Griffith CPA FIRM PLLC

MIDYEAR | 2008

Tax Planning Letter

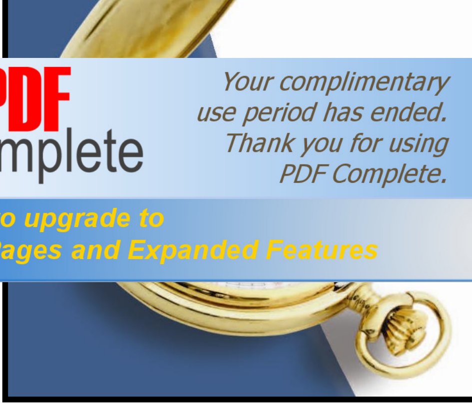
Dear Clients and Friends,

Earlier this year, Congress passed the *Economic Stimulus Act of 2008* in an effort to boost the faltering U.S. economy. The law put tax rebates into the hands of millions of Americans, gave businesses tax breaks for purchasing new equipment, and provided some tax relief for homeowners facing foreclosure.

Some in Washington have indicated a desire to completely overhaul the tax code in 2009. But for the rest of 2008, the tax changes are likely to be less drastic. Congress may pass additional stimulus legislation, and other bills to extend several expired (or about to expire) tax breaks will be considered. Also, the alternative minimum tax, which had been adjusted for 2007 to keep it from hitting millions of middle-income taxpayers, may get another "patch" for 2008.

Whatever happens, be aware that your best chance of a tax cut for 2008 is to get serious about your own tax planning right now. If you delay planning until later in the year, you could significantly limit your options. To make your 2008 tax-cutting efforts most effective, call now and let's get together for your tax planning review. We can help you identify the steps you can take to keep your taxes as low as the law allows.

The Griffith CPA Firm PLLC



TAX PLANNING MIDYEAR 2008

Include tax planning in your summer forecast

Summer weather may be one thing that changes more frequently than tax law, though predicting either can be difficult. But when it comes to weather or taxes, whatever the outlook, here's a certainty: Planning ahead can pay off.

Consider these personal and business tax actions for a less taxing forecast next spring.

Invest appropriately

This year's semiannual portfolio review may turn up a surprising way to save taxes – a zero percent tax rate for long-term capital gains and qualified dividends. That's right, zero, as in no tax on certain investment income.

The break applies when you're in the 10% or 15% regular income tax brackets. For 2008, those brackets include up to $65,100 of taxable income if you're married filing jointly ($32,550 for singles).

If you're self-employed, consider planning now to defer income from bonuses or salaries into 2009.

Review your AMT exposure

The alternative minimum tax "patch" enacted last December only applied to 2007. It's probable Congress will come up with a new fix before year-end that raises the 2008 exemption amount above the current $45,000 (for married filing jointly).

Still, assessing your AMT risk now, while you have time to stave off the effect it could have on your tax situation, is a smart move.

What should you look for? Special situations, such as exercising incentive stock options, can trigger the AMT, as can large sales of assets. Schedule the timing of these items to lessen the amount of AMT you end up paying, or even contain the tax to a certain year.

contributions to existing plans, and taking distributions.

- ***Establish a retirement plan*** for your business. Qualified retirement plans shelter self-employment income and provide tax-free growth. In 2008 you can contribute up to $10,500 to a SIMPLE IRA (plus another $2,500 if you're over age 50). If you're self-employed, you may be able to contribute more.

Initial and ongoing paperwork for many plans is generally minimal. Setting up a plan during the summer lets you sock away your total contribution over several months, instead of scrambling for a lump-sum at year-end.

Need additional incentive? Your

Not all capital gains qualify, but by planning now you may have the opportu- … to … the … ple- … fore … in- creasing your deductions or maximizing your contributions to tax-deferred retirement accounts.

Another problem: Certain itemized deductions aren't allowable under AMT rules, so you get no benefit from them when the tax applies. State and local income taxes are an example. Plan now to balance the benefits of these deductions against potential AMT liability.

Cover your retirement plans

When it comes to your retirement, three areas are hot for summertime tax planning: establishing a plan, making

business may be able to claim a tax credit that helps offset the cost of implementing your new plan.

● ***Make contributions.*** No matter what retirement plan you have, it's never too early to put money aside. Budget now for manageable monthly set-asides. Smaller amounts add up by year-end and can offer multiple current tax advantages in addition to longer-term benefits.

