


**Morris Area
Financial Advisor Study Group**
Morristown, NJ
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**Tax Strategies
For Current Economic Times
&
Impact of New Tax Law
Changes**

Introduction

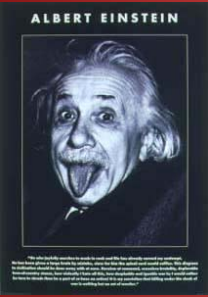
- **Kenneth B. Shapiro, CPA/PFS, CFP®**
- Shapiro Financial Security Group, Inc.
Hazlet, New Jersey
- **"Planning is the Key to Security"**

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**"THE HARDEST THING IN THE
WORLD TO UNDERSTAND IS
INCOME TAX"**



ALBERT EINSTEIN

**Tax & Planning Rules
to Live By**

- Rule #1 – Everything is Taxable
- Rule #2 – Nothing is Deductible
- Rule #3 – The Tax Law is Illogical
- Taxes – are only a subpart of a Financial Plan
"Maximize After-tax Income"
Build **Net Worth** = Assets - Liabilities

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Recent Tax Law Changes

- American Recovery & Reinvestment Act of 2009 – Feb 2009
- Worker, Retiree, & Employer Recovery Act of 2008 – Dec 2008
- Emergency Economic Stabilization Act of 2008 – Oct 2008
- Housing & Economic Recovery Act of 2008 – July 2008
- Farm/Military Tax Relief Act of 2008 – May 2008
- Economic Stimulus Act of 2008 – Feb 2008
- Tax Technical Correction Act of 2007 – Dec 2007
- Tax Increase Prevention Act of 2007 – Dec 2007
- Mortgage Forgiveness Debt Relief Act of 2007 – Dec 2007
- Small Business & Work Opportunity Act of 2007 – May 2007

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2007 Tax Act Provisions

- Small Business & Work Opportunity Act of 2007 – May 2007
 - Raised Applicable Age for "Kiddie Tax" from Age 18 to 24
- Mortgage Forgiveness Debt Relief Act of 2007 – Dec 2007
 - Exclusion for Discharge of Indebtedness on Personal Residence Acquisition Debt (1/1/07 – 12/31/09)
 - Extension Qualified Mortgage Insurance Premium Deduction to 12/31/10
 - Surviving Spouse Use of \$500K Residence Exclusion – 2 yr window
- Tax Increase Prevention Act of 2007 – Dec 2007
 - Increase in AMT Exemption for 2007
- Tax Technical Correction Act of 2007 – Dec 2007
 - AMT Refundable Tax Credit

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Other 2008 New Provisions

- Economic Stimulus Act of 2008 – Feb 2008
 - 2008 Recovery Rebate Program
- Housing & Economic Recovery Act of 2008 – July 2008
 - First Time Homebuyer Tax Credit
 - Additional Standard Deduction for Real Estate Taxes
- Emergency Economic Stabilization Act of 2008 – Oct 2008
 - Increased AMT Exemption for 2008
 - Abatement of AMT tax & penalties on ISO pre 2008 exercise
 - Acceleration of Minimum Tax Credit - 2 yr rule
 - Extension of Add'l Standard Deduction for Real Estate Taxes
- Worker, Retiree, & Employer Recovery Act of 2008 – Dec 2008
 - Suspension of 2009 RMD's from Qualified Plans
 - Non-spouse rollover of decedent's qualified plan assets

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American Recovery and Reinvestment Act of 2009 New Tax Breaks for Unemployed

- **Temporary Suspension of Taxation of Unemployment Benefits**
 - Temporarily suspends federal income tax on the first \$2,400 of unemployment benefits for taxable year 2009
- **Increase in Unemployment Benefits**
 - Increases unemployment benefits by an additional \$25 through 2009.
- **Extension of Unemployment Compensation**
 - Continues the Emergency Unemployment Compensation program, providing up to 33 weeks of extended unemployment benefits.

