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Dear Clients and Friends:

We hope that this letter finds you safe and well. Enclosed you'll find our quarterly newsletter. This newsletter will focus on many of the tax changes that took place last year, along with a number of tax savings tips that you can use. With over five major tax bills approved in 2008, there is quite a bit to know. But don't delay...time is short. Remember that the end of the year is right around the corner, and virtually all of your tax moves should be made by that time in order to save you tax dollars this year.

For those of you with estimated tax payments (either Federal or State...you know who you are) remember that the due date for those payments is January 15, 2009. Please don't forget to make your payment on a timely basis. As you'll recall, when we prepared your 2007 individual Income Tax Returns, we also prepared 2008 Estimated Tax Payment Vouchers and mailing envelopes for your use in making these payments. If you have misplaced your mailing envelopes, you can find the correct mailing address on the face of the Estimated Tax Vouchers. If you've misplaced the vouchers, please call the office and we will make sure that new vouchers are either mailed or faxed to your attention. Of course, if your financial situation has changed significantly from what we originally anticipated, or you otherwise believe that your 2008 Estimated Taxes should be revised, please let us know and we'll be happy to help you with those revisions.

If you **DO** have estimated taxes to pay, some of you (those that itemized their deductions and don't have any Alternative Minimum Tax issues) may benefit by making your **STATE** estimated tax payment before the end of 2008. Why? Because that will secure a 2008 federal deduction for you for taxes paid in 2008. If you make these state payments in 2009, the deduction will have to be claimed in 2009. So making your **STATE** estimated tax payment before the end of 2008 may save you a few tax dollars. Remember that this "early" payment only applies to state taxes. There is no benefit for paying any federal estimates "early". If you're unsure if you should make your state prepayment in 2008 or 2009, please feel free to call us to discuss it in more detail.

As always, if you have any questions or comments regarding estimated taxes, year-end tax tips, or anything else, please don't hesitate to call us at your earliest convenience. You can look forward to receiving your tax organizer "package" in the mail in the first or second week of January...so be on the lookout for it. We hope that you have a wonderful Holiday Season with friends and family, filled with peace and goodwill to all.

Sincerely,



Roy A. Lewis, E.A.
Enrolled Agent



Joseph Schiefer, E.A.
Enrolled Agent

With five major tax bills passed in 2008, there are a number of changes that you need to be aware of when gathering your 2008 tax information and also when looking forward to 2009. There is no way that we can discuss all of the changes, but here are some that you should be aware of:

Tuition and Fees Deduction: This deduction was scheduled to expire at the end of 2007, but has been extended to 2009. It allows you to deduct up to \$4,000 in qualified higher education costs as an adjustment to income. That means that you do not have to itemize deductions in order to claim this deduction.

Educator Deduction: Also scheduled to expire at the end of 2007, this deduction has been extended to 2009. It allows elementary and secondary school teachers and other educators to deduct up to \$250 in out of pocket classroom expenses. This is also an adjustment to income, so you do not have to itemize your other deductions in order to claim this benefit.

State and Local Sales Taxes: Another provision scheduled to expire at the end of 2007, this deduction was put back into the law through 2009. Those who itemize their deductions can opt to deduct state and local taxes instead of state income taxes. The basic amount of the deduction can be increased by the sales taxes on certain big ticket items such as a car, boat, or home building materials. So while this break primarily benefits individuals living in a low or no income tax state, even those taxpayers living in a higher income tax state may find the sales tax deduction to be larger for the income tax deduction in certain circumstances (i.e., purchase of a big ticket item).

IRA Transfers: Taxpayers age 70 ½ and older can transfer up to \$100,000 from their IRA directly to a qualified public charity and exclude this distribution from income. But because of the “tax free” treatment, no deduction is allowed for a charitable contribution. Many seniors may want to use this provision if they don’t itemize deductions and don’t want to increase their taxable income (which would impact the taxability of social security). It’s something to consider if you’re thinking about making a charitable contribution and you fall into certain circumstances.

Deduction for Real Estate Taxes: New for 2008...even if you don’t itemize your deductions, you now may claim an additional amount to their standard deduction for real estate taxes (but only on a principal residence) up to \$500 for single people and \$1,000 for married people. So those of you who don’t itemize will now receive a new deduction for property taxes paid on your main home.

Energy Breaks for Individuals: There have been a number of changes with respect to energy savings devices. There is a credit of up to \$500 for certain home energy improvements such as insulation, \$200 for replacing storm windows. Additionally, limits and credit amounts have been increased for alternative energy sources (such as solar panels, solar water heating, fuel cell power plants, and wind turbines). There is also a new credit for the purchase of plug in electric cars and another new exclusion from income if you take your bicycle to and from work. But be careful: most of the energy tax breaks are greater in 2009 than in 2008, so it might be in your best interest to delay any major energy improvements into 2009.

Surviving Spouse Tax Benefit: Beginning in 2008, a single person (as the result of the death of a spouse) can sell his or her primary home not later than two years after the spouse’s death and can still claim a maximum \$500,000 exclusion from income. So for those of you who might have lost a spouse in the near past and still remain single with the thought of selling your principal residence, be aware that there is a new tax break just for you.

Deducting Home Mortgage Insurance Premiums (PMI): If you pay fees for PMI, and you itemize your deductions, those PMI fees are deductible as additional home mortgage interest deductions for 2008.

New Homebuyer Credit: A first time homebuyer is allowed a credit for a home purchased on or after April 9, 2008 and before July 1, 2009. The credit is available in full for single taxpayers with income up to \$75,000 and married taxpayers with income up to \$150,000. As a credit, your tax bill is reduced (or refund increased) dollar for dollar by up to \$7,500. Since the credit is refundable, it will be paid to you in full even if you owe no tax or the credit is greater than the tax that you owe.

