

TAX SAVING TIPS FOR 2009

INTRODUCTION

Slide 1: Advice from CPAs

Whether you're training for a marathon, landing the job of your dreams or closing a sale, you're not going to excel without being well prepared and fully informed.

Well, the same holds true when managing and preparing your taxes.

Waiting until April 15th to put your financial house in order is a straight path to paying higher taxes. To manage your taxes and minimize your tax bill, you need to know the rules of the game, which are constantly changing, and you want to take advantage of year-round tax-planning opportunities.

The good news is that it's not too late to get started. And the fact that you're here today shows that you appreciate the importance of proper planning and knowing the latest tax changes and strategies.

During the next hour, I'll share with you the most recent tax law changes and tips that will not only help you prepare your tax return, but may also help you minimize your 2009 tax bill.

However, before we get started, I'd like to remind you that planning and timing are critical, and that tax issues will change throughout the year. 2010 may bring many tax-related changes as Congress considers estate-tax changes, healthcare reform and other important legislation.

You should therefore regularly monitor your financial situation and consult with your CPA if you believe you may be affected by any changes in tax law. By taking the necessary, responsive steps as soon as the need arises, rather than delaying action until the end of the year, you can better protect your and your family's financial interests.

Now we're ready to begin.

*Information is current as of January 1, 2010.

NEW FOR 2009

Slide 2: Select 2009 Tax-Law Changes

We'll start today with recent tax-law changes. In 2009, tax-law changes ranged from tax credits for employees and undergraduate students to tax breaks for first-time homeowners and unemployment assistance for workers involuntarily terminated. Congress extended a long list of tax benefits that were about to expire and once again enacted a patch to the Alternative Minimum Tax, otherwise known as the AMT.

I'll begin by giving you an overview of key tax changes. Once we've covered the new information, we'll move on to the basics of filing and the major categories for tax planning.

Slide 3: First-Time Homebuyer's Credit

Owning a home has always been part of the American dream. Not only does it create a personal feeling of accomplishment but it also delivers important tax benefits, and 2009 was no exception.

The First-Time Homebuyer's Credit was increased to \$8,000 and is generally available for purchases made between January 1, 2009 and May 1, 2010, provided the home is occupied as the buyer's principal residence within 24 months of the purchase. For purchases after November 6, 2009, no credit is allowed if the purchase price exceeds \$800,000.

In addition, the credit's availability is extended for any individual who serves on qualified extended duty service outside the United States for at least 90 days during the period beginning after December 31, 2008 and ending before May 1, 2010, and, if married, such individual's spouse. In this case, the credit is available for residences purchased before May 1, 2011, and for residences purchased before July 1, 2011, if under a binding contract entered into before May 1, 2011, to close on the purchase before July 1, 2011.

To qualify as a first-time buyer in 2009, you must have not owned a principal residence in the three years before the purchase. You must also occupy the home as your principal residence and it must be located in the United States.

The credit only needs to be repaid if the home is sold within 36 months of the purchase date.

The credit phases out for taxpayers with modified AGIs in excess of \$75,000 (\$150,000 for joint returns). It is completely phased out if modified AGI is \$95,000 or more (\$170,000 or more for joint returns). Most importantly the credit is refundable, meaning that you will receive a check for any unused credit.

For purchases after November 6, 2009, the phase out starts at modified AGI of \$225,000 for married taxpayers and \$125,000 for all other taxpayers. The credit is completely phased-out at modified AGI of \$245,000 for married taxpayers and \$145,000 for all other taxpayers.

Buyers who purchased a home after January 1, 2009 under the new rules can claim the credit on a 2008 return; however, those who purchased a home before January 1, 2009 must go with the old "interest-free loan" credit rules. Taxpayers who make this election can amend their 2008 return for this purpose. A similar rule applies for homes purchased in 2010.

If you purchased your home in 2008 under the original first-time homebuyer's rules, you generally must repay the credit over a 15-year period, which begins in 2010. For homes purchased in 2009, you must repay the credit only if the home is no longer your principal residence within the 36-month period beginning on the purchase date.

The Long-Time Resident Credit, which I will be discussing later in my presentation, is part of the First-Time Homebuyer's Credit.

Slide 4: Mortgage Debt Cancellation

The last year has created financial difficulties for many families, and this has led to a historic level of home foreclosures. In many cases, the sale of a foreclosed house does not yield enough money to pay off the mortgage. Prior to 2008, any debt forgiven by the mortgage holder would generally result in ordinary income to the borrower.

However, relief is now available in these circumstances. For debt discharged on or after January 1, 2007, and before January 1, 2013, the debt forgiveness is treated as tax free if the property is your primary residence. The limit on qualifying debt is \$2 million (\$1 million if married filing separately).

This provision also applies where mortgage debt for a primary residence is forgiven as part of a refinance or other loan modification.

Slide 5: Unemployment Compensation

Few, if any, industries were immune from the financial crisis that left a permanent imprint on 2009 and record numbers of workers unemployed. Usually, state unemployment benefits paid to laid-off employees are taxed in full. However, in 2009, the first \$2,400 of unemployment compensation you receive is excluded from your gross income and not subject to tax.

Slide 6: Making Work Pay Credit

The economic uncertainties that so clearly defined 2009 prompted Congress to enact the Making Work Pay Credit. This new credit provides employees, including the self-employed, with up to a \$400 tax credit (\$800 if married filing jointly). The credit is 6.2% of income earned and phases out at modified AGI of \$75,000 to \$95,000 for singles or \$150,000 to \$190,000 for married people filing jointly. The credit includes nontaxable combat pay, up to the \$400 (or \$800) limit.