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American Recovery and Reinvestment Act of 2009 New Tax Breaks for Unemployed

- **Premium Subsidies for COBRA Continuation Coverage for Unemployed Workers**
 - 65% subsidy for COBRA continuation premiums for up to 9 months
 - For workers that have been involuntarily terminated between September 1, 2008 and December 31, 2009
 - Terminates on offer of new employer-sponsored healthcare coverage or Medicare eligibility.
 - Workers who qualify but did not elect COBRA because of unaffordability would be given an additional 60 days to elect COBRA and receive the subsidy.
 - Participants must attest that their same year income will not exceed \$125,000 for individuals & \$250,000 for families

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American Recovery and Reinvestment Act of 2009 Other Tax Relief for Individuals & Families

- **Changes to Refundable First-time Home Buyer Credit**
 - For 2008, refundable tax credit up to \$7,500
 - Buyer had no ownership interest for 3 year period
 - Equivalent to an interest free loan for 15 years
 - Credit repayable in 2nd yr after credit claimed
 - Available on home purchased
 - After April 8, 2008
 - Before July 1, 2009
 - Now repayment obligation eliminated
 - Maximum value of the credit increased to \$8,000
 - Extends availability for homes purchased before Dec 1, 2009
 - Credit recapture if house is sold within 3 yrs of purchase.

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American Recovery and Reinvestment Act of 2009 Other Tax Relief for Individuals & Families

- **"Make Work Pay" Tax Credit**
 - Refundable tax credit of up to \$400 for working individuals and \$800 for working families.
 - 6.2% of earned income, phasing out for taxpayers with AGI in excess of \$75,000 (\$150,000 for MFJ)
 - Receive as reduction in tax W/H or a credit on tax return
- **Increase in Earned Income Credit**
 - Temporary increase for working families w/3 or more children.
 - Increases Earned Income Tax Credit by 5%
 - Increase the phase-out range for all MFJ couples by \$1,880 (regardless of the number of children).
- **Refundable Portion of Child Tax Credit**
 - The Child Tax Credit will be refundable to the extent:
 - 15% of the taxpayer's earned income in excess of \$3,000 (reduced from \$8,500)

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American Recovery and Reinvestment Act of 2009 Other Tax Relief for Individuals & Families

- **"American Opportunity" Education Tax Credit**
 - Enhanced "Hope Credit"
 - Credit of up to \$2,500 - cost of tuition and related expenses
 - Based on:
 - 100% of the first \$2,000, plus
 - 25% of the next \$2,000
 - 40% of the credit would be refundable
 - Subject to phase-out for AGI's over:
 - \$80,000 for individuals (\$160,000 for MFJ).
- **529 Education Plans**
 - Computers/computer technology qualified educational exp

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American Recovery and Reinvestment Act of 2009 Other Tax Relief for Individuals & Families

- **AMT Relief**
 - Exemption amount is increased to:
 - \$46,700 for individuals & \$70,950 for MFJ.
 - Excludes interest on private activity bonds
 - Bonds issued in 2009 or 2010
 - Bonds issued after 2003 & refunded in 2009 or 2010
- **Sales Tax Deduction for Vehicle Purchases**
 - Itemized deduction for State, local sales and excise taxes paid on the purchase thru 2009
 - new cars, light trucks, recreational vehicles, motorcycles
 - Subject to a phase-out for AGI's in excess of
 - \$125,000 for individuals & \$250,000 for MFJ.

