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Client Information Bulletin

November 2009

Seize Tax-planning Opportunities at Year-end

Take advantage of both new and traditional tax breaks

The end of the year is usually an optimal time for tax planning. This year offers several new tax breaks under the 2009 economic stimulus law, as well as other time-tested techniques. Here are a few prime examples.

Individual Tax Strategies

Capital gains and losses: Depending on your situation, you may realize capital gains to offset capital losses from earlier in the year. Net long-term capital gain for the year is taxed at a maximum rate of 15%. For 2009, the rate is 0% for taxpayers in the regular 10% or 15% brackets. (This tax break expires after 2010.) Thus, it may make sense for children in lower tax brackets to sell securities or other property at year-end. **Caveat:** Be aware of potential "kiddie tax" complications (see next column).

Alternative minimum tax: Despite slightly higher exemption amounts for 2009, you still may be required to pay the alternative minimum tax (AMT). At this time, have a tax professional estimate your AMT liability for 2009. It might be advisable to shift certain "tax preference items" to 2010 to avoid or reduce AMT liability. Alternatively, you might accelerate income into 2009 if the AMT rate is lower than your top marginal tax rate.

Charitable gifts: Generally, you can deduct the full amount of cash donations made before the end of the year. If a donation is made by credit card, you can deduct the gift on your 2009 return, even if the charge is not actually paid until next year. **Caveat:** The tax law imposes strict substantiation rules for contributions.

Family-income splitting: You may be able to reduce the overall family tax bill by shifting income-producing assets to family members, such as your children, in lower tax brackets. However, the kiddie tax may dilute this strategy. Generally, unearned income over $1,900 received by a child younger than 19 or a full-time student younger than 24 in 2009 is taxed at your top marginal tax rate.

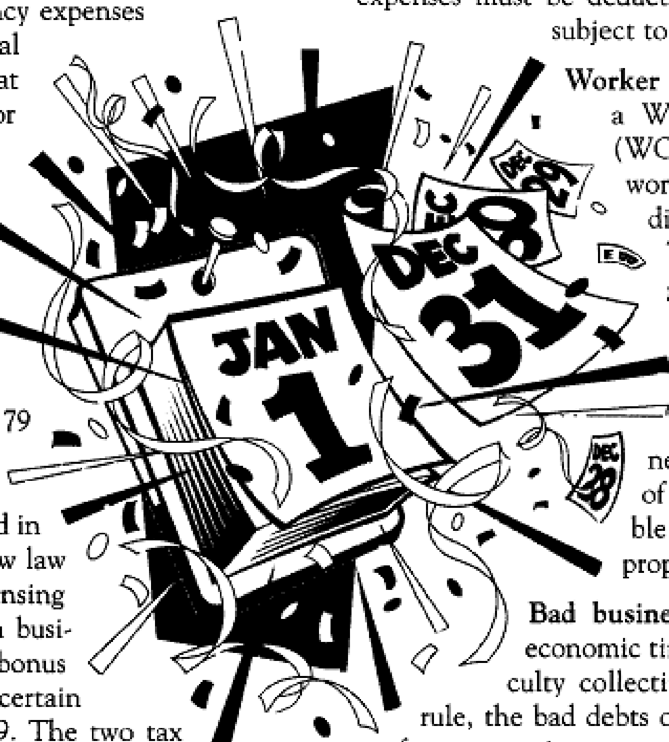
New-vehicle deductions: If you purchased a qualified vehicle after February 16, 2009, and before January 1, 2010, you may deduct the sales and excise taxes attributable to the first $49,500 of the vehicle's price. However, the deduction is phased out if your modified adjusted gross income (MAGI) exceeds $125,000 for single filers or $250,000 for joint filers.

First-time home buyer credit: A qualified first-time home buyer can claim a refundable tax credit equal to the lesser of $8,000 or 10% of the price of a home purchased before December 1, 2009. For this purpose, a "first-time home buyer" is defined

Inside

as someone who has not owned a principal residence for three years prior to the purchase. The credit is phased out if your MAGI exceeds $75,000 for single filers or $150,000 for joint filers.

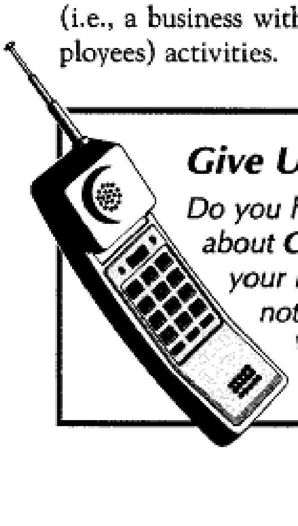
Medical and dental expenses: You may deduct unreimbursed medical and dental expenses to the extent the annual total exceeds 7.5% of your AGI. When it is possible, try to bunch nonemergency expenses (e.g., new eyeglasses or dental cleanings) in the tax year that provides the best opportunity for a medical expense deduction. **Note:** Do not forget to include copayments and deductibles required under a company health insurance plan.



