PAUL H. BURGESS, ATTORNEY-C.P.A.

525 SOUTH MAIN, SUITE 800/TULSA, OKLAHOMA 74103-4511 (918) 599-7755 VOL. 29, DECEMBER 2009

Tax & Financial Newsletter

This ***Tax and Financial Newsletter*** has three parts. First, is the five-step method to saving taxes. If you deviate from the five steps, your taxes increase. The second section explains the major aspects of the bonus depreciation and the related Sec. 179 deduction. Knowing these depreciation rules can save significant taxes before year-end. The ***Newsletter*** concludes with 31 additional ***Tax Tips!*** to consider before the year-end and tax strategies to implement for 2010. The ***Tax Tips!*** are basic strategies and, of course, numerous others exist depending upon one's circumstances.

THE FIVE-STEP APPROACH TO SAVING INCOME TAXES

First, ***exclude*** from taxation the income and gains that you can.

Second, ***defer*** that which you must report.

Third, ***reduce*** that which you must report.

Fourth, ***pay*** taxes on the rest.

Fifth, pay ***on the latest date*** possible without incurring penalties and interest.

All tax planning methods utilize one or more of these five principles.

For example, tax-exempt interest and employer cafeteria plans are exclusion methods—#1 above.

Contributing to a pension plan is a classic deferral and reduction technique—#2 and #3 above.

Taking all deductions and credits you are entitled to is the way to reduce taxes after your exclusions and deferrals—#3 above.

Not timely paying your taxes and incurring penalties and interest violates #4.

Strategically paying estimated tax payments and adjusting withholdings are examples of #5.

If you desire to trim your tax bill for 2009 and 2010, you should consider the next two sections.

BONUS DEPRECIATION AND SEC. 179 FOR BUSINESS ASSETS

Although bonus first-year depreciation has been extended a number of times, another lease on life for this tax break for 2010 may not be in the cards; and for 2009, the Sec, 179 expensing limit is $250,000 with an investment ceiling of $800,000. Once again, unless Congress modifies the rules the expensing limits for 2010 will be about half of what they are for 2009. Thus, businesses that know the basic rules before the end of 2009 may be able to take advantage of expiring tax breaks.

√ The bonus depreciation deduction is determined without any proration based on the length of the tax year. As a result, accelerated first-year deductions are available even if qualifying assets are in service for only a few days in 2009.

√ There is no AMT depreciation adjustment for property written off under the additional 50% first-year depreciation allowance.

√ If Code Sec. 179 expensing is claimed on qualified property, the amount expensed "comes off the top" before the additional 50% first-year depreciation allowance is computed.

√ If bonus first-year depreciation deductions come to an end at the close of 2009, so will the extra-generous first-year dollar limit on autos, light trucks and vans subject to the "luxury auto" rules. The first-year depreciation deduction for new vehicles that qualify for bonus depreciation is $8,000 more than the first-year depreciation limit that would otherwise apply.

√ The standard wisdom has been that businesses should try to avoid final quarter purchases because doing can slow down depreciation for other assets purchased during the year. However, the availability of bonus first year depreciation this year on most new machinery and equipment purchases substantially diminishes the hazards of buying in the last quarter.

CHECKLIST OF *TAX TIPS!* FOR THE REST OF 2009 & 2010

√ If you own a business, perhaps the best method for anticipating and reducing taxes, as well as controlling expenses and knowing current revenues, is to have monthly or quarterly accountings prepared during the year instead of an annual accounting at year-end. This allows you to spot management and tax issues with time to respond. Please feel free to call me at (918) 599-7755 to learn more about our monthly and quarterly accounting services.

√ Pay in late December 2009 your state estimated tax payment(s) that are due January 15, 2010; consider paying in late December 2009 any anticipated state taxes due in April 2010 for tax year 2009. But be careful of the alternative minimum tax. Typically, one needs to calculate tax projections to secure the best benefits from paying state taxes a little early.

√ Avoid underpayment of estimated tax payment penalties by increasing your withholdings from your December 2009 paychecks.

√ For assets used more than 50% for business, but typically less than 100%, consider purchasing the asset at the very end of the year and using it 100% for business for the remaining portion of the year to take advantage of a higher §179 expense election business percentage.

√ Dispose of your interests in those flow-through entities in which you have "suspended" loss carryforwards.

√ Make sure you have tax basis in all your partnerships, LLCs, and S corporations to deduct any losses. Increasing your tax basis can be accomplished by several methods.

√ Step up your level of participation in partnerships, S corporations, or LLCs to qualify as an "active participant" for flow-through entities reporting losses.

√ Coordinate officer/shareholder salaries with the corporation and shareholder's tax returns to pay the lowest possible taxes or to defer taxes.

√ Maximize 401(k) contributions before year-end and take advantage of employer matching contributions.