In 2009, taxpayers receive the credit through a reduction in employee withholding and self-employed required estimated tax payments.

If both spouses were employed and had their withholdings adjusted, they could find that they are under-withheld for the year. You may therefore want to review your estimated tax liability before the due date for filing.

Slide 7: Economic Recovery Payments

Most people receiving Social Security, Supplemental Security Income (SSI), railroad retirement benefits, veteran's disability compensation or pension benefits also receive a one-time, tax-free \$250 payment.

If you were eligible for one of these benefits at any time during November 2008, December 2008 or January 2009, you may be eligible for the payment. However, the payment is offset by any Making Work Pay Credit. Spouses who meet qualification requirements may each receive a \$250 payment.

Individuals who otherwise qualify but live outside the United States or its territories, or are minor children receiving Social Security benefits (except disabled adult children receiving Social Security or children receiving SSI payments) will not receive the one-time payment.

This payment will be received the same way other benefits are received.

Since no taxes were withheld from the one-time payment, there could be some unexpected tax liability.

Slide 8: COBRA Premium Assistance

If you are laid off from a job where you received employer-provided health insurance, a federal law known as COBRA has allowed you to continue your health insurance coverage so long as you paid the full premium, plus any administrative fees. Many employees, especially after losing their jobs, found their ability to pay these premiums reduced and many had to give up the health coverage they enjoyed as an employee.

Starting in 2009, the federal government is subsidizing 65% of COBRA premiums for employees who are involuntarily terminated between September 1, 2008 and February 28, 2010. The assistance program is available for 15 months. The premium subsidy is in effect for any premium for a period of coverage beginning on or after February 17, 2009. If you are laid off, your employer should notify you about this rule.

The subsidy's tax-free element is reduced for singles with modified AGI between \$125,000 and \$145,000, and joint filers with modified AGI between \$250,000 and \$290,000. For singles with modified AGI above \$145,000 and joint filers with modified AGI above \$290,000, the subsidy is treated as gross income.

However, keep in mind that there may be less expensive approaches to healthcare coverage that should also be considered, such as those available to you through your spouse's plan or your professional association or union.

Slide 9: Health Coverage Tax Credit

Individuals receiving trade readjustment allowances, alternative trade readjustment allowances or benefits from the Pension Benefit Guaranty Corporation (PBGC) are eligible for the Health Coverage Tax Credit (HCTC). Special rules apply to each type of benefit and to determine eligibility you should consult a CPA.

From months beginning before May 1, 2009, or after December 31, 2010, the credit is equal to 65% of the amount paid for certain types of health insurance for the individual and the

individual's family. For months beginning on or after May 1, 2009, and ending on or before December 31, 2010, the credit is 80% of the amount paid for health insurance.

You can either claim your credit when you file your federal tax return or you can register with the HCTC program to access your credit in advance to help you pay for health-insurance premiums as they become due.

The credit expires in 2011.

Slide 10: American Opportunity Tax Credit

The American Opportunity Tax Credit replaces the Hope Scholarship Credit. It is available for the first four years of college or other postsecondary school that leads to a recognized educational credential (the HOPE credit was only for the first two years of undergraduate school). It does not apply to graduate-level courses.

The maximum credit has increased to \$2,500 per student for each year and 40% of the credit is refundable, which means you can receive up to \$1,000 even if you owe no taxes.

Also, "qualified tuition and related expenses" are now expanded to include books, supplies and equipment needed for a course of study even if the materials are not purchased from the educational institution as a condition of enrollment or attendance.

The credit phases out if your modified AGI is between \$160,000 and \$180,000 (married filing jointly) and \$80,000 and \$90,000 (other filers).

This credit is allowed against the Alternative Minimum Tax (AMT).

Slide 11: 2009 Alternative Minimum Tax (AMT) Patch

In addition to the regular income tax, more and more taxpayers are finding themselves subject to the Alternative Minimum Tax (AMT). The AMT, which was created by the Tax Reform Act of 1969, was designed to ensure equitable taxes are paid by higher-income taxpayers. As the AMT was not indexed for inflation, taxpayers are increasingly finding themselves affected. However, among the provisions included in the Emergency Economic Stabilization Act of 2008 is the AMT patch, which protects most middle-income taxpayers by increasing the AMT exemption amounts.

Some of the items that can trigger the AMT include a higher-than-average number of dependency exemptions, large deductions for state and local income taxes for those of you who live in high-tax states, higher real estate taxes, high miscellaneous itemized deductions, and high medical expenses.

Slide 12: AMT Exemption Amounts

As you can see from this slide, for 2009, the AMT exemption amount expanded to \$46,700 for single filers and heads of households, \$70,950 for married taxpayers filing jointly or a qualifying widow(er), and \$35,475 for married taxpayers filing separately.

For 2010, Congress will need to pass a law with another patch and those amounts should be higher than this year. However, if Congress fails to enact a patch, the exemption levels would go down to those that existed in 2001.

Unfortunately, the AMT defies most traditional tax-planning strategies. If you've been close to the threshold, you'll need to consult with your CPA for specific advice on how the AMT may affect you.

Slide 13: New Energy Incentives

For 2009, under the Nonbusiness Energy Property Credit, you may be able to claim a credit of 30% of the costs of qualified energy-efficient property or improvements (residential energy property credit) and a 30% credit for solar energy and fuel-cell power plants (residential alternative energy credit). The credit, which was not available in 2008, has been reinstated and is available in 2009 and 2010.

Improvements include insulated walls or ceilings; energy-efficient exterior doors and windows, including skylights; specially treated metal roofs; and a high-efficiency furnace, air conditioner or water heater. The improvements must have been made in your principal residence located in the United States and the maximum credit is \$1,500.