Business Tax Strategies

Business assets: Under Section 179 of the tax code, a business may "expense," or currently deduct, the cost of qualified assets placed in service during the year. The new law preserves the maximum expensing allowance of $250,000. Also, a business may still qualify for 50% "bonus depreciation" deductions for certain assets placed in service in 2009. The two tax breaks may be combined for year-end purchases of business assets.

Estimated tax: Normally, small-business owners may be liable for an "estimated tax" penalty if they don't pay enough tax during the year. **Exception:** No penalty is imposed if annual payments equal 90% of this year's tax liability or 100% of the prior year's liability (110% if your AGI exceeded $150,000). Under the new law, you can base payments on 90% of the prior year's liability if more than half your 2008 income came from small-business (i.e., a business with an average of fewer than 500 employees) activities.



Give Us A Call!

*Do you have any questions or comments about **Client Information Bulletin** or your individual situation? Please do not hesitate to contact our office. We would be glad to serve you in any way we can.*

Business travel: Travel expenses incurred by an employee—such as airfare, lodging and 50% of the cost of meals—may be deducted if the trips are business-related. When appropriate, you can move up business trips planned for January into December. This allows you to write off the travel expenses on your 2009 return instead of waiting until 2010. **Caveat:** Unreimbursed travel expenses must be deducted as miscellaneous expenses subject to the usual 2%-of-AGI limit.

Worker credits: A business may claim a Work Opportunity Tax Credit (WOTC) of up to $2,400 for each worker hired from one of several disadvantaged "target groups." The new law creates two new groups eligible for the WOTC. For workers hired and starting work in 2009 or 2010, the WOTC covers unemployed veterans and "disconnected youth" between the ages of 16 and 24. **Note:** To be eligible for credits, workers must be properly certified.

Bad business debts: In these uncertain economic times, a business may have difficulty collecting some debts. As a general rule, the bad debts of a business may be deducted from gross income when they become worthless. Business owners should keep records of all collection efforts, such as letters, phone calls, e-mail communications and collection agency activities. This documentation can support deductions based on the worthlessness of the debts.

Corporate donations: If your company gives a donation to a qualified charitable organization this year, the amount may be deducted on its 2009 return. Deductions are generally limited to 10% of your company's taxable income, but any excess can be carried over for up to five years. Also, enhanced deductions may be available for donations of inventory or scientific property by C corporations. The deduction equals the basis of the property plus one-half of any unrealized appreciation (not to exceed twice the basis of the property). A similar tax break for corporate donations of computers to schools or public libraries expires after 2009.

Remember that this is only an overview of several common year-end tax-planning strategies. It is recommended that you consult a professional tax adviser concerning your specific personal and business circumstances.

Q's and A's About Powers of Attorney

Ensuring protection of your financial affairs

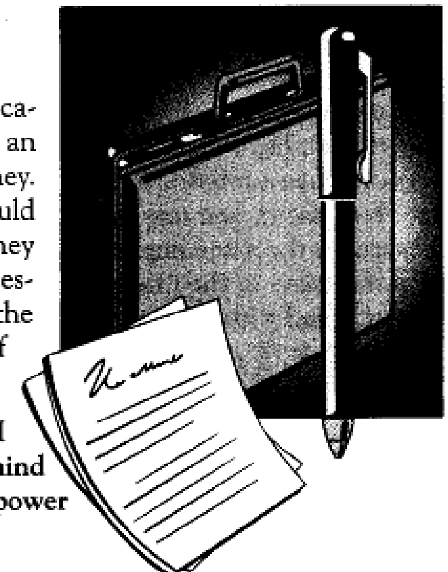
No one likes to contemplate the thought of being incapacitated. Nevertheless, it is important to take precautions in the event you become incapable of managing your financial affairs. One common method for ensuring some protection is to establish a "durable power of attorney." Here are the answers to several questions about this powerful estate-planning technique.

Q **What is a power of attorney?**

A It is a legal document that authorizes another person (called the "attorney-in-fact") to act on your behalf. Note: Sometimes, this term is also used to describe the person acting for you. The power can be either specific (e.g., limited to having someone sell your home or car) or broad. A regular power of attorney is no longer valid after you become incapacitated. In contrast, a "durable" power of attorney remains in effect if you become incapacitated and terminates upon your death.

Q **Can I set up a durable power of attorney to take effect at the time I become incapacitated?**

A It depends. This so-called "springing" power of attorney is not authorized in all states. You must find out the applicable state law from an experienced attorney. Similarly, you should rely on an attorney to do all the necessary paperwork for the durable power of attorney.



Q **What if I change my mind about granting a power of attorney?**

A While you are competent, you may revoke a power of attorney (whether or not it is durable) at any time for any reason. The best thing to do is to notify the attorney-in-fact in writing. Also, notify other parties who may be affected.

