growth of the Roth IRA. Conversion value above your IRA contribution "basis" is subject to income tax. *Note:* There are certain requirements for eligibility, the main requirement is having a modified adjusted gross income of \$100,000 or less.

CAUTION: Taxable income from a ROTH conversion may affect your tax bracket, which may adversely affect your capital gains tax rate (see above).

Miscellaneous Tax Items

- For 2008 only, homeowners who do not itemize on their tax return can add up to \$1,000 (\$500 single) of state and local real property taxes in addition to the standard deduction amount.
- New tax credit for first-time homebuyers of up to \$7,500 or 10% of purchase price, although it must be repaid over 15yrs.
- Tax-free contributions from IRAs to charities by taxpayers aged 70½ and older.

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