For 2009, under the Residential Energy Efficient Property Credit, there is no limitation on the credit amount for qualified solar electric property costs, qualified solar water-heating property costs, qualified small-wind energy property costs and qualified geothermal heat-pump property costs. The limitation on the credit amount for qualified fuel-cell property costs remains the same.

Also, the Alternative Motor Vehicle Credit grants four separate credits for different types of energy-efficient vehicles. Your potential credit will be determined by the type of vehicle and which of the four credits apply. You can check with your CPA or the IRS for a list of qualified vehicles and allowable credits.

One credit that is part of the Alternative Motor Vehicle Credit is the credit of up to \$3,400 for hybrid vehicles. The credit is taken in the year you purchased the vehicle. However, the full credit only applies to the first 60,000 vehicles that the auto manufacturer sells. After that, the credit is phased-out. Ford has reached the limit, and no credit is available for any Ford or Mercury hybrid motor vehicle purchased after March 31, 2010. Honda has reached the limit, and no credit is available for any Honda hybrid motor vehicle purchased after December 31, 2008. Toyota has reached the limit, and no credit is available for any Toyota hybrid motor vehicle purchased after September 30, 2007. The credit is available for other automobile manufacturers.

For qualified vehicles purchased in 2009, a plug-in electric drive motor vehicle credit is also available. A similar credit is also available for vehicles placed in service in 2010. For 2009, the

credit is equal to \$2,500 plus \$417 for each kilowatt hour of traction battery capacity in excess of four kilowatt hours. The credit is capped at \$7,500 for a vehicle with a gross weight of 10,000 pounds or less. The credit begins to phase out when the total number of qualified vehicles sold reaches 250,000.

Slide 14: Child Tax Credit

For 2009, the Child Tax Credit is worth \$1,000 for each qualifying child who is under age 17 at the end of the calendar year and who qualifies as a dependent – your son, daughter, adopted child, step child or eligible foster child, brother, sister, step brother, step sister, or a descendant of any of these individuals. The child must also be a U.S. citizen or resident. The Child Tax Credit is in addition to the child's dependency exemption.

That means if you have three children, the child credit can potentially reduce your tax bill by \$3,000. Keep in mind that the \$1,000 credit remains in effect through 2010, when it will decrease to \$500 per qualifying child.

For 2009, the child credit begins to phase out when modified AGI exceeds \$110,000 for married couples filing jointly, \$55,000 for married taxpayers filing separately, and \$75,000 for single filers, heads of households and qualified widow(er)s. The credit is reduced by \$50 for each \$1,000, or fraction thereof, of modified AGI above these thresholds.

Some lower-income households may receive a refund under the Enhanced or Additional Child Tax Credit even if they do not owe any tax. Under the new law, the additional credit is refundable to the extent of 15% of your earned income in excess of \$3,000.

FILING

Slide 15: The Basics

Getting organized and having a well thought-out plan are two steps you can take to starting your tax return on the right note. We'll start today by taking a quick look at the basics, beginning with determining your filing status.

Many people think that the amount of income tax they pay is determined by the amount of their taxable income. The truth is that people with exactly the same amount of taxable income can end up with different tax bills because their amount of tax depends on their filing status.

Each filing status has its own tax brackets, and your filing status also affects how other tax rules, such as the standard deduction, IRA contribution limits, and tax credits and deductions, apply to you.

Slide 16: Filing Status

There are five categories of filing status: single, married filing jointly, married filing separately, head of household and qualifying widow(er). The primary factor impacting your filing status is whether you are married or not.

If you are married, you and your spouse must decide whether to file jointly or separately. In most cases, you'll pay lower taxes if you file jointly. Also, be aware that your choice will impact your state income-tax calculation, as typically states require consistency with federal tax-return filings.

If you are not married, you can use the single filing status or the head-of-household filing status if you have a dependent. Heads of household pay a significantly lower tax rate than singles, but to qualify you must meet the requirement for supporting at least one other dependent.

If you are a qualifying widow(er), you may use the joint tax rates for two years following the year of death of your spouse, as long as (1) you have a qualifying dependent, (2) you provide more than half the cost of keeping up a home for you and your dependent, and (3) you did not remarry.

If more than one filing status applies to you, you may want to choose the one that results in the lowest tax obligation. Here's a planning hint: In a two-wage earner family where one might have been laid off for a significant part of the year, you may want to consider whether married filing separately reduces your overall federal tax liability.

Other circumstances include when one spouse has high unreimbursed medical expenses or a significant amount of miscellaneous itemized deductions. The only way to be sure is to compute your taxes both ways, a task easily performed by most tax-preparation software packages.

Slide 17: 2009 Tax Rates

The tax rates remain the same as last year. The six tax brackets are 10%, 15%, 25%, 28%, 33% and 35%. The tax rates are scheduled to remain the same until 2011, when the higher pre-2001 tax rates will return. What changes each year are the income levels for each tax bracket that are determined by your filing status. This information is included in your tax-return instructions.

Slide 18: Standard Deduction

Now let's talk about the standard deduction – the basic deduction all taxpayers can take.

Every year, the IRS adjusts the standard deduction to account for inflation. For 2009, the standard deduction is \$5,700 for single filers or married couples filing separately, and it jumps to \$11,400 for married couples filing jointly and for qualifying widow(er)s. It's \$8,350 for head-of-household filers.

Slide 19: Standard Deduction Additions

Taxpayers age 65 and older and/or blind receive an additional standard deduction of \$1,100, and \$1,400 if the individual is also unmarried and does not have a surviving spouse.