The credit is claimed on the tax return for the year of purchase. However, if the purchase occurs in 2009, an election can be made to take the credit in either 2008 or 2009, whichever year provides the greatest tax benefit. While this is being called a credit, it's really more like an interest-free loan. The amount of the credit must be repaid over a 15-year period or in full when the home is sold. The repayments will be treated as additional tax in future years, and will be reported when the tax return is filed beginning in 2010.

A first time homebuyer is defined as a buyer who has not owned a home during the three year period prior to the purchase. So even if you owned a home in the not too distant past, you might still qualify. Be careful if you're married, since the law tests the "first time" qualifications of both spouses separately. The law applies only to a principal residence (not a second or vacation home), and includes townhouses, condominiums, manufactured/mobile homes, and houseboats. The credit is available regardless if you purchase a new or used home or construct your own home.

First Year Expensing: Businesses can qualify for a first-year expensing deduction up to \$250,000 in 2008 (up from \$125,000 in 2007). This deduction is commonly referred to the "section 179 deduction" because Internal Revenue Code section 179 identifies and allows this deduction. In 2009, this deduction will again revert back to \$125,000.

Bonus Depreciation: Businesses may also qualify for 50% bonus depreciation deduction on qualifying property. Bonus depreciation can be used in conjunction with the expensing provisions so that a significant portion of the cost of the business property can be written off in the year of purchase.

Deferral of Required Minimum Distribution (RMD) for 2009: Legislation that just passed a few days ago deals with required minimum distributions. The new law allows you to bypass your required minimum distribution for 2009. That's right...you can elect not to take your RMD for 2009 and not run afoul of the penalties for not taking such distribution.

New Zero Tax Rate for Capital Gains and Dividends: That's not a misprint. Starting in 2008 and continuing until 2010, certain lower bracket taxpayers will pay zero taxes on long-term gains and qualified dividends. In order to avail yourself of the new zero rate, your income can't exceed the normal 15% rate (about \$65,100 in 2008 for married taxpayers filing jointly and \$32,550 for single filers). However, be aware that the new zero rates do not apply to dependents that are under age 19, or under age 24 if they are full-time students. But the new law certainly doesn't prohibit you from shifting high capital gain assets to parents or other low-taxed family members so they can take advantage of the new zero tax on such gains. Remember that these new rates also apply to mutual fund shares that throw off capital gains and qualified dividends. They are not just for taxpayers holding actual shares of stock.

Additionally, there are many tax savings moves that you can make before the end of the year in order to reduce your tax bite. Here are just a few of them to consider:

Flexible Spending Accounts (FSA): Make sure to increase the amount you set aside for next year in your employer's FSA if you set aside too little this year.

Credit Cards: Consider using a credit card to pay for those year end deductible personal and business expenses. You receive the deduction in the year charged, not necessarily in the year the credit card bill is paid. So if you have last minute deductions, either for personal or business, but are short of cash, consider using your credit card to secure the deduction for 2008.

IRA Contributions: Contributions for Roth and traditional IRAs have been increased to \$5,000 for 2008. And for those age 50 or older by the end of the year can add an additional \$1,000 as a “catch up” contribution, making the total contribution \$6,000. Another benefit is that the contribution doesn’t have to be made until April 15, 2009

Kiddie Taxes: Kiddie taxes now impact those up to 24 years of age. If you have dependent children with investment income, they could be subject to the new rules. Now is the time to review their income sources and move them into investments that are more kiddie tax friendly.

Stock Market Losses: With the market in turmoil, be aware that you can sell stocks at a loss and use that loss to offset gains on other stock sales. Additionally, if your losses outstrip your gains, you can deduct up to \$3,000 of those losses to offset other income.

Qualified Tuition Expenses: The deduction for qualified tuition expenses has recently been reinstated. This allows for the “above the line” deduction of up to \$4,000 in qualified tuition expenses paid depending on the taxpayer’s income level. Paying tuition before the end of the year could create a valuable deduction. Also reinstated was the teacher expense deduction, which allows for a deduction of up to \$250 for the purchase of classroom supplies.

Finally, it’s important to remember that deductions are allowed only when the tax laws are followed and proper documentation is retained. This point was underlined in a recent Tax Court case dealing with charitable contribution deductions.

The tax court, IRS, and the taxpayer all agreed that checks in the total amount of \$6,100 were written to a qualified charitable organization. All of those checks were for amounts greater than \$250 each. However, the IRS claimed that the deduction should not be allowed since the taxpayer did not have appropriate documentation for the contributions.

The law clearly states that in order to claim a charitable contribution for an amount of \$250 or more, a contemporaneous written acknowledgement must be received from the charitable organization. The law also states that in order for an acknowledgement to be considered contemporaneous, it must essentially be received by the taxpayer before the return is filed. The taxpayer finally did receive an acknowledgement from the charity, but not until three years after the original return was filed. The IRS continued to deny the deduction, claiming that the acknowledgement was not contemporaneous. The Tax Court agreed with the IRS and the deductions were now allowed.

While this might seem harsh, deductions are allowed only if you comply with the law and substantiation requirements specific to those deductions. If you have made charitable deductions greater than \$250, you must receive the proper acknowledgement from the charitable organization on a timely basis in order for the deduction to hold up under IRS review. For contributions of less than \$250, a cancelled check or credit card receipt is considered valid substantiation (although an acknowledgement from the charity would still be best). Finally, remember that cash contributions absent a written acknowledgement are no longer deductible.