



YEAR-END TAX ISSUES

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Conventional year-end planning strategies - delaying income and accelerating deductions - may not necessarily be the smart choice for everyone this year.

During the election campaign President-elect Obama promised tax increases in 2009 for families earning over \$250,000. His proposed plan would restore the higher Clinton tax brackets and raise capital gains taxes. Due to current financial turmoil however, some reports suggest Obama may delay tax increases to help stimulate the economy. Consequently, it is unclear what the tax climate might look like in 2009.

If higher tax rates are restored in 2009, tax brackets will rise: 33% to 36%; 35% to 39.6% (source: Tax Policy Center). Current long-term 2008 capital gains rates of 15% could be increased to 20% or higher. On the other hand, if President-elect Obama wishes to delay these increases he needs only to wait until 2011 when the Bush tax cuts automatically expire.

2008 TAX PLANNING

Tax rates should not change in 2009 for clients with family income of less than \$250,000 (or if single, \$200,000). A conventional tax strategy may be the most appropriate for these families. They may want to delay income when possible and accelerate deductions unless they are subject to the Alternative Minimum Tax.

The picture is less clear for those whose family income exceeds \$250,000. If 2009 rates increase as Obama promised earlier, accelerating income into 2008 and delaying deductions until 2009 may be an appropriate strategy. However, watch out for Alternative Minimum Tax issues. If rates stay the same, then the reverse might be more beneficial.

CAPITAL GAINS

The current long-term capital gains rate is 15%. Obama may increase this rate without increasing regular tax rates. A 2009 capital gains increase may be somewhat academic as most taxpayers don't have assets they could sell in 2008 at a gain to beat the increase. Perhaps a better strategy might be selling enough loss assets in 2008 to generate \$3,000 in capital losses - the maximum allowable to be offset against ordinary income.



ALTERNATIVE MINIMUM TAX

The AMT issue is even less clear. The recent Bailout Bill included an "AMT patch" for 2008. This "patch" was implemented at the end of the last several years to keep many taxpayers from being caught by a higher alternative tax system. It is unclear if Obama will seek the same "AMT patch" for 2009 or try for some longer-term solution. Thus, for 2008, the AMT exemption has been increased such that deductions otherwise affecting AMT (mainly state income and property taxes) might be accelerated into 2008 with no adverse AMT effect. It would be prudent to have your tax advisor evaluate the numbers to determine the exact result. If the "2009

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patch" is not forthcoming next year then delaying income until 2009 may be a good strategy to reduce the adverse AMT impact.

With so many tax uncertainties looming in 2009 and beyond, it is difficult to make general year-end strategy recommendations. One must look at his or her own individual situation and then make a call as to what may happen in 2009.

2008 TAX HIGHLIGHTS

Taxpayers who were ineligible to receive a stimulus check based on their 2007 income tax return or did not receive the maximum allowed last summer may be eligible to claim a stimulus check based on their 2008 tax situation. For a calculation worksheet, refer to page 62 of the instructions for Form 1040.

Homeowners who do not itemize deductions can take up to \$1,000 in

deductions (\$500 for single) for paid property taxes.

Long-term capital gains rates and qualifying dividend rates fall to 0% for taxpayers in the 10% and 15% tax brackets.

ACCELERATING DEDUCTIONS

- Prepay your projected 2008 state income tax shortfall, but only if not subject to AMT
- Prepay part or all of your 2009 property tax in 2008 but only if not subject to AMT.
- Give to a charity by year-end. Prepay or donate in 2008 the amount you would ordinarily give to charity in 2009.
- Prepay your January mortgage payment. Mailing a check by December 31 for your January mortgage will allow you to deduct the 13th payment in 2008.

Note: If you expect income tax rates to rise in 2009, or if you expect to be subject to AMT in 2008 but not 2009, deferring the above deductions to 2009 might be more beneficial.

REDUCING 2008 INCOME

- Maximize 401(k) contributions.
- Contribute to an IRA up to \$5,000 to a Traditional or Roth IRA (\$6,000 for those 50 or older).
- Sell loss securities to generate at least \$3,000 in losses to offset income and lower taxes.

Note: If you expect income tax rates to rise in 2009, or if you expect to be subject to AMT in 2008 but not 2009, accelerating income into 2008 might be more beneficial.

For more information about how these might affect you, please contact your Relationship Manager. 

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