

## 2009 Year-End Tax Planning

With so much turmoil in the financial markets this fall, you may be finding it difficult to focus on year-end tax planning in 2008. However, taking time to monitor and implement appropriate income and transfer tax strategies is critical to preserve and enhance future wealth. There have been subtle tax law changes implemented this fall, which represent opportunities. We at Reinhart stand ready to help you explore and take advantage of these opportunities.

### Consider Annual Exclusion Gifts

In 2008, annual exclusion gifts - up to \$12,000 each - may be made to any number of individuals. Gifts may be made with cash or other property. Beware that if you gift a percentage of ownership in real estate, the gift could be further discounted if it is a minority interest and due to lack of marketability. In taking such discounts, you must report the gifts and disclose discounts taken on the gift tax return covering the year of the gift. Gift tax returns are, like income tax returns, due on April 15 of the following year. The U.S. Treasury announced that in 2009 the annual exclusion will be raised to \$13,000. Consider reducing transaction costs by making your 2008 annual exclusion gifts in December and 2009 annual exclusion gifts in January. It is particularly important, however, to be sure to avoid end of the year tax pitfalls, such as your recipient failing to cash your check by the end of the calendar year. The check must be cashed in order for the gift to be complete in that year. Likewise, the deed for a gift of real estate must be delivered to the recipient, although it does not need to be recorded by year end.

### Tax-Free Distribution from Traditional IRA to Charity

As part of the budget "bailout" bill, a taxpayer 70-1/2 or older is permitted to make an annual contribution (up to \$100,000 total) from one or more traditional IRAs to one or more qualified charities. The amount transferred will count towards your minimum required distribution (RMD) and, if done properly, does not flow through your federal income tax return. You are, therefore, not limited by the charitable deduction limits, nor are you income taxed on the portion of RMD given to charity.

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## Be Aware of Changes in the Kiddie Tax

Effective January 1, 2008 investment income earned by a young adult under age 24 may be taxed at the parents' rate. Under newly expanded rules, this "kiddie tax" now applies to:

1. children under age 18;
2. children age 18 with earned income less than one-half of total support; and
3. children between the ages of 18 and 24 who are full-time students, with earned income of less than one-half of total support.

## Calculate New Tax Rules Applicable to Selling Your Vacation Home

A \$500,000 exclusion of gain on sale is generally available to taxpayers who use a property as a principal residence for at least two of five years prior to sale. However, beginning in 2009, special rules will apply to property that is used as a vacation home or rental property prior to being converted to a principal residence. If a principal residence was formerly used as a vacation home or rental property, the period of "non-qualifying use" will reduce (pro rata) the amount of gain that can be excluded on a later sale. The good news is that periods of non-qualifying use prior to January 1, 2009 will not count against you. So, although this rule will not affect you in 2008, it is something to take into account when making future plans.

## New Tax Incentives for First Time Home Buyers

This may be the right time to help young adults in your life purchase a new home. Tucked away in the Housing and Economic Recovery Act of 2008 is a provision that gives first-time homeowners a tax credit - up to \$7,500 for marrieds filing jointly and \$3,750 for singles. The credit is available only for a principal residence purchased before July 1, 2009 and phases out for marrieds with gross incomes between \$150,000 and \$170,000 and for singles with AGI between \$75,000 and \$95,000. Of course, the credit comes with strings attached. The new homeowner must repay the full amount of the credit to the U.S. Treasury over 15 years, with accelerated payments due if the home is sold within that period.



## **Make Your Health Care Power of Attorney Work for You**

Today's health care privacy laws (HIPAA) make having a health care power of attorney more important than ever. Without a power of attorney, you will generally be unable to participate in health care decisions involving a spouse, a partner or adult child. Review your health care power of attorney: are the agents you designated still capable of acting in your behalf? Do they live nearby? Have you given a copy of this to your physician and your agent so that they are prepared to act when needed?

## **Complete a Business Management Succession Plan**

If you are an entrepreneur, chances are you don't have a business succession plan. This holiday season, your best gift to yourself, your family, your employees and your partners may be sitting down with your business and family advisors. Please be sure to include both your estate planning attorney and your accountant. The ideal situation is one in which all of your advisors share their expertise and communicate clearly with each other. Once you have your business plan in place, remember annual reviews to make sure you stay on track, as well as updates in the event of significant life or business changes.

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