An individual who is both age 65 or older and blind may take two additional standard deductions. Married taxpayers filing jointly, both of whom are age 65 or older and blind, would be able to claim four additional standard deduction amounts.

If you do not qualify to itemize your tax deductions, but pay state or local real estate taxes, you can add the amount of real estate taxes paid up to \$500 for a single taxpayer (\$1,000 for joint filers). For 2009, a special rule also allows you to include sales tax paid on the purchase of certain new cars, trucks, motorcycles or motor homes.

If you live in a state with a state income tax, and you take a standard deduction for federal purposes, your state may require you to file your state return, also taking the standard deduction. Conversely, if you itemize for federal purposes you will have to itemize for state purposes. This is important because some federal deductions are not allowed as a state deduction, such as your state income tax.

Slide 20: Itemizing Deductions

An alternative to claiming the standard deduction is itemizing your deductions. To determine the best strategy for you, total all of your deductions. In general, if your total allowable itemized deductions are more than the standard deduction, then by all means, itemize. It will save you money. Keep in mind that the value of some of your itemized deductions will be reduced if your AGI is above \$166,800 (\$83,400 if married filing separately). This reduction is being phased out until it is eliminated in 2010. In addition, if you are subject to the AMT you need to consider whether you want to bunch your deductions in any one year.

Itemized deductions include healthcare costs not reimbursed by insurance, health insurance premiums and long-term care insurance premiums, specific state and local taxes, mortgage interest, charitable contributions, and other miscellaneous items such as tax-return preparation fees, investment advisory fees and unreimbursed employee business expenses. For 2009, you may also choose to deduct sales taxes paid if you reside in a state without a state income tax. Tables for this are provided in the IRS instructions.

However, watch out for the limitations that the law imposes on deducting itemized deductions. High-income taxpayers need to know that their allowable itemized deductions may be reduced if their AGI is over \$166,800 for single, head of household and married taxpayers filing jointly, or \$83,400 for married couples filing separately. Once AGI reaches these levels, itemized deductions are reduced. The good news is that the reduction is being phased out and will be eliminated in 2010. The bad news is that some in Congress want to reinstate this rule.

Here's another tip: If you find you're getting close to exceeding the standard deduction limit, try bunching your tax breaks every other year. This allows you to claim the standard deduction one year, but itemize the next, but it also allows you to plan for the maximum tax benefit.

Also, since itemized deductions are a factor in determining if you're subject to the AMT, some pre-planning might help if you are in this situation. Since we're already in tax year 2010, there are no changes that can be made for 2009, but you may want to be aware of what you can do to help reduce your tax liability for the current year.

Slide 21: Personal Exemptions

In addition to the standard or itemized deductions, you can also subtract personal exemptions from your adjusted gross income to arrive at taxable income. In addition to personal exemptions for you and your spouse, you can claim a personal exemption for each dependent. A dependent child includes children born to your family and step children, foster children and adopted children.

Each exemption reduces taxable income by \$3,650 in 2009, up from \$3,500 in 2008. However, the exemption benefit phases out if your AGI is between the following ranges: \$166,800 to \$289,300 (single), \$250,200 to \$372,700 (married filing jointly/qualifying widow/er), \$125,100 to \$186,350 (married filing separately) and \$208,500 to \$331,000 (head of household). As this slide shows, the amount at which the phase-out begins depends on your filing status.

For 2009, even if your AGI exceeds the maximum phase-out amount, you still may take a \$2,433 personal exemption. Again, this exemption reduction is being phased out. In 2010, there will be no phase out of exemptions.

Slide 22: Charitable Deductions

Making charitable contributions can instill a feeling of good will and tax laws have been created to recognize your philanthropic efforts. Donations you make by cash, check or credit card to qualified charitable institutions are deductible up to 50% of your AGI, if you itemize your deductions. If your donations exceed 50%, you can carry them forward for up to five years.

Also, remember to obtain and keep a record to substantiate all donations. Substantiating documents range from a canceled check and credit-card statement to a W-2 form and a written statement from the organization. The type and extent of documentation is usually determined by the amount of the donation.

There are other ways of sharing your good fortune that also deliver tax benefits.

Donating appreciated assets that qualify for the long-term capital gains treatment can actually do more to cut your tax bill. When you give appreciated long-term securities to a nonprofit, you deduct the full market value of the asset at the time of the donation and you avoid paying capital gains tax on the appreciation. Be sure to follow substantiation requirements.

Taxpayers can only deduct a charitable donation of \$250 or more if they have a statement from the charitable organization showing the amount of money contributed and a description (but not value) of any property donated and whether the organization did or did not give the taxpayer any goods or services in return for the contribution.

A tax deduction for clothing and household items is allowed if the items are in good condition and you can show comparable values for the item. For a single item with a value of \$500, a taxpayer must include a qualified appraisal and Form 8283.

TAX STRATEGIES

Slide 23: Tax Strategies for Life

Now that we have the basics behind us, it's time to move further ahead. I'm going to group my comments into five categories all of us can relate to – Family, Education, Home, Investments and Retirement. We'll then wrap things up with a few tips that will give you a jump start on preparing your tax return.

FAMILY

Slide 24: Family Strategies

Let's start with some tax breaks for which you may be eligible if you are raising a family. If you're a parent, you want to be sure to take advantage of every tax-saving opportunity available. In this section, we'll discuss the Kiddie Tax, Adoption Credit, Dependent Care Credit, Earned Income Credit and Shifting Income. We discussed the Child Tax Credit earlier in the presentation.

And as I mentioned earlier, a credit is the best tax break you can get. Deductions reduce the amount of taxable income on which you must pay taxes, but tax credits reduce, dollar-for-dollar, the taxes you actually owe.