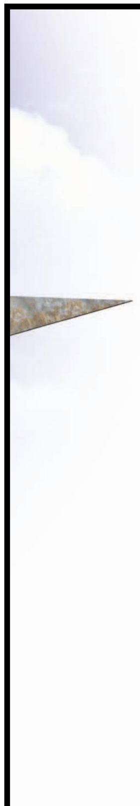
For instance, depending on your income, contributions to traditional IRAs

SUMMER TAX MOVES

■ **Your vacation home.** If you have vacation/rental property, you might increase your tax deductions by adjusting the number of days you use your vacation home.

■ **Day camp.** If you and your spouse work, the cost of sending your children to a summer day camp may qualify for the child care credit.

■ **Business entertaining.** Summer is a good time to do business entertaining. Keep records of the cost, the date, the attendees, and the business purpose. Your tax deduction is limited to 50% of the cost.



can be an above-the-line deduction that lowers your tax. The Saver's Credit, which applies directly against your tax liability and is available to lower-income taxpayers for making contributions to IRAs or other retirement plans, may also save you money.

Contribution limits for traditional and Roth IRAs have been increased to $5,000 for 2008. If you're over age 50 by year-end, the additional catch-up contribution is $1,000. You can set up an IRA even if you're covered under other plans (though deductibility of contributions may not be permitted in some situations).

● ***Schedule your distributions.*** Retirement plan distributions are generally taxable at ordinary income rates, so you'll want to know now how withdrawals will affect your 2008 tax liability.

If you're not yet required to take distributions, you may have some flexibility as to which accounts you tap to meet your cash flow needs. A summertime

THE BUSINESS FILE

Check these 2008 tax breaks for your business purchases

The newly enacted *Economic Stimulus Act of 2008* will provide faster depreciation deductions for those business owners buying qualified business equipment in 2008. Additional depreciation deductions equate to a lower tax bill in 2008 – saving cash that would otherwise be lost to taxes.

Bonus depreciation

Under the new law, the purchase of new equipment in 2008 will allow for an additional depreciation deduction of 50% of the cost of qualified property. That allows the business owner to rapidly claim

equipment. And not only that, you can combine the expensing election and the 50% bonus depreciation on assets that qualify. While the 50% bonus depreciation is good only for new property, the expensing election is available for both new and used equipment.

For 2008 only

However, remember that these larger depreciation amounts are temporary in nature. Essentially, they apply to equipment purchased and placed into service in 2008 only, and will drop back to significantly lower levels in 2009.

your cash flow needs. A summertime inventory of your assets lets you compare different distribution tactics and ...drawals ...e from

...hed age ...equired ...ou gener- ...funds from your retirement accounts to avoid penalties. Advance planning can help you decide if shifting your taxable accounts to tax-efficient investments will save money.

Despite uncertain weather, summer is perfect for tax planning. There's enough of the year behind you to establish a track record, and enough ahead to make changes that matter. Give us a call. We'll help keep your tax outlook as positive as possible. ❑

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the depreciation deduction on half of the cost of the equipment, while deducting the balance of the cost over the remaining depreciable life.

Higher expensing limit

But if you want really fast depreciation, make sure to consider the new expensing limits. Companies can now expense up to $250,000 in one year as long as total equipment purchases don't exceed $800,000. Any excess over the $800,000 limitation drops the amount of the eligible expensing on a dollar for dollar basis.

Essentially, if the business buys more than $1,050,000 in equipment, the expensing option is completely phased out. However, the 50% bonus depreciation remains in play for qualifying

Understand also that these depreciation provisions apply to tangible personal property, including off-the-shelf computer software, but not to real property or other intangible property.

Business vehicles are subject to special depreciation limits. Due to the availability of bonus depreciation, the first-year depreciation limit for new vehicles is $8,000 higher than for used vehicles.

For complete details, give our office a call. ❑

Hire your children. Put your children to work in your business this summer. Reasonable wages paid for legitimate work is a business deduction.

Estate taxes. The estate tax is still with us. Make time this summer to create or update your estate plan as part of your overall tax-reduction efforts.

Kiddie tax. Consider your options if the "kiddie tax" will affect your children this year (up to age 19; to 24 for full-time students).

