

B A R R Y & M O O R E , P . C .

C E R T I F I E D P U B L I C A C C O U N T A N T S

2009 Tax Planning Guide

B A R R Y & M O O R E , P . C .

C E R T I F I E D P U B L I C A C C O U N T A N T S

Dear clients and friends,

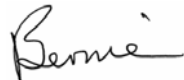
Barry & Moore is pleased to present you with our 2009 tax planning guide. This guide consists of a variety of tax related information including AMT, real estate, energy efficiency credits, business tax, children's education, donations, retirement, tax rates and more.

A little extra year-end tax planning could be especially productive this year due to a variety of tax breaks that may not be available next year. We hope you find the following information helpful. At Barry & Moore, our mission is our clients' satisfaction and success.

As always, please call us if you have any questions. We would be happy to discuss with you any of these tax matters and how they may affect your specific situation.

We appreciate the trust you have placed in us. We wish the best for you and yours through the holiday season and for all of 2010.

Sincerely,



G. Bernard Barry
Partner, Barry & Moore, P.C.

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This material in this guide is for informational purposes only. This information should not be construed as legal, accounting or other professional advice provided by Barry & Moore, P.C. This guide should not be substituted for professional services. Consult your tax advisor concerning the application of this information to your specific circumstances.

Information for Everyone

Why you should plan for your 2009 taxes now

AMT

Alternative minimum tax (AMT) is a popular topic this year. Without Congressional “extender” legislation, AMT exemption amounts for individuals are scheduled to drop drastically next year, and most nonrefundable personal credits won't be available to offset the AMT. As for this year, proper planning may help you avoid, or at least reduce your AMT.

Sales Taxes

In 2009, individuals have the option to deduct state and local sales and use taxes instead of state income taxes. Individuals may also take an itemized deduction or an above-the-line deduction for state sales tax and excise tax paid on the purchase of motor vehicles after February 16, 2009.

High Income

High-income-earners have other factors to keep in mind when mapping out year-end plans. Top tax rates on ordinary income are expected to increase after 2010, making long-term deferral of income less appealing. Long-term capital gains rates could go up as well, so it may pay for some to take large profits this year instead of a few years down the road. On the other hand, the solid good news high-income-earners have to look forward to next year is that there no longer will be an income based reduction of most itemized deductions, nor will there be a phase-out of personal exemptions.

Losses

The Worker, Homeownership and Business Assistance Act of 2009 provides an election for most taxpayers (not just small businesses) to increase the carryback period of an applicable net operating loss from 2 years, to 3, 4 or 5 years. Generally, an election may be made for only one tax year, but an eligible small business that made an election under the rules before Nov. 6, 2009 may make an election for 2 years instead of just 1.

Property Taxes

Taxpayers who pay state and local property taxes in 2009, but don't itemize, will qualify to take an additional deduction of up to \$1,000/\$500 for married/single individuals. This is set to expire after 2009.

Investing

Examine your investment portfolio for opportunities to recognize losses to offset other capital gains. Make sure to not repurchase the same securities within 31 days. You should consider a Health Savings Account if you do not have employer provided medical insurance and you are not covered by Medicare.

Penalties

Those facing a penalty for underpayment of federal estimated tax payments may be able to eliminate or reduce the penalty by increase their withholding.

Timing

Smart timing of your income and expenses can reduce your tax liability, while poor timing can increase it unnecessarily. You can use your credit card to prepay certain expense. Make sure you do not prepay expenses that will cause an additional AMT liability. You may also be able to bunch itemized deductions together to get over AGI floors. The following is are items whose timing you may be able to control:

- Income - Retirement plan distributions, self-employment income, bonuses and property sales
- Expenses - Property taxes, mortgage interest, state and local taxes and charitable contributions

