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2008 Year End Tax Planning Traps and Opportunities

It's that time of year again! You still have a little time to consider planning for that income tax bill that comes due soon after New Years. If you make some good decisions now, you can save a bundle! With our new President-Elect and some of the changes that Congress has already passed, there are many opportunities to save and traps to avoid.

While at each year-end you may think that you're hearing the same advice, it's the nuances in this information that can foil you. Under normal circumstances, tax planning usually involves recommending a deferral of income and or accelerating of deductions. However, this year, it may be more advantageous for some choosing to do the opposite. For example, if Mr. Obama really wants to raise rates for couples with incomes over \$250,000 and singles over \$200,000, persons in that category may want to accelerate income and delay deductions before year end.

Rather than try to compose a comprehensive list, I'll just touch on some of the highlights and focus more on investment related themes. This way, you can be alerted to some concepts to follow up on with your tax advisor. If you don't have one, my firm is eager to establish new client relationships. Here's a [Contact Link](#) for you.

Itemized deductions

Much is the same as for prior years, yet two things strike me as noteworthy. First, for 2008, the new standard deduction is \$10,900 for married couples filing jointly and \$5,450 for singles. This year and next, married couples can factor in an extra deduction of up to \$1,000 (singles \$500) for property taxes paid on top of that. If your itemized deduction amounts are usually close to the standard deduction amount, you may want to consider this opportunity in your planning. Second, don't forget that you have an option to deduct state and local sales taxes in lieu of state and local income taxes. If you've purchased an auto during the year, you can add the sales tax paid to the table amount in figuring this deduction. Keep these tidbits in mind when you are determining whether to accelerate or defer other itemized deduction items that you have more control over.

Investment Related

Tax-loss harvesting often dominates year end tax planning discussions for many investors. As I have already covered this topic in great detail in a prior writing, you can review it by clicking on this link ([Tax Loss Harvesting](#)).

For 2008 through 2010, the tax rate for qualified dividends and net long-term capital gains has been reduced to 0% (yes, zero) for filers below the 25% tax bracket. For married

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couples filing jointly, the 25% tax bracket begins at \$65,100 of taxable income and \$32,550 for single filers. For filers at or above the 25% bracket, the maximum rate remains at 15% for 2008. Yet President-Elect Obama has indicated a desire to change that 15% max rate to 20% when he gets his chance at tax reform. If you are fortunate enough to have net long-term capital gains this year and you are in the 25% or higher tax bracket, you might want to realize them before year end.

Short-term capital gains and non-qualified dividends are taxed at ordinary income rates. You also should be aware that capital gains involving collectibles and recaptured depreciation on real estate investments have different rules and higher maximum rates that apply.

It's also important to note that you can't utilize the favorable treatment on qualified dividends unless you have held your shares for 60 days prior to and after the ex-dividend date or if you use the dividend income to help you deduct margin interest on your return. Under the rules, your ability to deduct margin interest is limited by your investment income. While short-term capital gains can be used to boost this deduction, if you elect to use your qualified dividend income to help boost your margin interest deduction, you will forfeit the 0% or 15% maximum tax rate on them.

If boosting your itemized deductions is to be part of your 2008 tax strategy, you may want to factor in the potential for bumping up into the AMT (alternative minimum tax). The AMT is much like a flat tax that been part of the tax code for decades and was originally enacted to impact only the wealthiest of taxpayers. However, because the AMT wasn't indexed to inflation, it impacts many middle income earners now. A number of things can trigger it. Taking large long-term capital gains (if you have them) can make it trigger; and claiming a large amount of itemized deductions or personal exemptions are common culprits as well. If you find yourself subject to the AMT, you may not want to waste too many of your excess deductions or create tax-preference income that will effectively be neutered by it.

Lastly, speaking about investments, I recently invested in an online travel company that offers the same or better prices as other online travel websites. All travel is booked through a large, publicly traded travel company that licenses the right to use their site. Right now, it is a tax deduction for me; however, I do have the ability to share in profits. If you are planning travel for business or pleasure, please give www.marketlettertravel.com a try and compare it for yourself. Your patronage would be appreciated and will help offset the time and production costs in researching, writing and distributing these letters.

Consumer Alert

Be on the look out for a scam that surfaced earlier this year and has resurfaced again. It is preying on people regarding the economic stimulus payment from the US Treasury.

The IRS warns taxpayers to be on the alert for e-mails and phone calls they may receive which claim to come from the IRS or other federal agency and which discusses the economic stimulus payment. These are almost certainly a scam whose purpose is to obtain personal and financial information — such as name, Social Security number, bank account and credit card or even PIN numbers — from taxpayers which can be used by the

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scammers to commit identity theft. The e-mails and calls usually state that the IRS needs the information to process a refund or stimulus payment or deposit it into the taxpayer's bank account. The e-mails often contain links or attachments to what appears to be the IRS Web site or an IRS payment application form. However genuine in appearance, these phonies are designed to elicit the information the scammers are looking for.

The IRS does not send taxpayers e-mails about their tax accounts. Additionally, the way to get a tax refund or stimulus payment, or to arrange for a direct deposit, is to file a tax return.