

Tax Strategy Summary

Introduction

How the Tax System Works

Former President Jimmy Carter called the tax code “a disgrace to the human race.” If you’ve ever wondered how it works, here’s a brief introduction. ... page 2

Avoid the Alternative Minimum Tax

The Alternative Minimum Tax has effectively become a “flat tax” for millions of families, wiping out deductions for state and local taxes, miscellaneous itemized deductions, and more. Avoiding AMT has become more important as more taxpayers become subject to the tax. ... page 9

Withholding and Estimated Taxes

Withholding and estimated taxes are the key to making the tax system work. Review these amounts any time your income changes to avoid an April 15 surprise! ... page 12

Family, Home, & Job

Avoid "Kiddie Tax"

Shifting investment income to your children can significantly cut your overall family tax bill. But there are important rules to follow with children under age 19, and full-time students under age 24. ... page 14

Tax Strategies for College Savings

Section 529 plans, Education Savings Accounts, U.S. savings bonds, and permanent life insurance policies all offer tax advantages for your family’s college savings. ... page 15

Make the Most of Home Equity Interest

Borrowing against your home lets you convert nondeductible personal interest (credit cards, auto loans, etc.) into deductible home equity interest. However, there may be limits. ... page 18

Potential Savings: Up to \$250 in income tax for every \$1,000 of personal interest converted to home equity interest.

Your Business

Strategies for Limited Liability Companies

A limited liability company can be used to help avoid self-employment tax and shift income to lower-bracket family members. Make sure you consider all of these opportunities. ... page 20

Potential Savings: Up to \$29 for every \$1,000 no longer subject to employment tax, plus \$279 in income and employment tax for every \$1,000 shifted to lower-bracket taxpayers.

Strategies for "S" Corporations

Consider establishing an “S” corporation. This may help avoid self-employment tax and shift income to lower-bracket family members. ... page 21

Potential Savings: Up to \$29 for every \$1,000 no longer subject to employment tax, plus \$279 in income and employment tax for every \$1,000 shifted to lower-bracket taxpayers.

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Strategies for "C" Corporations

Consider establishing a "C" corporation to provide the broadest range of deductible employee benefits. However, be aware that these corporations require the most ongoing administration to avoid double taxation and other potential costs. ... page 22

Maximize Car and Truck Deductions

You can choose two different methods for deducting business car and truck expenses: "actual expenses" or the mileage allowance (50.5 cents/mile for 2008). The right choice can add thousands in deductions and easily justify recordkeeping requirements. ... page 23

Potential Savings: Up to \$279 in income and employment tax for every \$1,000 in extra car & truck deductions.

Make the Most of Business Meals/Entertainment

Business meals and entertainment, along with business gifts and business travel offer potentially valuable deductions. Be sure to take advantage of every deductible dollar. ... page 25

Potential Savings: Up to \$279 in income and employment tax for every \$1,000 in additional deductible meals and entertainment.

Make the Most of Business Travel

Reporting business travel expenses may seem straightforward. However, combining business with vacation travel can maximize your travel dollar and reward you with tax-deductible fun. ... page 27

Separate Entities for Business Assets

Segregating business assets such as equipment, vehicles, and real estate in separate entities may offer valuable tax breaks as well as enhanced asset protection. ... page 29

Gift-Leasebacks for Family Tax Savings

Gift-leasebacks let you transfer business assets, such as vehicles, machinery, and equipment, to family members in lower tax brackets, then shift income to them by leasing back those assets. ... page 30

Potential Savings: Up to \$250 in income tax for every \$1,000 in lease income created.

Take Advantage of "Certain Fringe Benefits"

The tax code offers a variety of little-known fringe benefits, even for startup and sideline businesses. Make sure you take full advantage of these opportunities. ... page 31

Potential Savings: Up to \$279 in income and employment tax for every \$1,000 in qualifying deductible benefits.

Hire Your Family

Hiring your children lets you shift income that would otherwise be taxable to you (at your top rate) to them, to be taxed at their lower rate. This, in turn, lets you "deduct" the private or parochial school tuition, summer camps and activities, and college savings you fund with their income. ... page 32

Potential Savings: Up to \$279 in income and employment tax for every \$1,000 paid to a "zero-bracket" taxpayer.