Real Estate

Tax breaks for home owners and real estate investors

First-time Credit

The first-time homebuyer credit has been extended by The Worker, Homeownership and Business Assistance Act of 2009 which was signed into law on November 6, 2009. The credit is now available for qualifying home purchases after 2008 and before May 1, 2010, or before July 1, 2010 if the taxpayer enters into a binding written contract before May 1, 2010. The credit is the lesser of 10% of the purchase price or \$8,000. For purchases after November 6, 2009, any individual who has maintained the same principal residence for any 5-consecutive year period during the 8-year period ending on the date of the purchase of a subsequent principal residence is considered a first-time homebuyer and qualifies for a maximum credit of \$6,500. This credit is not required to be paid back unless the home is sold or is no longer the primary residence within three years of purchase. The credit may not be available to taxpayers who have adjusted gross income in excess of certain threshold amounts.

Capital Gains

First effective in 2009, a principal residence sold after 2008 may be subject to capital gains tax if the residence was used as *other than a principal residence* (for example a vacation home, second home, rental property) *after* 2008 even where the total gain doesn't exceed the home sale exclusions.

Energy Efficiency

When it comes to tax time, it pays to be green

Electric Vehicles

There is a new credit for qualified plug-in electric drive motor vehicles acquired after 2008 and before 2015. The credit primarily depends on the battery's kilowatt hour capacity and the vehicle's weight. This applies only to vehicles manufactured primarily for use on public streets, roads and highways. Typically if a vehicle qualifies for the credit the manufacturer will make available its certification of qualification.

Efficient Home

The energy-efficient home improvement credit returns in 2009 and 2010 (no credit in 2008) for qualified improvements (including energy efficient insulation, doors, windows, roofs, heating/cooling systems), with an annual maximum cumulative credit of \$1,500 for tax years 2009 and 2010.

Renewable Energy

The 30% credit for qualified residential solar water heaters, solar electric generating property, geothermal heat pumps, wind energy property and fuel cell property is still in effect, but the maximum credit limits are removed for property installed after 2008. The 30% credit applies to the property and its installation. Note: Solar heat for swimming pools, hot tubs or any other medium which has a function other than energy storage does not qualify for the credit.

Businesses

Important information for those with business ownership interests

Losses

Review your partnership and S-Corporation investments for the need to increase basis to make possible a 2009 loss deduction. Dispose of passive activities before year end to free up suspended losses.

Tax Breaks

Tax breaks that may expire at the end of 2009 include:

- 50% bonus first year depreciation for most new equipment and software.
- an extraordinarily high \$250,000 expensing limitation.
- the research tax credit.
- the five-year write-off for most farm equipment.
- the 15-year write-off for qualified leasehold improvements, qualified restaurant buildings and improvements and qualified retail improvements.

Domestic Production

The Domestic Production Activities deduction for businesses continues in 2009 and 2010. This tax deduction is only available to certain industries including construction, manufacturing, software development, engineering and architectural services. The deduction is equal to a specified percentage (6% for 2008 and 2009, 9% for 2010 and thereafter) of the taxpayer's "qualified production activities income", not to exceed 50% of the W-2 wages allocable to domestic production gross receipts. You must pay W-2 wages to get this deduction. For pass-through entities, this deduction will be taken on the partner/shareholder's tax return.

Section 179

The business property expensing election under Code Section 179 is again \$250,000 for 2009. The phase out of this deduction begins when acquisitions for the year exceed \$800,000. As a reminder, SUV's (but not many pick-up trucks) will be limited to an expense deduction of \$25,000. As in prior years, Arizona is allowing a deduction of only \$25,000 for all business assets. The deduction is allowed only to the extent of taxable income. Any unused amounts are carried forward to future years. If Congress doesn't act, this expensing election will be reduced to \$134,000 in 2010.

Bonus Depreciation

The 50% bonus depreciation deduction is available once again for qualifying property acquired and placed in service during calendar year 2009. In other words, 50% of the cost of the property generally can be deducted for income taxes. If the deduction exceeds taxable income, the excess can be carried back up to 5 years and any remaining amounts then carried forward, or at the taxpayer's election, the loss can be carried forward. The otherwise applicable "luxury auto" cap on first-year depreciation continues to be an additional \$8,000 for vehicles that qualify.