Slide 25: Kiddie Tax

A strategy long employed by parents was to shift assets to a child's name with the result that the investment income would be taxed at the child's lower tax bracket. However, recent changes make this strategy less beneficial.

In order to discourage income splitting of investment income between parents and minor children, the tax law has imposed a Kiddie Tax that taxes a child's income over an annual floor. Under these rules, a child who can be claimed as a dependent is not taxed on \$950 or less of gross investment income, with the second \$950 of gross investment income taxed at the child's rate. Any net unearned income over \$1,900 is taxed at the parent's highest marginal tax rate. The Kiddie Tax does not apply if both of a child's parents were deceased at the end of 2009.

Starting in 2009, the Kiddie Tax will apply to investment income of children in these three categories: (1) children under 18 at end of 2009, (2) children who are 18 at end of 2009 and do not have earned income exceeding 50% of their support for the year and (3) children age 19 through 23 at end of 2009 and who are full-time students and who do not have earned income exceeding 50% of their support for the year.

Slide 26: Adoption Credit

There is good news for people who are planning to adopt a child. Two tax benefits offset the escalating expenses of adopting an eligible child.

In 2009, the maximum adoption credit rose to \$12,150 per child. Parents who work for companies with an Adoption Assistance Program can receive up to a \$12,150 reimbursement from their employer for adoption expenses without paying taxes on that benefit.

This benefit phases out for modified AGIs between \$182,180 and \$222,180. The credit is completely phased-out at \$222,180.

When you adopt a child with special needs, you are allowed to claim these benefits regardless of actual expenses paid or incurred in the year the adoption becomes final. You are assumed to have incurred the maximum amount of qualifying expenses and may claim the full credit.

When adopting a child from within the United States, the family is permitted to take the credit in the year following the year where the actual expense was incurred. These expenses are deductible even if the adoption ultimately is not completed. This is different from how adoption expenses are treated if the child is from outside the United States.

Where a foreign adoption is involved, the family may not deduct any expenses until the adoption is final, which considering the time and uncertainty of a foreign adoption, places an added burden on the family financing the cost of the adoption. Clearly, in this situation, the longer the adoption process, the more expenses are incurred, none of which are deductible until the adoption is finalized.

Slide 27: Dependent Care Credit

Working parents know how expensive child care can be. The Dependent Care Tax Credit aims to ease some of the burden. Basically, the credit works like this: If, in order to work or look for work, you pay someone to care for a dependent under age 13 who you also claim as a dependent, you may be eligible for a tax credit of up to \$2,100. The credit is a percentage of qualifying expenses that range between 20% and 35%. You must have earned income to receive the credit and if married, filing a joint return.

For 2009, the dollar limit on the expenses toward which you can apply the credit percentage is \$3,000 for the care of one dependent and \$6,000 for two or more. The percentage of the expenses you can take as a credit depends on your AGI. These dollar limits must be reduced by the amount of any dependent-care benefits provided by your employer, excluded from your income.

Take note that the Dependent Care Tax Credit isn't restricted to child-related care costs. If you pay someone to look after an incapacitated dependent of any age, such as a parent or disabled family member (for example a spouse who is physically or mentally incapable of self-care), you may be eligible for this tax break.

You will need documentation to claim the Dependent Care Tax Credit, which specifies an invoice from the provider that includes the name of the care provider, address and employer identification number.

Slide 28: Earned Income Credit

There's one more credit I would like to touch on. Although the Earned Income Credit (EIC) applies to eligible low-wage taxpayers without children, those with children receive the largest benefit. EIC is subtracted directly from the amount of tax you owe. Even if you do not owe any tax to the IRS on your tax return, you might still get some money back; however, you must have earned income – as an employee or self-employed.

On 2009 returns, the maximum credit can be as much as \$5,657 for workers supporting three or more qualifying children. A worker with one qualifying child can receive a credit worth up to \$3,043 and a worker with two qualifying children can receive a credit worth up to \$5,028. For an eligible worker with no qualifying children, the credit drops to \$457.

You can include tax-free combat pay as earned income for EIC purposes.

The credit is phased out as AGI increases. Keep in mind also that taxpayers with unearned income such as interest and dividends of more than \$3,100 are not eligible for EIC.

Slide 29: Shifting Income

There are some long-term strategies you can employ to reduce your taxes on investment income for college savings. As with all investment strategies, they have to be right for you and appropriate for the economic environment. The current economy makes some of these strategies more or less beneficial, depending on your circumstances. I highly recommend that you first check with a financial advisor.

Now, let's begin with strategies for how parents can save on taxes. As we discussed earlier, shifting income to a child in a lower tax bracket was a popular strategy. The Kiddie Tax may have a place in your overall tax plan.

Remember, in 2009, a child can still earn investment income up to \$950 tax free. The next \$950 is taxed at the child's rate, which for dividends and capital gains, can be as low as 0%. Any investment income over \$1,900 will be taxed at your own top rate. It won't pay to shift a significant amount of income to a child falling under the Kiddie Tax rules, but transferring a few income-producing assets to a child might still lower your overall tax bill.

And it's important to know that shifting income to your child will also reduce the adjusted gross income on your personal return, which may mean that you'll lose less of your itemized deductions and personal exemptions. Lowering your AGI may also make you eligible for other tax benefits.

Also, be sure to consider the gift tax when shifting assets. For 2009, you generally can give a gift to a child, or anyone else, valued at up to \$13,000 each without being subject to the gift tax. The exclusion is allowed only for cash gifts or present interests in property.

If you're a sole proprietor, you can shift income by hiring your children to help in your business. In addition to providing valuable work experience for your child, this arrangement offers significant tax savings to the business. As long as the work your children do is legitimate and you follow all the rules and they receive reasonable wages, you can deduct their wages as a business expense and shift the money to your children in lower tax brackets.

