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THE ECONOMIC ROLLER COASTER.... THE SYMPTOMS, THE DIAGNOSIS, THE PRESCRIPTION AND THE PROGNOSIS...

Most of us thought the economy and the market were on a never ending, one way street – going UP. However, as “they” say, what goes up usually has to come down, especially when the “up” has been artificially inflated. The technology bubble burst several years ago after the real numbers caught up with the “hoped for” numbers. Some people who had invested large amounts of cash in companies, which had never made a dime in profit and more likely had huge losses on their books, made a bundle. They rode those stocks up until the smoke and mirrors dissipated. Those who got out before reality set in made money. A whole lot of people missed that boat and lost their shirt.

History has a way of repeating itself. This time, the housing market seemed to have nowhere to go but up. People were buying one day and selling 6 months later for huge profits. Everyone was buying houses, including many who could not afford it. When reality came home to roost and the bubble burst, we again found ourselves free-falling in the “down elevator”. Who’s to blame? There’s plenty of that to go around. Those who flaunted sound business judgment with investor’s money in order to line their own pockets should bear most of the blame, and should feel the hardship of righting this wrong. The executives of the banks, the insurance companies, and the brokerage houses should find their special

place in Hell. The people who were cajoled into believing they would ever be able to pay

for their homes on an interest only basis or a very low adjustable rate mortgage for a few years are also to blame. What were they thinking? They seem to have forgotten that old adage....there is no such thing as a free lunch.

And what about the auto industry? Talk about arrogance! We have had energy problems in this country before – just look back to the ‘70s. It would seem that the smart people running these companies knew that, and the only thing keeping them from moving ahead technologically was their own greed and arrogance.

And what about Congress – on both sides of the aisle? We elected these people to represent us. However, it seems most of them were too busy lining their pockets to pay attention to reality. These issues have been around for many years – through both Democrat and Republican presidencies. Were they so busy taking care of the requests for “pork” that they didn’t see all of this coming? I think not.

Nobody can be sure those at blame will actually get what they deserve. The only thing we can be sure of is that we’re getting what they deserve. Who said life was fair?

So, we find ourselves with companies on the brink of bankruptcy, people losing their homes to the threat of foreclosure, and our

401Ks now looking more like 101Ks. The alarm clock has rung. The people have awakened and sent a message to Washington. Fix this mess!

The first instinct of Congress when they confront a problem is to throw money at it. And so they did.

The initial attempt was to give “everybody” (the definition of “everybody” is really not “everybody” – only certain “everybodys”) a direct “stimulus payment from the IRS when they filed their 2007 tax returns. Then Freddie and Fannie, whom did sell the shaky mortgages as securities, along with other companies, began to teeter on the brink of failure and billions of dollars were allocated to bail out these corporations. The executives who made multi-millions on deals that caused the problem in the first place, were allowed to take their millions and “keep on truckin’”, albeit with your tax dollars. Congress passed “The Emergency Economic Stabilization Act of 2008” early in October. Aside from the huge costly corporate bailouts, here’s what they did for you and me...

1. The Mortgage Debt Relief Act: which allows up to \$2 million of forgiven mortgage debt not to be taxed was extended through 2012. Just as an aside – how many middle-class citizens do you know who have a \$2 million mortgage?
2. The Alternative Minimum Tax “patch” was passed again – only for 2008. This is supposed to keep millions of Americans from falling in to the AMT hole. Here’s news – it’s not working!
3. The ability to deduct state and local sales tax was extended through 2009.
4. The education and tuition deduction (up to \$2,000 to \$4,000 – depending on your income level) has also been extended through 2009.

5. If you do not itemize and you pay real estate taxes, you can increase your standard deduction amount by \$500 (single) or \$1,000 (joint).
6. Teachers’ classroom expense deduction of \$250 has also been extended through 2009.
7. The ability to make charitable contributions (up to a maximum of \$100,000) directly from an IRA was extended through 2009
8. The child tax credit is now available to those with earned income in excess of \$8,500. This \$1,000 per child credit is phased out for incomes above \$110,000 on a joint return.
9. The 15 year (instead of 39 years) depreciation rules for qualifying restaurant improvements is extended through 2009. This rule has also been applied to certain improvements to retail space.
10. The deduction for senior executive compensation for those companies who take money from the government is limited to \$500,000. This does not limit their compensation. It only limits the company’s ability to deduct the millions they give them over \$500,000. I would put this in the category of the \$400,000 party AIG threw after they were given a multi-billion dollar bail out.

Doesn’t seem like much, does it? Not much of a new impact, especially when these provisions would have and should have been extended in any case. In their “urgency” to pass some “relief” for middle America, our elected representatives on the Hill also found it in their hearts to give specific tax breaks to Nascar race tracks, and a tax break for the manufacture of arrows (used as children’s toys), special tax breaks for the film and television industry, and a reduction in the excise tax on Rum from Puerto Rico. It’s the old “one hand washes the other” game.

Now you know where their priorities really lie.

Oh yes, and one more thing...

Brokers will be required to report basis of securities sold on forms 1099B by the year 2011 for stocks, 2012 for mutual funds, and 2013 for other types of securities. This is going to be interesting to watch as most mutual funds and many brokers haven't the faintest clue what their customers' basis is on these assets. Just try and get this information from the brokers when it comes time to prepare your tax return.

Here's what's on the drawing board currently:

1. Create a "New American Jobs Tax Credit" which would provide a \$3,000 tax credit for each new employee added in 2009 and 2010.
2. Extending the \$250,000 Section 179 expensing provision through the end of 2009.
3. Eliminating taxes for senior citizens earning up to \$50,000.
4. Temporarily suspending the required minimum distribution (RMD) which requires seniors over 70 years old to

sell assets at what could be huge losses in order to take the requisite distribution from their IRAs/401ks by December 31, 2008. Currently, if this distribution is not taken, a 50% excise tax/penalty is imposed.

5. Allow penalty free withdrawals from retirement plans for those under age 59, 1/2 up to the littlest of 15% of value or \$10,000 for 2008 and 2009.
6. The plan to raise taxes on those individuals earning over \$200,000 or families earning over \$250,000, is that the proposed increase in capital gains taxes (which is really throwing salt on the wounds of investors) may be put on temporary hold as being detrimental in a time of economic uncertainty.
7. A possible "refundable" credit of \$500 per person, which would completely eliminate income taxes for 10 million Americans. (FYI – "refundable" means that you get the money "refunded" even though you didn't pay any taxes to begin with.)

What goes up usually comes down. What goes down – usually goes up again – the really BIG question is: WHEN?

Happy Turkey Day! (You decide who the turkey is and who's doing the gobbling.)

