



MEMORANDUM

DATE: October 11, 2009

TO: CPM Clients

FROM: Carlile Patchen & Murphy LLP

RE: 2009 Tax Planning Checklist

Year-end tax planning could be especially productive this year because timely action can take advantage of many tax breaks that will not be available next year unless Congress acts to extend them. These include:

For Businesses:

Tax breaks that are available through the end of this year but won't be around next year unless Congress acts include:

- 50% bonus first year depreciation for most new machinery, equipment and software;
- an extraordinarily high \$250,000 expensing limitation (which will be reduced to \$134,000 next year);
- the research tax credit;
- the five-year write-off for most farm equipment; and
- the 15-year write-off for qualified leasehold improvements, qualified restaurant buildings and improvements and qualified retail improvements.

For Individuals:

- The option to deduct state and local sales and use taxes instead of state income taxes;
- The standard or itemized deduction for state sales tax and excise tax on the purchase of motor vehicles;
- Tax-free distributions by those age 70 1/2 or older from IRAs for charitable purposes;

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- The \$8,000 first-time homebuyer credit (expires for purchases after Nov. 30, 2009, although Congress is currently entertaining proposals to extend it beyond such date, and perhaps expand the amount of the credit); and
- Without Congressional “extender” legislation (which has come at the eleventh hour for the past several years), alternative minimum tax (AMT) exemption amounts for individuals are scheduled to drop drastically next year, and most nonrefundable personal credits won't be available to offset the AMT.

High-income-earners have other factors to keep in mind when mapping out year-end plans. Many observers expect top tax rates on ordinary income to increase after 2010, making long-term deferral of income less appealing. Long-term capital gains rates could go up as well, so it may pay for some to take large profits this year instead of a waiting until future tax years. On the other hand, traditional IRA to Roth IRA conversions will be allowed regardless of a taxpayer's income.

Below is a checklist of actions based on current tax rules that may help you save tax dollars if you act before year-end. Not all actions will apply in your particular situation, but you (or a family member) will likely benefit from many of them. We can explain specific actions that you can take once we meet with you and your CPA (with whom you should also discuss these items). In the meantime, please review the following items and contact us and your CPA to discuss which tax-saving strategies make the most sense for you:

- Increase the amount you set aside for next year in your employer's health flexible spending account (FSA) if you set aside too little for this year. Don't forget that you can set aside amounts to get tax-free reimbursements for over-the-counter drugs, such as aspirin and antacids.
- If you become eligible to make health savings account (HSA) contributions in December of this year, you can make a full year's worth of deductible HSA contributions for 2009.
- Realize losses on stock while substantially preserving your investment position. There are several ways this can be done. For example, you can sell the original holding, then buy back the same securities at least 31 days later. It may be advisable for us to meet with you and your financial planner to discuss year-end trades you should consider making.
- Postpone income until 2010 and accelerate deductions into 2009 to lower your 2009 tax bill. This strategy may enable you to claim larger deductions, credits, and other tax breaks for 2009 that are phased out over varying levels of adjusted gross income (AGI). These include IRA and Roth IRA contributions, conversions of regular IRAs to Roth IRAs, child credits, higher education tax credits, the above-the-line deduction for higher-education expenses, and deductions for student loan interest. Postponing income also is desirable for

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those taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances. Note, however, that in some cases, it may pay to actually accelerate income into 2009. For example, this may be the case where a person's marginal tax rate is much lower this year than it will be next year.

- If you believe a Roth IRA is better than a traditional IRA, and want to remain in the market for the long term, consider converting traditional-IRA money invested in beaten-down stocks (or mutual funds) into a Roth IRA if eligible to do so. Keep in mind, however, that such a conversion will increase your adjusted gross income for 2009.
- If you own an interest in a partnership or S corporation that will have losses in 2009, you may need to increase the tax basis of your interest in the entity in order to be able to deduct the losses this year.
- Use credit cards or borrowed funds to prepay expenses that can generate deductions for this year.
- If you expect to owe state and local income taxes when you file your return next year, consider increasing withholding of state and local taxes (or paying estimated tax payments of state and local taxes) before year-end to pull the deduction of those taxes into 2010 if doing so won't create an AMT problem (see below).
- Estimate the effect of any year-end planning moves on the AMT for 2009, keeping in mind that many tax breaks allowed for purposes of calculating regular taxes are disallowed for AMT purposes. These include:
 - The deduction for state property taxes on your residence;
 - State income taxes (or state sales tax if you elect this deduction option);
 - Miscellaneous itemized deductions; and
 - Personal exemption deductions.

Other deductions, such as those for medical expenses, are calculated in a more restrictive way for AMT purposes than for regular tax purposes. As a result, in some cases, deductions should be deferred rather than accelerated to keep them from being lost because of the AMT.

- Those facing a penalty for underpayment of federal estimated tax may be able to eliminate or reduce it by increasing their withholding.

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- 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 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.
- Make energy saving improvements to your residence (such as putting in extra insulation or installing energy saving windows) which qualify for a tax credit). Additional, substantial tax credits are available for installing energy generating equipment (such as solar electric panels or solar hot water heaters) at your home.
- First-time homebuyers should make the purchase before Dec. 1, 2009, in order to qualify for the first-time-homebuyer credit (up to \$8,000).
- Pay contested taxes to be able to deduct them this year while continuing to contest them next year.
- Settle insurance or damages claims in order to maximize your casualty loss deduction this year.
- Businesses should consider making expenditures that qualify for the business property expensing option (\$250,000 for assets bought and placed in service this year). The maximum expensing amount will drop to \$134,000 for assets bought and placed in service next year (although higher expensing amounts apply in certain specialized situations). Businesses also should consider making expenditures that qualify for 50% bonus first year depreciation if bought and placed in service this year. This bonus depreciation deduction generally won't be available next year.
- Consider establishing a self-employed retirement plan (if you are self-employed and have not already done so).

The above list is not all-inclusive, but it does suggest several year-end steps that can be taken to save taxes. We can work with your CPA and financial planner to tailor a particular plan that will work best for you.

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