Q **Can a durable power of attorney be used for health care decisions?**

A Yes. For instance, you can establish the terms for deciding whether or not you are incapacitated. In addition, it is important that you discuss these matters in detail with the attorney-in-fact to give him or her more guidance.

Q **How is this different from a living will?**

A A durable power of attorney gives another person the power to make decisions in your best interests. In contrast, living wills provide specific directions concerning terminally ill patients. Living wills are now recognized in every state.

Q **Can I set up a durable power of attorney for a relative who is no longer competent?**

A No. A durable power of attorney is binding only if the grantor of the power was competent when it was drawn up. However, just because someone has been diagnosed as having a specific disease does not mean that he or she is incompetent. For instance, if an elderly person is suffering from Alzheimer's disease, it still may be possible to utilize a durable power of attorney.

If you execute a power of attorney, it should be coordinated with other aspects of your estate plan. Unless you have the requisite expertise, have a professional handle the details.

Cut Down Computer Spam

Are you deluged with annoying "spam" on your desktop or laptop? Here are a few hints to reduce the clutter:

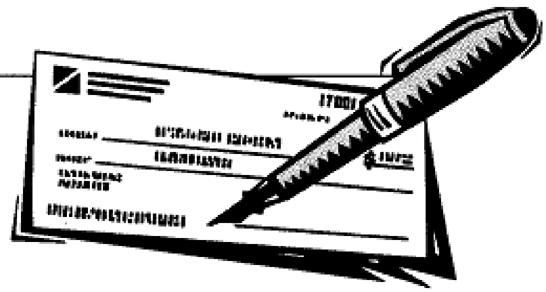
◆ Do not post your real e-mail address in online forums. This could put you on an unwanted list.

◆ Establish multiple e-mail addresses. Maintain one for subscriptions and another or several others for friends, family and business contacts.

◆ When registering an e-mail address on a Web site, do not give it the right to sell the address to spammers. Frequently, this may be done by checking—or not checking—a designated box.

◆ Consider acquiring antispam software.

Of course, it is extremely difficult to completely shut down spam if your e-mail address has been active for several years. Use a healthy dose of common sense to keep spam to a minimum.



Taking a Fast Payout From an Annuity

Immediate annuities provide current income

Do you need retirement money sooner or later? It can make a big difference in the way you manage your finances. Take annuities, for example. If you are far away from retirement, you may decide to invest in a deferred annuity. As the name implies, distributions are not made until sometime in the future. The earnings in the annuity compound without any current tax erosion.

On the other hand, if you need current income more than future income, you might opt for an immediate annuity. In the current economic climate, this variation may be preferable for individuals who have already retired or expect to retire in the near future.

How it works: When you invest in an immediate annuity, you could begin receiving checks from the issuer within a matter of weeks. Depending on the annuity contract, checks can be sent on a monthly, quarterly, semiannual or annual basis. In any event, the first annuity payment must be sent before the end of the specified period. Although the amount of each check will not fluctuate, payments depend upon the total annuity investment.

As with most other investments, there may be a difference in the return offered by one immediate annuity compared with another. But yield is just one of the factors to consider in this situation. Significantly, you will want to be sure that the insurance company (or other financial institution) issuing the annuity is economically sound and reputable.

How long do the payments for an immediate annuity last? Once again, that depends upon the annuity contract. As a general rule, you can arrange to receive regular payments for a specific number of years or for the rest of your life (or the joint lives of you and a designated beneficiary). Once you decide on the duration of the payments, it will be easier to compare the different rates of return.

Rule of thumb: All things being equal, the longer the time for payments, the less you will receive with each check. In other words, you will receive larger monthly payments if you arrange to receive payments for ten years than if you opt for monthly payments over the course of your lifetime (assuming that your life expectancy is currently greater than ten years).

What are the tax consequences of investing in an immediate annuity? Briefly stated, tax is due on a portion of the payments in the year the payments are received. This is another reason why you might choose a deferred annuity if you are still working on a full-time basis. Once you retire, you may be in a lower tax bracket than you are during the peak of your working career.

Of course, you do not have to figure out things all on your own. Your advisers can help you decide which type of annuity, if any, is suitable for your situation.

Facts and Figures

Timely points of particular interest

➡**Solar Energy Credits**—Under the new economic stimulus law, you may qualify for an enhanced energy credit of 30% (up from 10%) for installing a solar electric system in 2009. However, the IRS says in an information letter that a homeowner cannot base the credit on the full cost if the utility company provides a discount. For example, if you buy a $30,000 system and receive a $14,000 subsidy, the credit is limited to $4,800 (30% of discounted cost of $16,000).

➡**Age Discrimination Claims**—An employer may be liable for damages if it discriminates against an employee because of his or her age. But the U.S. Supreme Court has tightened the standards for plaintiffs. In a controversial new case, the court said that an employee needed to prove that age was the primary factor—and not just one of several factors—resulting in a demotion. **Note**: The case was decided by a narrow 5-4 margin.