As an added bonus, if your son or daughter is under 18, you don't have to pay Social Security or Medicare taxes on the wages you pay. Because of the standard deduction, in 2009, the first \$5,700 earned by each child is not taxed. Also, since it's earned income, it isn't subject to the Kiddie Tax. Just be sure to file W-2 forms and other necessary tax forms for the child.

EDUCATION

Slide 30: Education Strategies

Since, in most cases, education accounts for the greatest cost associated with raising kids, you'll want to listen carefully to learn all you can about the credits and deductions for education expenses. Keep in mind that these benefits are available to college students of every age.

Slide 31: Tax Credits

Two popular tax credits – the American Opportunity Tax Credit and the Lifetime Learning Credit – can help defray education expenses for you and your children. And because they are credits rather than deductions, they take a bigger bite out of your tax bill. However, you cannot claim both credits for the same student's expenses in the same tax year.

Slide 32: Lifetime Learning Credit

Earlier, I discussed the American Opportunity Tax Credit, previously known as the HOPE Scholarship Credit, and now I'd like to explain a second credit called the Lifetime Learning Credit (LLC).

The LLC provides a credit of up to \$2,000 per year. As its name suggests, the LLC can be used by anyone for undergraduate, graduate and professional degree courses, and it can be claimed for every year that you qualify to receive it.

Unlike the American Opportunity Tax Credit that applies to each student, the LLC applies to each taxpayer and courses taken do not need to be toward a recognized educational credential. The credit is increased to \$4,000 for students attending educational institutions in the Midwest disaster zone in 2009. Expenses paid with respect to a student for whom the American Opportunity Credit is claimed are not eligible for the LLC.

The amount of your LLC is phased out if your modified AGI is between \$50,000 and \$60,000 (\$100,000 and \$120,000 if you file a joint return). You cannot claim a LLC if your modified AGI is \$60,000 or more (\$120,000 or more if you file a joint return).

Slide 33: U.S. Savings Bonds

Generally, investors who redeem qualified U.S. savings bonds to pay for qualified higher-education expenses may exclude the interest redeemed from gross income. The exclusion applies to series EE bonds issued after 1989 or series I bonds.

If the interest from the redeemed bond exceeds the amount of qualified education expenses the investor pays, however, the exclusion is limited to a fraction of the redeemed amount. The fraction equals the amount of qualified education expenses paid during the tax year over the aggregate proceeds of qualified U.S. savings bonds redeemed during the tax year.

For 2009, the amount of your interest exclusion is phased out if your filing status is married filing jointly or qualifying widow(er) and your modified AGI is between \$104,900 and \$134,900. At modified AGI of \$134,900, the exclusion is zero. For single and head of household filers, your interest exclusion is phased out if your modified AGI is between \$69,950 and \$84,950. You cannot take the exclusion if your modified AGI is \$84,950.

Slide 34: Student Loan Deduction

If you're paying off student loans, you'll be happy to know that the rules for deducting student loan interest remain liberal. Taxpayers can continue to deduct up to \$2,500 of the interest paid on a student loan, regardless of how long it takes to repay the loan. And you don't have to itemize in order to take this deduction. However, there is no deduction if you file as married filing separately, if you are claimed as a dependent or if the loan is from a related party or a qualified employer plan.

For the 2009 tax year, the deduction is phased out for taxpayers with modified AGI between \$60,000 and \$75,000 (\$120,000 and \$150,000 for joint returns). You cannot take a deduction if your modified AGI is \$75,000 or more.

Slide 35: Higher Education Tuition Deduction

In 2009, you can claim a deduction – up to \$2,000 or \$4,000 – as an adjustment to gross income for expenses (tuition, fees and books) that you paid for higher education at an eligible educational institution.

The deduction applies to you, your spouse and any dependents who you claimed as an exemption. However, to claim the \$4,000 deduction, your modified AGI cannot be greater than \$65,000 (\$130,000 if married filing jointly). For the \$2,000 deduction, your modified AGI needs to be greater than \$65,000 but no greater than \$80,000 (\$130,000/\$160,000 if married filing jointly).

The deduction is barred if your filing status is married filing separately or if you claimed an education credit such as the American Opportunity Tax Credit or Lifetime Learning Credit.

Slide 36: 529 Plans

529 Plans give parents and other family members a tax-advantaged way to save money for college expenses. While there is no tax deduction available on contributions to the plan, the money in the plan grows tax free and no tax is due on withdrawals if the distribution is used to pay for qualified higher-education expenses such as tuition, room and board, books, supplies, and most recently, computers and related peripheral equipment and software.

The 529 Plan is especially valuable as a vehicle for gifts from family members, especially grandparents.

Slide 37: Prepaid Tuition Plans

You are not restricted to using the savings plans of your state and can use any state's plan. The Internet is an invaluable research tool. However, if you select another state's plan, you may lose a state tax deduction that some states offer to residents who use their state's prepaid or 529 Plans.

Many states have instituted savings plans substantially similar to the Section 529 Plans that propose to create a prepaid tuition account for a student in that state. The amount contributed will depend on when the plan is begun and the child's age. States have created actuarial tables that they believe will result in a fully funded tuition based on a schedule of deposits and investment-return rates.

The advantage of these plans is that they guarantee tuition costs will be covered. However, they do not guarantee admissions, and they do not cover room and board and the cost of books. These expenses would have to be funded separately. The plans will provide assistance if the student decides not to attend an in-state school; however, it may not cover the full tuition costs of these schools.