Continued on page 5

Businesses - continued from page 4

Extensions

Remember for partnership, trust and estate income tax returns due after 2008, the maximum extension period is five months. Therefore, for calendar year partnerships, estates and trusts, the extended due date for 2009 returns will be September 15, 2010.

Shareholder Insurance

S-Corporations may continue to deduct the medical insurance premiums for shareholder-employees as an above-the-line deduction as long as the S-Corporation pays the premium directly or reimburses the shareholder-employee during the tax year after receiving proof of premium payment by the shareholder. The S-Corporation **MUST** include the premium payment in the shareholder's W-2 for that same tax year, or the premiums paid will not be deductible on the S-Corporation's tax return (Premium payments included in W-2's are not typically subject to FICA taxes).

Shareholder Salaries

S-Corporation salaries for shareholders who are active in the business remain a hot issue for the IRS. Active shareholders should receive a "reasonable" salary. Whether a shareholder-employee's compensation is "reasonable" depends on the facts and circumstances of each case. Some of the factors the IRS will consider include: (1) whether the salary is unusually higher or lower than those ordinarily paid for similar services; (2) whether the salary is reasonable in relation to the services rendered to the corporation; (3) comparison of the salary with the gross and net income of the company; and (4) whether the salary of the shareholder-employee corresponds or bears a close relationship to the stock ownership of such employee. IRS continues to audit returns based on this issue and reclassify distributions as wages subject to employment taxes.

Children & Education

Ways to minimize your taxes while maximizing your child's benefit

College Savings

The Arizona deduction (first effective in 2008) for contributions made to a qualifying 529 College Savings Plan is in effect through 2012. The deduction is limited to \$750 for single individuals and \$1,500 for married taxpayers filing a joint return.

HOPE Credit

The HOPE tuition tax credit is expanded for tax years 2009 and 2010. The credit has increased from \$1,800 to \$2,500 and is now allowed for four years of post-secondary education (previously limited to the first 2 years). Up to 40% of the credit may be refundable, and the AGI phase-out levels are increased.

Kiddie Tax

In 2009, a child is subject to the kiddie tax if either parent is alive at the end of the tax year; the child does not file a joint return for the tax year and (1) the child hasn't reached age 18 before the close of the tax year or (2) the child's earned income doesn't exceed one-half of his support and the child is age 18 or is a full time student age 19-23.

Gift / Estate Tax

You can save gift and estate taxes by making gifts using the annual gift tax exclusion. You may give \$13,000 to an unlimited number of individuals in 2009 and 2010. As in past years, paying tuition and medical expenses directly to providers does not count toward the \$13,000 limit.

Education Expenses

You may be eligible for an above-the-line deduction for qualified higher education expenses.

Roth IRA

Consider starting a Roth IRA for your kids. Just keep the gift tax in mind. Also, your children's Roth IRA contributions are limited to their earned income for the year.

Charitable Giving

How to maximize your related tax savings

- Schools** Donate to a qualifying organization by December 31 to qualify for an Arizona tax credit. Each \$1 donated lowers your Arizona tax by \$1 (subject to certain limits) and may give you a federal charitable deduction. The 2009 Public School Credit is \$400/\$200 for married/single individuals. The maximum 2009 Private School Tuition Credit is \$1,000/\$500 and the maximum 2009 Working Poor credit is \$400/\$200.
- Military** The Arizona tax credit (first effective in 2008) for contributions made to the Military Relief Fund is in effect through 2012. Arizona will allow \$1 million in total credits each year. The maximum credit per taxpayer is \$200 for single taxpayers and \$400 for married taxpayers filing a joint return.
- Non-Cash** Get all unwanted household goods to a charity before the end of the year. Keep in mind that these non-cash donations must be in good used condition or better to claim a deduction. You are responsible for keeping track of what was given and determining the value.
- Property** Consider donating property that has appreciated to charity. Doing so avoids the capital gains tax you would incur if you sold the property. However, do not donate depreciated property. Instead, sell the property and give the proceeds to charity. Then you can take the capital loss and the charitable deduction.
- Cash** You must have a cancelled check or a written receipt from the donee organization showing the date and the amount of the contribution, even if under \$250, for your contribution deduction to be allowed.
- IRA** Individuals who are 70½ can direct their IRA trustee to make tax-free IRA distributions directly to charitable organizations.