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New Tax Credits

Credit	AGI Phase-out
Refundable First-time Home Buyer	\$75,000/\$150,000
"American Opportunity" Education	\$80,000/\$160,000
"Making Work Pay" Tax Credit	\$75,000/\$150,000
Energy-Efficient Improvements	No phase-out

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Calculation of Income Tax Liability

- Gross Income
- - Adjustments to Income
- Adjusted Gross Income
- - Standard or Itemized Deductions
- - Personal Exemptions
- Taxable Income

- Regular Tax Liability
- + Alternative Minimum Tax
- - Tax Credits
- Total Tax Liability

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Tax Rates Schedules

	Marginal	Effective	CG
■ Married Joint (2009)			
- \$0 - \$16,700	10%	10.0%	0%
- \$16,701 - \$67,900	15%	13.7%	0%
- \$67,901 - \$137,050	25%	19.4%	15%
- \$137,051 - \$208,850	28%	22.4%	
- \$208,851 - \$372,950	33%	27.1%	
- > \$372,951	35%		
■ AMT Tax Rate			
- \$0 - \$175,000		26.0%	
- > \$175,000		28.0%	

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Tax Rates on Capital Gains & Qualified Dividends

- L/T Capital Gains & Qualified Dividends are taxed at Capital Gains Rates
 - Normally 15%
 - If taxpayer in 10% or 15% tax bracket
 - 5% for 2006 & 2007
 - 0% for tax years beginning after 12/31/07 (2008)
- **Election to tax qualified dividends at ordinary rates to allow investment interest expense deduction**

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Tax Planning Topics

- Low tax brackets now – Rising rates in the future ??
- Use tax projections to identify planning opportunities
- Reasons for lower AGI & taxable income for 2009
 - No RMD's for 2009
 - Exclusion of Social Security
 - Loss of Job
 - Lower investment income
 - Capital loss carryovers
 - Passive loss carryovers
 - Increased tax credits

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Tax Planning Topics

- Maximize use of 0% Tax Bracket
- Loss on termination of ROTH IRA/Annuity
 - Use to fund deductible IRA contributions for no 401K W2
- Roth IRA Conversions – Now & 2010
- Downsize Residence – Convert Equity Indebtedness to Acquisition Indebtedness
- Timing Itemized Deductions
- Tax Loss Harvesting – Establish new cost basis

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Other Tax Planning Issues

- Set Up Estimated Tax Payments
 - Safe Harbor Rules – 100% or 110% Prior Year Tax
 - **Regular Rule – 90% of Current Year Tax**
- Restructure Portfolio Income
 - Taxable vs Tax Exempt
- Pertinent tax deductions:
 - Job Search Expenses
 - Moving Expenses
 - Schedule C Business Expenses
 - Ordinary, Necessary & Reasonable
 - Home Office Deduction
 - Auto Mileage

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Job Search Expenses

- You **can deduct** certain unreimbursed expenses you incur in looking for a new job:
 - whether or not you are unemployed at the time of the job search, and
 - whether or not you land a new job.
- You **cannot** deduct job search expenses if:
 - You are looking for a job in a new occupation, *or*
 - There has been a substantial break between the ending of your last job and your looking for a new one, *or*
 - You are looking for a job for the first time.
- If you pass the "cannot" rules (above), then you **can deduct**
 - Employment and outplacement agency fees.
 - Costs of typing, printing, and mailing copies of your resume.
 - Phone and fax expenses, including long distance calls to prospects.
 - Travel and transportation expenses if you have to travel outside your home territory to look for, or interview for, a job. The trip must be primarily to look for a job.
 - If you drive you can deduct the standard mileage rate.

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Tax Deductions Related to F1099 Work

- Report on Schedule C for Federal Taxes
- Advertising and marketing expenses
- Unreimbursed business expenses
- Automobile expenses
- Travel & Lodging
- Meals & entertainment (50%)
- Depreciation of capital assets
- Home office deduction
- Other ordinary, necessary & reasonable business expenses:
 - Office expenses
 - Supplies
 - Taxes & Licenses

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New Jersey Tax Rules

- Pension Exclusion complete elimination at \$100K of NJ Gross Income
- 3 Year Recapture Rule – employee contributions to retirement plans
- 2% Threshold re Deductible Medical Exp
- Nondeductible personal & business losses

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Thank You

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