In general, the tax treatment of these prepaid tuition plans is similar to section 529 Plan rules.

Slide 38: Classroom Expense

Any teachers here today will be happy to learn that the out-of-pocket classroom expense deduction was also reinstated. For 2009, the deduction is worth up to \$250.

HOME

Slide 39: Homeowner Strategies

Now let's turn our attention to the tax benefits of owning a home, because as a homeowner there are many tax-saving opportunities available to you.

Slide 40: Deductions

In most cases, you can deduct all of the interest you pay on any loan secured by your home if you itemize your deductions. Interest is deductible on up to \$1 million (\$500,000 if married filing separately) of home-acquisition loans. These are loans used to buy, build or substantially improve your principal residence or second home, and are secured by that same residence.

Interest on a home-equity loan or line of credit of up to \$100,000 (\$50,000 if married filing separately) is also deductible. You can also use this deduction for one additional residence that you identify as your second home.

This means you can deduct interest on total home debt up to \$1.1 million (\$550,000 if married filing separately).

As long as the home-equity loan is secured by your home, it doesn't matter how you spend the proceeds. Home improvements, college tuition, debt consolidation or an exotic vacation – it's up to you. Just be sure you have a plan to pay it back. You will need to itemize your deductions on Schedule A in order to take the mortgage interest deduction.

Also keep in mind that non-acquisition indebtedness cannot exceed the difference between the residence's fair market value and the amount of acquisition indebtedness.

The IRS defines points as any extra charges paid by a home buyer at closing in order to obtain a mortgage. In effect, points are prepaid interest. Points paid to secure a loan for the purchase, construction or improvement of a principal residence are usually fully deductible in the year you paid them. Points paid to refinance your home mortgage must be deducted ratably over the term of the loan.

After the home-mortgage interest deduction, the next most important tax break for homeowners is the deduction for real estate taxes. You can deduct real estate taxes and state and local property taxes on all your real estate. The only decision you may need to make is whether you prepay the coming year's taxes or delay the current year's taxes to see which way it might benefit you.

However, change in the law allows those who do not itemize deductions to increase their standard deduction by the lower of the actual taxes paid in 2009 or \$500 (\$1,000 if married filing jointly).

Slide 41: Selling Your Home

Excluding the gain on the sale of a home is another major incentive for buying a home. If you meet certain requirements, you can keep a significant portion of the profit of the sale of your principal residence without having to pay tax on the gain. Any gain is taxed as a capital gain so the amount owed is not as high. However, any losses on the sale of a principal residence are not deductible.

When you sell your principal residence, you can exclude from your taxes up to \$250,000 in gains (\$500,000 if you are married and filing jointly or a surviving spouse if the sale is within two years of the other spouse's death). To qualify, you must have owned and used your home as a principal residence for at least two of the five years preceding the sale. There are limitations if you used the property as a rental or vacation property or as a home office. If you realize a gain on the sale greater than the exclusion, that amount is taxed at capital gains rates.

Special exceptions are available if you were required to sell your home due to a change in place of employment, health issues or other unforeseen circumstances before meeting the two-year principal-residence rule.

The full tax break is available only once every two years. If your gain exceeds the exclusion limit, the balance is taxed as a capital gains. The maximum tax rate on a capital gain is 15% in 2009.

Slide 42: Long-Time Resident Credit

There is also a credit available for long-time residents of the same principal residence purchasing a new residence after November 6, 2009 and before May 1, 2010 (July 1, 2010 if under a binding contract entered into before May 1, 2010 to close on the purchase before July 1, 2010).

The credit is allowed if the taxpayer (and taxpayer's spouse, if married) has owned and used the same residence as a principal residence for any five consecutive-year period during the eight-year period ending on the date of the purchase of a subsequent principal residence.

The credit is equal to the lesser of \$6,500 (\$3,250 for married taxpayers filing separately) or 10% of the purchase price.

No credit is allowed if the purchase price exceeds \$800,000. For purchases after November 6, 2009, the purchaser and the purchaser's spouse must be at least 18 by the date of purchase.

INVESTMENTS

Slide 43: Investment Strategies

Strategy and timing are as important as skill in investing, particularly with regard to taxes. There are a number of tax-smart investment strategies you may want to consider, especially in light of legislation that lowered the tax rate on dividends and capital gains.

These same strategies can be applied during today's difficult economic times when many people have suffered substantial investment losses. As you prepare your 2009 returns, some of these rules can help. However, be aware that Congress may make changes to them in the future. The following are the rules as they exist on January 1, 2010.

Slide 44: Dividends

Dividend income received by an individual shareholder from a domestic or qualified foreign company is taxed at a top rate of 15% and at just 0% for taxpayers in the 10% or 15% tax brackets for 2009 and 2010. However, these tax rates are subject to review so watch for media reports on the topic and seek counsel from your CPA as changes occur.

It's important to keep in mind that to receive a dividend that qualifies for the lower tax rate, you must buy the stock at least one day before the ex-dividend date and hold that stock for at least 60 more days. The ex-dividend date is the last date on which shareholders of record are entitled to receive the upcoming dividend. Essentially, what this means is that if you owned shares for only a short time around the ex-dividend date, your dividend income will be taxed as ordinary income and will not be eligible for the 15% rate.

Here's another caveat: not all income payments that are called dividends are qualified dividends in the true "taxed at 15%" sense. For example, the money you earn on savings accounts, certificates of deposit and money market funds is sometimes referred to as dividends, but is actually interest and is taxed as ordinary income.

In any case, you should never let tax considerations alone drive your investment decisions. Be sure that your overall financial objectives guide your investment strategies.