√ Set up pension plans before year-end and fund those plans. In many cases if a plan is "set up" by December 31, you can contribute to the plan as late as October 15, 2010 for a 2009 tax deduction.

√ If you are short on cash, pay deductible expenses with your credit card before year-end. Charges on credit cards are deductible when incurred even though you pay for it after the year-end.

√ Contribute to your favorite charity; consider gifting appreciated property to a charitable organization for a deduction equal to its fair market value. Clean out your home by donating non-cash charitable contributions to Goodwill, etc. The donated goods must be in good condition.

√ If you are age 70½ or older, own IRAs (or Roth IRAs), and are thinking of making a charitable gift, consider arranging for the gift to be made directly by the IRA trustee. Such a transfer, if made before year-end, can achieve important tax savings.

√ If you are age 70½ or older and took a distribution from a retirement plan or IRA earlier this year, you may be able to avoid tax on the payout by rolling it over into an eligible retirement plan (including an IRA) before Dec. 1, 2009.

√ If you are single and assist your parents financially, make sure you meet the support level test to file head of household instead of single.

√ Pay close attention to your state tax return and make sure you are claiming all the state tax benefits. The Oklahoma capital gain exclusion is an excellent tax saving tool. If you have appreciated Oklahoma real property or own stock, partnership interest or LLC membership interests in companies that are located primarily in Oklahoma, the capital gain under many circumstances can be totally excluded from Oklahoma taxation.

√ Consider funding education for your children or grandchildren through the Oklahoma §529 plan. Up to a $10,000 ($20,000 if married) Oklahoma income deduction is available (you can contribute more though) and the investments grow tax free if ultimately used for college. See www.ok4savings.org for the website.

√ Generate a 2009 Oklahoma tax deduction with respect to a current college student by funding an Oklahoma §529 plan now and then use those funds to pay January 2010 tuition bills.

√ Increase contributions to your health savings account (HSA). Individuals in an HSA may make deductible contributions to it subject to certain limits. For calendar year 2009, assuming a full year of coverage, the maximum contribution for self-only coverage is $3,000. For family coverage, the maximum coverage is $5,950.

√ Make gifts before year-end because the first $13,000 ($26,000 for married couples) to each donee is excluded from gift tax considerations. These exclusions can save both gift taxes and family income taxes. Estate tax can also be saved because the gift and its appreciation aren't included in the donor's estate.

√ If you are planning to organize an LLC or incorporate a business, consider doing so before year-end to deduct up to $5,000 of the organizational and start up costs.

√ It may be advantageous to try to arrange with your employer to defer a 2009 bonus until early 2010.

√ In certain circumstances, it is beneficial to report income in the current year versus the subsequent year; thus, consider increasing your income via:

(1) Converting a traditional IRA to a Roth IRA;

(2) Electing out of the installment method for reporting gains;

(3) Taking distributions from pass through businesses that are in excess of your tax basis;

(4) Electing slower depreciation methods; or

(5) Selling "gain" assets at year-end.

√ If you are a homeowner, make energy saving improvements to the residence, such as putting in extra insulation or installing energy saving windows, and qualify for up to a $1,500 tax credit. Additional substantial tax credits are available for installing energy generating equipment (such as solar electric panels or solar hot water heaters) to your home.

√ If you are thinking of buying a hybrid vehicle eligible for a tax credit, check to see if it's eligible for the credit and, if so, purchase it before year-end.

√ In some cases a taxpayer can shift holdings out of investments that generate income taxed at ordinary rates (e.g., bonds) into dividend-paying stocks with the result of paying taxes at the favorable capital gains rates.

√ If you have tax deferred retirement accounts and personal investments and the investments in the two accounts are capital gain type items (growth stocks) and ordinary income generators (bonds, money markets, etc.), it may be best for the ordinary income generators to be in the pension plans and hold the growth stocks personally.

√ If you are planning to buy a car, do so before year-end in order to nail down a deduction for state sales tax and excise tax on the purchase.

√ Accelerate big ticket purchases into 2009 in order to assure a deduction for sales taxes on the purchases if you will elect to claim a state and local general sales tax deduction instead of a state and local income tax deduction.

√ If you own a C corporation, you may be able to convert income that is taxable at ordinary tax rates into qualifying dividend income taxed at more favorable rates.

√ Careful planning of debt can otherwise convert non-deductible personal interest into deductible business, passive, investment, or home mortgage interest.

The statements contained herein are basic overviews of the covered subjects. Many of the provisions have special rules, expiration dates, and exceptions and may not be applicable for your circumstances. Further, the opinions of the author contained herein are to be viewed as opinions only and not legal, tax or accounting advice. Please call 918-599-7755 to see how you can make the most of these suggestions, or if you need help arranging your personal and business affairs to reduce your taxes and increase your profits.

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