

The Rudolph Report

www.rudolphcpa.com

Year End 2008

To all our clients:

The past few weeks, our office has received many calls regarding tax planning around the effects of the current recession. In this year-end issue, we will discuss how those tax issues affect you. We will also breakdown new tax legislation and offer some year end tax tips. Unfortunately, we won't have time to discuss the collapse of my Cubbies, as my team of therapists has encouraged me to move forward.

Our office will be mailing you a letter and a tax organizer in late January. Last year many of you were able to drop off your papers rather than sit for the appointment. Other clients, who would normally have to travel a long distance, actually were able to fax or scan/email over their documents rather drive to Mundelein. We thank you. If a traditional meeting is not necessary, we encourage you to consider one of these alternatives.

You may have noticed some wood paneling in our office last year. I think the common question was, "So Chris, where's the stuffed moose?" Ha. Ha. Despite the retro-look, we do keep current in our education, our technology, and our software security. We are looking to move to an office condominium in Libertyville in the summer. And while there is no moose head, we're strongly considering hanging a poster in our reception area of the Bee Gee's (my mother-in-law's favorite band. **ROCK ON**).

As always, we encourage you to call or email the office to discuss any concerns you have as the year ends. Thank you for your business. May Santa bring our Cubs a playoff victory,

Chris Rudolph CPA

2008 RECESSION RELATED ISSUES

Unemployment is rising unfortunately. If you, or someone you know, apply for benefits, please keep in mind that the benefits are taxable. Upon filling out the application, there is an opportunity to request tax withholding. Feel free to call us if you need help with the paperwork.

Credit card **debt forgiveness** is often taxable. Credit card companies will issue a 1099 in the amount of the debt forgiveness in the year the debt is forgiven.

The cancelation of **debt on a principle residence** is not taxable under certain circumstances. The rules are pretty complex-- in fact I think they were drafted by the descendants of those who wrote codes for the Enigma on U-boats. So, please feel free to contact the office to discuss the issue if you think that you may qualify for an exclusion from income from the cancelation of a mortgage debt.

401(K) and IRA losses are not reportable nor deductible. The investment activity in those accounts occurs tax deferred and therefore, income is only recognized when money is withdrawn. So, if you are looking for a tax benefit for a drop in value, unfortunately you're out-of-luck.

Stock losses outside of tax deferred accounts can be deductible. However, there are some rules to keep in mind in deducting stock losses:

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- Stock losses are only deductible when they are realized (ie: stock must actually have been sold and not subsequently re-purchased within 30 days).
- Your tax deduction from realized losses cannot exceed \$3,000 in the current year. The residual losses, those which you are unable to deduct due to the \$3,000 limitation, are carried forward into the future to offset future gains.
- Unlike your husband's porcelain penguin collection, your carryforward losses will last your entire lifetime but will not transfer to your beneficiaries.
- Medical mileage is 24¢ per mile in 2008.
- The maximum Hope college credit increased to \$1,800 from \$1650.
- The wage limit on social security taxes has been raised to \$102,000.
- IRA and 401(k) contribution limits remain the same as their 2007 levels.
- Businesses can deduct up to \$250,000 for qualifying equipment under section 179. That means that certain equipment can be written off at once rather than depreciated over a number of years.

REBATE FOLLOW UP

If your 2007 income made you ineligible for the tax rebate or reduced your tax rebate, then there is recourse for you through your 2008 income tax return. Congress is offering one more opportunity to receive your rebate based on your 2008 income and filing status. We can address it when filing your tax return this spring.

2008 NEW TAX REGULATIONS

- Mileage rates for business are 50.5¢ per mile through June 30, 2008 and 58.5¢ per mile through December 31, 2008. The 2009 business mileage rates are 55¢.

YEAR END TAX TIPS

- Track all of your receipts from holiday donations such as Toys for Tots.
- Consider converting part of your traditional IRA to a Roth IRA if you find yourself in a lower tax bracket this year (let's talk first, however).
- Donate appreciated property such as stock to charity to receive a deduction and avoid paying capital gains.
- Pay outstanding tuition and medical bills by year end if those expenses are better utilized in this current year.
- Consider postponing elected income such as stock options if your 2009 tax bracket will be lower than 2008.
- If you are planning on making a gift to children, sneak it in before the year end to maximize your annual \$12,000 gift exclusion.