Slide 45: Capital Gains Tax

The maximum tax rate on net long-term capital gains is also 15% for 2009. If you're in the 10% or 15% tax brackets, your net long-term capital gains rate is zero, and you will not be taxed for 2009 and 2010. To qualify for long-term tax treatment, an asset must be held for more than one year before it is sold. For coins, art and other collectibles held for more than one year, the maximum capital gains tax rate is 28%.

Capital gains on investments held for one year or less are taxed at regular income tax rates.

Slide 46: Offset Capital Gains with Losses

When it comes to investment decisions, knowing when to make a move is critical. Then there are times, such as those we are experiencing today, where many of our conventional ideas about investing are dramatically challenged.

If you have any capital gains, you can reduce your taxes by offsetting your gains against sales of investments that resulted in losses in 2009. If your capital losses exceed your capital gains, you can deduct up to \$3,000 in net capital losses against ordinary income (\$1,500 if married filing separately) or your total net loss as shown in 1040 Schedule D, *Capital Gains and Losses*, whichever is less.

Excess losses that you could not deduct may be carried forward to future years and can be used to offset future gains. This is in addition to being able to deduct up to \$3,000 in future years. It is very important to keep track of these unused losses and whether they are short-term or long-term losses.

Keep in mind that an investment sold at a loss in 2009 need not be gone forever. If you believe it was a good long-term investment, you can buy it back. Just be sure to wait at least 31 days after the sale. Otherwise you'll get caught up in the wash sale rule.

This rule disallows losses on securities sold if substantially identical securities are bought within 30 days before or after the loss sale, although the definition of "substantially identical" does provide some flexibility.

The current capital gains rates expire after 2010 and there has been significant discussion that the rate may be increased for taxpayers above certain income levels.

Remember to work with a qualified investment professional.

RETIREMENT

Slide 47: Retirement Strategies

We all know that contributing to a retirement plan is a key step in working toward a secure retirement, but did you know it can lower your current income tax bill as well?

As economic events have clearly shown, your retirement account is not an asset that should be reviewed haphazardly. It requires careful consideration, expert management and reallocation as needed to ensure that it's always working for you.

Slide 48: Employer-Sponsored Plans

Pre-tax contributions to an employer-sponsored savings plan reduce the amount of taxable wages you report on your tax return, making qualified retirement plans an excellent way to cut your tax bill. If you have a 401(k) and you haven't arranged to contribute the maximum, try to increase your contributions before year-end. This is especially important if your employer makes matching contributions, which, in effect, represents free money.

For 2009, if you're under age 50, your maximum contribution to a 401(k) plan is \$16,500. Taxpayers who are age 50 or older by the end of 2009 can make an additional \$5,500 "catch-up" contribution for that calendar year. Also, there is no minimum distribution required in 2009 from your 401(k).

Slide 49: Individual Retirement Accounts (IRAs)

The top annual contribution for traditional or Roth IRAs is \$5,000 for 2009, provided you have earned income to cover the contribution. If you're age 50 or older by the end of 2009, you can make an extra \$1,000 "catch up" contribution for 2009. These contribution levels are unchanged from 2008.

Traditional IRA contributions may be deductible depending on your modified AGI and whether you or your spouse (if filing jointly) is covered by an employer-sponsored retirement plan. Roth IRA contributions are not deductible, but the earnings are not taxed and may be withdrawn tax-free if you meet the qualified distribution requirements.

If your spouse does not work for compensation, you can contribute to either a traditional IRA or Roth IRA for your spouse based on your own earnings, with the same dollar limits applying. However, the maximum aggregate that can be contributed to a Roth is reduced by contributions made to other IRAs.

As I mentioned, if you or your spouse participates in a retirement plan at work, your modified AGI may limit the IRA deduction. For joint filers or a qualifying widow(er), who are both active participants in employer-sponsored plans, the deduction phase-out ranges from \$89,000 to \$109,000. For single filers or heads of household, the deduction phases out for incomes between \$55,000 and \$65,000. For married taxpayers filing separately, no deduction is available once income surpasses \$10,000.

If you don't participate in an employer-sponsored plan but your spouse does, the deduction for your contribution is phased out if your joint modified AGI is more than \$166,000 but less than \$176,000.

With a Roth IRA, contributions are not deductible but you can withdraw them at any time tax free. Investment earnings accumulate on a tax-free basis and may be withdrawn tax free after five years, as long as you meet certain requirements.

For 2009, eligibility to contribute to a Roth IRA is phased out as modified AGI rises from \$105,000 to \$120,000 if single, head of household or married filing separately and not living with spouse at any time in 2009; and \$166,000 to \$176,000 if married filing jointly or qualifying widow(er). Married taxpayers who file separately and lived with spouse at any time in 2009 cannot contribute to a Roth IRA if their income is \$10,000 or more.

Also, keep in mind that there is no minimum distribution required in 2009 from your IRA.

You have until the filing deadline of April 15, 2010 to open and contribute to an IRA for 2010. But why wait? The sooner you contribute, the longer your money grows tax deferred or tax free.

Slide 50: Traditional IRA to Roth IRA

By converting your traditional IRA to a Roth IRA, you can grow your retirement account tax free and there is no limit on the amount converted. However, in order to make the conversion, your modified AGI must be less than \$100,000 and you must file jointly if you are married. In 2010, there will be no required modified AGI amount.

CLOSING

Slide 51: Key Takeaways

I know this was a lot to cover, but my key takeaways for you are these:

First, follow the advice of your CPA.

Second, remember that your CPA can be a valuable partner in helping to keep your tax bill to a minimum.

Third, do not wait until December 31 to implement any of these recommendations because by then it will be too late. Be sure to plan for tax savings throughout the year.

Thank you.