Wi$eUp Teleconference Call
Economic Turbulence and Planning for 2009
November 21, 2008
Speaker 2 - James Guarino

Jane Walstedt: And now I’d like to ask Jacqueline Cooke, the Women’s Bureau’s Regional Administrator in Boston, to introduce our second speaker. Jackie.

Jacqueline Cooke: Thank you Jane. James Guarino is a Certified Public Account/Personal Financial Specialist, a Certified Financial Planner, and a Senior Tax Manager in Tewksbury, Massachusetts. He has more than 24 years of experience providing tax consulting, financial and business planning guidance to individuals and closely held businesses.

Jim has a Master’s in Taxation and a Bachelor’s in Business Administration. He is a member of the American Institute of Certified Public Accountants’ Tax Division and Personal Financial Planning Division, the Massachusetts Society of Certified Public Accountants’ Personal Financial Planning Subcommittee, and the Boston Chapter of the Financial Planning Association Consumer Awareness Subcommittee. Welcome, Jim.

James Guarino: Thank you, Jackie. We could actually spend hours upon hours talking about tax planning opportunities, but we only have a short time today, so I’m going to try to focus on some of the more important ones that might interest our listeners. You could probably divide my presentation into three pieces today. It’s really going to focus along the lines of these three topics: 2008 tax planning strategies; retirement planning opportunities for 2008; and then I’ll conclude with some 2009 planning considerations.

Before I start, I’d just like to bring to everyone’s attention the AICPA’s Web site that has to do with the 360 degrees of financial literacy. It’s a fantastic Web site for anyone who has general tax financial questions. And I’d ask you to look at the www.360financialliteracy.org site and, specifically, there’s a
section there devoted just to tax planning. So you might want to make a visit there.

Let’s get started with today’s presentation regarding the 2008 tax planning strategies. Probably the most important thing that you can do is when you’re doing tax planning is to run a concurrent tax projection. And this allows you to weigh the pros and cons of deciding whether or not one year is better than another year as far as reporting income and deductions.

One of the advantages of doing a tax projection is immediate tax savings. I can… I can give the audience a quick example of a real life situation that we just finished completing. We had one of our tax clients who sold a piece of property and realized a $200,000 gain. And we ran a tax projection and calculated the state tax on that gain to be about $10,000.

Well it was pretty easy for us to have a discussion with him to tell him it made sense to pay that $10,000 before the end of the year because we could show him that that $10,000 payment was going to equate to an immediate $3500 federal tax savings as opposed to not making the payment before year end and merely taking the deduction next year. He’d have to wait a full year before he achieved that benefit.

So that’s just a small example of how some timely tax planning can really save you some immediate dollars.

As far as some strategies that you may want to think about, I think everyone will understand this one. It’s referred to as tax loss harvesting, and that might be appropriate for any of our listeners who actually have capital gains this year. Maybe they incurred some capital gains earlier in the year and they want to offset those gains. And clearly I think all we have to do is look at our investment portfolios lately, and there’s plenty of losses to be harvested there.
You may want to look at selling off particular securities before the end of the year and realizing those losses so that they offset the earlier gains. And the other stealth capital gain that most of us are hit with a little bit too late is the capital gain distributions that come forth if we have mutual fund investments. So again, if you anticipate any capital gain income, you may want to review your portfolio, sell some of your securities that have losses in them, and offset those gains.

The other item that comes to mind is prepaying deductions. And this goes back to the example that I just mentioned a few minutes ago. You want to review your personal situation and determine whether or not it makes sense to prepay any of your state income tax before the end of the year.

Likewise, if you’re inclined to make charitable contributions, if it’s a matter of you making a contribution that you know you’re going to make in January or February of 2009 it may make sense for you just to accelerate that contribution, make it in December, and gain the tax benefit of that deduction.

And then finally, for those of us who can also itemize--and what I’ll refer to as miscellaneous itemized deductions, such as business expenses--you may want to look to bunch up those expenses all in one year rather than spreading them out between two years where you may not achieve any benefit in either year from the deduction. You may want to accelerate or defer those expenses into one year and get the actual tax deduction in that year.

Looking at other areas, most of us--or I’d say a good portion of us--probably have the luxury of enjoying what we refer to as flexible spending accounts, and we utilize those through our employers. Some of us call those Section 125 plans.
And what typically happens near the end of the year [is] we forget that we actually have balances in there that we can use to get reimbursed for medical expenses. So what you may want to do is talk to human resources or look at your own FSA account balance, and if there is a balance there, you may want to accelerate any medical expenses that you can before the end of the year, whether it’s a last-minute checkup, dentist appointment, contacts, eyeglasses, whatever it may be. So let’s not let those FSA account balances expire.

The next area I’m going to segue into is an area that I refer to as a use it or lose it provision. And part of that provision has to do with gifting strategies. For those of us who are looking to push money down to the next generation, we can take advantage of up to $12,000 per year in gifts to other individuals. Now if you don’t take advantage of that, you can’t go back in time and try to reclaim the benefit of that $12,000 in a subsequent year. So if that’s something that you’re inclined to do, certainly do that before the end of the year.

And that gets us more into the retirement planning area, and that’s something I’d really like all of us to focus on. There’s three main areas that come to mind: one has to do with traditional or Roth IRAs; the second is your own personal 401(k) plan, if you are sponsored by your employer to have one; and finally, if you’re self employed take advantage of a retirement plan.

And again, we refer to these retirement plan options as use it or lose it provisions because, again, for 2008 you may be entitled to deduct up to $5000 of an IRA contribution. If you don’t take advantage of that in 2008 you can’t go back in a subsequent year and make an IRA contribution. So you want to be careful to weigh the pros and cons of taking advantage of that.

Looking at the investment state that we’re all in, I guess there’s a silver lining to seeing our retirement plans dwindle in value, over the past few months
especially. There’s a provision in the law which allows us to roll over our [traditional] IRA into a Roth IRA.

Now the benefit of doing that with having your retirement account going down in value is to not have to pick up as much taxable income when you do that rollover into the Roth IRA. So the fact that our traditional IRA accounts have lost such value is actually a good thing for this rollover provision, because that means when we do the rollover there’s that much less taxable income that we have to recognize and pay income taxes on in order to gain the benefit of that Roth IRA status.

And I would just warn everyone there is a $100,000 AGI [adjusted gross income] limitation to take advantage of that provision.

Finally today I’d just like to briefly mention some 2009 planning. Now that the elections are completed we have a better idea of what the possible new tax changes might be.

And everything that we’re seeing is that we can more or less plan on higher income taxes in the future. President-Elect Obama’s tax plan is geared primarily to go after the high income tax payers. But for those of us that are in that category, be it 2009 or 2010, I think consensus is that we’re going to see higher ordinary income taxes, as well as higher long-term capital gain tax rates as well.

So, again, it makes sense to do some planning. And this might be one of those unusual years where it’s actually the opposite of what we advise. We typically say let’s accelerate deductions and defer income. But for those of us who might be in a higher tax bracket next year I can see many an argument being made to accelerate income and defer taxes.
So I’ll just close on that note, and I’m happy to answer questions later on in the program. Thanks, Jane.

Jane Walstedt: Thank you very much, Jim. That was particularly interesting to me about it might be a good time to roll over a traditional IRA into a Roth IRA. So that was something that I hadn’t focused on.