Retirement

Tax information to help you create and preserve you net worth

Roth IRA Conversion

If you believe a Roth IRA is better than a traditional IRA, and want to remain in the market for the long term, consider converting traditional IRA money invested in beaten-down stocks (or mutual funds) into Roth IRAs if eligible to do so. Keep in mind that such a conversion will increase your adjusted gross income for 2009. However, if you expect your taxable income to be unusually low this year you may be able to make this type of conversion with little or no income tax cost. For tax years beginning after 2009, the \$100,000 modified AGI limit on conversions is eliminated. Unless you elect otherwise, none of the gross income from a conversion in 2010 is included in your 2010 income. Half of the income will be included in income in 2011 and the other half in 2012.

Distributions

For 2009, there is a waiver of required minimum distributions from defined contribution plans and IRA accounts. This waiver is currently in effect only for 2009.

Estate Plan

Estate planning is an ongoing process so be sure to review and update your estate plan on a regular basis. Consider exhausting your lifetime gift tax exemption. Doing so may lower future appreciation and earnings.

Tax Rates & Limits

Schedules and more to answer your basic questions

2009 limits

The business standard auto mileage deduction for 2009 is 55 cents.

The Social Security wage limit is \$106,800 for 2009. The employee and employer rates are 6.20% while the self-employed rate is 12.40%.

There is no wage limit on the Medicare tax. The employee and employer rates are 1.45% while the self-employed rate is 2.90%.

2009 individual income tax rates

Regular tax brackets

Tax rate	Single	Head of household	Married filing jointly or surviving spouse	Married filing separately
10%	\$ 0 - \$ 8,350	\$ 0 - \$ 11,950	\$ 0 - \$ 16,700	\$ 0 - \$ 8,350
15%	\$ 8,350 - \$ 33,950	\$ 11,950 - \$ 45,500	\$ 16,700 - \$ 67,900	\$ 8,350 - \$ 33,950
25%	\$ 33,950 - \$ 82,250	\$ 45,500 - \$ 117,450	\$ 67,900 - \$ 137,050	\$ 33,950 - \$ 68,525
28%	\$ 82,250 - \$ 171,550	\$ 117,450 - \$ 190,200	\$ 137,050 - \$ 208,850	\$ 68,525 - \$104,425
33%	\$171,550 - \$372,950	\$190,200 - \$372,950	\$ 208,850 - \$ 372,950	\$104,425 - \$186,475
35%	Over \$372,950	Over \$372,950	Over \$ 372,950	Over \$186,475

AMT brackets

Tax rate	Single	Head of household	Married filing jointly or surviving spouse	Married filing separately
26%	\$ 0 - \$175,000	\$ 0 - \$175,000	\$ 0 - \$ 175,000	\$ 0 - \$ 87,500
28%	Over \$ 175,000	Over \$ 175,000	Over \$ 175,000	Over \$ 87,500

AMT exemption

	Single	Head of household	Married filing jointly or surviving spouse	Married filing separately
Exemption	\$ 46,700	\$ 46,700	\$ 70,950	\$ 35,475
Phaseout'	\$112,500 - \$299,300	\$112,500 - \$299,300	\$ 150,000 - \$ 433,800	\$ 75,000 - \$216,900