College fund. Now that the tax benefits of Section 529 plans have been made permanent, investigate their suitability in building a college fund for your children.

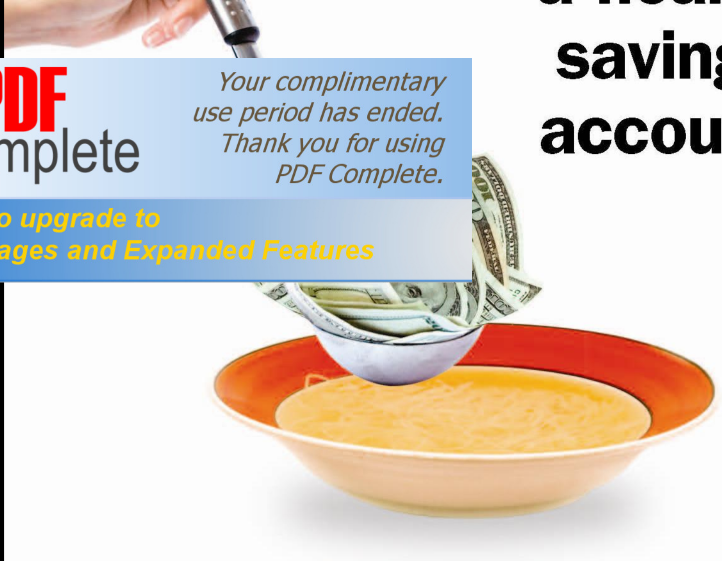
Summer driving. Keep track of tax-deductible summer driving. The standard mileage rate is 50.5¢ a mile for business driving, 19¢ for moving and medical driving, and 14¢ for charitable driving.

* Starting July 1, 2008 the standard mileage rate is 58.5¢ a mile for business driving

HEALTH CARE TAX ALERT

Dish up some tax savings with a health

The big difference between an HSA and other tax-favored medical savings accounts is that the funds in an HSA can be invested, and the earnings grow tax-free. Withdrawals used for medical expenses are not subject to income tax. Also, unlike funds set aside for medical expenses in flexible spending accounts, unspent funds in HSAs remain in the account to grow tax-free year after year. After age 65, withdrawals can be made and used



savings account

Health Savings Accounts (HSAs) have been slow to catch on with the public, but Congress is doing its part to champion their cause. It has tinkered with the law in recent years to make HSAs more appealing. In fact, you now have a once-in-a-lifetime opportunity – literally – to transfer funds tax-free to an HSA.

How does an HSA work?

Assuming you're eligible, you can set up an HSA yourself or participate in a plan through your employer. Any contributions you make are deductible above-the-line on your personal tax return, while your employer can deduct contributions made on your behalf.

For 2008, the maximum contribution allowed is $2,900 for an individual or $5,800 for family coverage. Plus, you can add a catch-up contribution of $900 if you're age 55 or over.

for any purpose penalty-free but not income tax-free.

To be eligible to participate in an HSA, you:

- Must have a qualifying high-deductible health insurance policy in effect.
- Cannot be entitled to receive benefits under Medicare.
- Cannot be claimed as a dependent on another person's tax return.
- Cannot be covered by another health insurance plan other than a qualifying high-deductible health insurance plan.

For 2008, a "high-deductible" policy is one with a deductible of at least $1,100 and out-of-pocket maximum of $5,600 for individual coverage; a deductible of at least $2,200 and out-of-pocket maximum of $11,200 for family coverage.

Tax bonus. Under a 2006 tax law change, you can roll over funds from a traditional individual retirement account (IRA), a health reimbursement account (HRA), or a flexible spending account (FSA) to a Health Savings Account without any income tax consequences. Normally, a rollover of this type would constitute a taxable distribution, with a 10% penalty tax if you're under age 59½.

This new tax break can be especially valuable to retirees and employees nearing the end of their careers. Also, a transfer from an FSA could make a lot of sense when FSA contributions can't be used up and would otherwise be lost.

The catch. You can only do this rollover once in your lifetime, and if the rollover is from an FSA or an HRA, it must be done before 2012. Also, the transfer amount is subject to limits. Before you make the rollover election, be sure this is the right move for your situation. For details and assistance in deciding how this tax break might benefit you, give us a call. ❑

MIDYEAR 2008

NOTE: This newsletter is issued at midyear to provide you with information about minimizing your taxes. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.