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Consider Health Savings Accounts

New Health Savings Accounts let you cut health insurance premiums with high-deductible policies, then establish deductible savings accounts for you and your employees to fund unreimbursed expenses. Make sure you understand the pros and cons of this new opportunity. ... page 33

Potential Savings: Up to \$725 in income tax for single coverage and \$1,450 for family coverage.

Consider a Medical Expense Reimbursement Plan

A Medical Expense Reimbursement Plan lets your business reimburse you for your family's uninsured medical expenses. This avoids the usual limit for deducting medical expenses (7.5% of Adjusted Gross Income) and may also save self-employment tax if your business is taxed as a sole proprietorship or partnership. ... page 34

Potential Savings: Up to \$279 in income and employment tax for every \$1,000 in qualifying expenses.

Consider a Simplified Employee Pension (SEP)

SEP accounts are the workhorse retirement plan choice for many small businesses and most self-employed individuals. Make sure you understand how to take full advantage of the opportunity. ... page 35

Potential Savings: Up to \$250 in income tax for every \$1,000 in deductible contributions.

Consider a 401(k) Plan

401(k) plans let you and your employees make the largest allowable contributions at most income levels. These have become increasingly popular choices for self-employed individuals as well as larger employers. ... page 36

Potential Savings: Up to \$3,875 in income tax for deferral contributions, plus \$250 for every \$1,000 in deductible employer contributions.

Consider a Defined Benefit Plan

Defined benefit ("DB") plans let you make the biggest deductible contributions of any retirement plan. However, DB plans are the most expensive to administer and fund, so make sure you can afford the extra commitment. ... page 37

Your Investments

Make Smart Use of Tax Deferral

Tax-deferred accounts such as qualified plans, IRAs, permanent life insurance, and annuities can actually cost you extra taxes. Make sure you choose the right investments to include in these accounts. ... page 38

Make the Most of Your IRA

Congress and the IRS have simplified rules for managing your IRA, and expanded opportunities to avoid penalties for withdrawals before age 59½. Be sure you understand how to manage your account for maximum advantage. ... page 39

Consider a Roth IRA

Roth IRAs offer "back end" tax-free income for investors willing to forego current deductions. Make sure you choose which type of IRA works to your best advantage. ... page 40

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Fixed Annuities for Tax-Deferred Savings

Fixed annuities are insurance contracts resembling bank CDs in a tax-deferred wrapper. These can help defer tax on the fixed-income portion of your portfolio, and avoid tax on Social Security benefits. ... page 42

Cashing Out

Understand Capital Gains

Tax on most long-term capital gain is capped at 15%. But capital gains can cost you valuable deductions, credits and allowances, and subject you to the Alternative Minimum Tax. Be sure you understand how your gains affect your total bill. ... page 44

Charitable Trusts for Appreciated Assets

Charitable trusts let you sell appreciated assets such as stocks, real estate, or a business, avoid the tax you would otherwise pay on the gain, and take valuable charitable deductions. ... page 45

Potential Savings: Up to \$150 in income tax for every \$1,000 of long-term capital gain deferred.

Consider a Family Limited Partnership or LLC

Family limited partnerships (FLPs) and limited liability companies (FLLCs) help minimize transfer taxes as you shift assets to your heirs and lower your family's overall tax on FLP or FLLC income. Make sure you comply with IRS rules to take advantage of these breaks. ... page 46

Avoid Probate on Taxable Assets

Probate imposes an indirect tax on assets held in your name at your death. Avoiding probate is generally not difficult, and helps maximize the after-tax legacy you leave your family. ... page 47

Minimize Estate Tax

Federal income tax rates top out at 35% for taxable incomes over \$349,700. But estate tax rates start at 46% for estates over \$2 million. Good estate planning can minimize or eliminate this most devastating tax. ... page 48

Potential Savings: 46-90% of assets above \$2.0 million.

Disclaimers

This report is based solely upon information provided by Mr. & Mrs. Howard Cunningham. Don D. O'Dell, CPA has made no effort to verify the accuracy or completeness of this information, and assumes no liability for errors or omissions based on incomplete or inaccurate information.

“Potential Savings” are based on your marginal federal income tax bracket, and where applicable, marginal employment tax bracket (FICA and Self-Employment tax), as calculated using the information you provided. These estimates do not include additional savings which may be available at the state and local tax levels.

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Any tax advice contained in the body of this presentation was not intended or written to be used, and cannot be used, by the recipient for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code or applicable state or local tax law provisions.