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Client Information Bulletin

August 2009

Handle Curves for New-vehicle Deductions

How to qualify for a tax bargain

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Background: If you purchase a qualified vehicle after February 16, 2009, and before January 1, 2010, you may deduct the sales and excise taxes attributable to the first $49,500 of the vehicle's price. For this purpose, "qualified vehicles" include passenger cars, light trucks, motorcycles and sport utility vehicles (SUVs) weighing no more than 8,500 gross pounds. Motor homes are also eligible for this deduction.

This tax break can only be claimed by the initial purchaser of the vehicle. In addition, it is not available for used vehicles, only new ones. It is not official if the deduction can be claimed for multiple vehicle purchases, but it is logical that the deduction would be allowed for any purchase up to $49,500. The IRS is expected to issue guidance soon.

Note that the new deduction is especially valuable because it is claimed "above the line" on your return (i.e., it is used to arrive at AGI). Therefore, it can result in other tax return benefits.

However, there is a major drawback to the deal: The deduction is phased out if your modified AGI (MAGI) exceeds a specified threshold. The phaseout begins at $125,000 of MAGI for single filers and $250,000 for joint filers. Once your MAGI exceeds $135,000 or $260,000 of MAGI, respectively, you cannot claim any deduction.

Furthermore, the new deduction must be coordinated with the existing optional deduction for sales tax. Essentially, you can claim one of these tax breaks, but not the other.

How it works: Under current law, you may choose to deduct state and local sales taxes instead of deducting state income tax. The sales tax deduction may be based on actual expenditures (if you have kept proper records) or a state-by-state table provided by the IRS. The sales tax on certain "big-ticket items" like cars may be added to the table amount. If you elect this option, you cannot also deduct the same sales tax attributable to a qualified new-vehicle purchase.

Should you opt for the new-vehicle deduction or the sales tax deduction? It depends on your particular circumstances. Residents of states with

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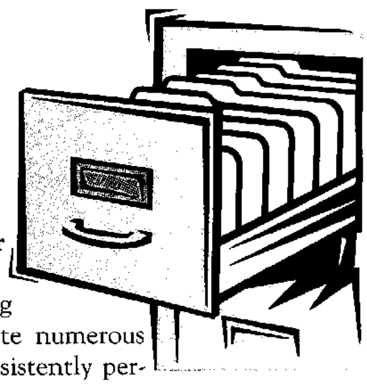
high income tax rates may bypass the optional sales tax deduction anyway. On the other hand, if you would not benefit from the new-vehicle deduction under the phase-out rule, you might elect the optional sales tax deduction.

Finally, you should also be aware that the new-vehicle deduction is allowed in the computation of the alternative minimum tax, but the optional sales tax deduction is not. This could have an impact on your tax situation.

Best approach: *Seek professional guidance. The potential tax benefits should be considered as part of your car-buying decision.*

Keeping Performance Files in Order

Maintain personnel records for protection



Do you have a "problem" employee who is habitually late or constantly disruptive? At some point, when you are particularly fed up, you may decide to end the employment. However, you could face repercussions later if you have not properly documented the reasons behind the termination.

Practical suggestion: Establish a performance file for each and every employee. The file should include records of meetings with employees (e.g., annual salary reviews), as well as notations of unusual behavior and other occurrences during the year. This file will be invaluable in case you are ever targeted for a wrongful termination lawsuit.

When you are assembling information for a performance file, consider the following points:

♦ **Be consistent.** If you write up one employee for a certain type of behavior, you must do so for other employees. Similarly, if you "look the other way" when a favorite employee acts the same way, you should ignore the behavior for all employees. Refer to your files to see how you have treated comparable situations in the past.

♦ **Don't let your emotions cloud your judgment.** Avoid personal impressions or unsubstantiated conclusions such as "I think she's a complainer," or "he hasn't performed the same since his divorce." If a statement is inappropriate in general conversation, it is not appropriate for the file either.

Give Us A Call!

*Do you have any questions or comments about **Client Information Bulletin** or your individual situation? Please do not hesitate to contact our office. We would be glad to serve you in any way we can.*

♦ **Document behavior with specific data.** Instead of simply stating that "she has been late numerous times," or "he has consistently performed substandard work," it is better to provide details. For instance, the file may indicate that the employee left work with no explanation at 10 a.m. on July 1, 2009.

♦ **Address issues head on.** For example, if tardiness has been a recurring problem, document the consequences for failure to correct the behavior. Provide dates when warnings have been given about tardiness, and note when the employee was informed that termination of employment would follow the next unexcused occurrence.

♦ **Accentuate the positive as well as the negative.** The file should also include references to extraordinary work and accomplishments. Try to present a proper balance. If the file is completely one-sided, it may strengthen an employee's discrimination claim if he or she is eventually fired.

♦ **Don't omit critical facts.** In fairness to employees, there may be extenuating circumstances that can mitigate certain types of behavior. Be sure to provide a complete and unbiased summary.

♦ **Have each employee read and sign any documents that are going into his or her personnel file.** If the employee refuses to sign a particular document, indicate that fact in the file.

♦ **Last but not least, follow up.** Employees should be allowed to respond in writing to the comments you have made. Include the responses in the file to complete a balanced presentation.

Naturally, the performance file will also be useful for positive employee reviews. It can help you determine salary increases if your company is prospering.

Learn Tax "Pros and Cons" About Munis

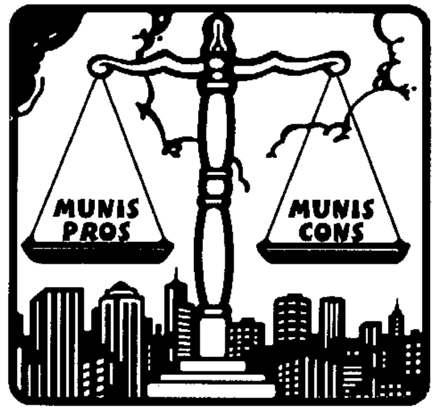
Balance factors in municipal bond investments

Although each type of investment is unique unto itself, there is one thing that generally separates municipal bonds ("munis") from the rest of the pack: taxes. Specifically, munis have three distinct tax advantages over most other comparable investments. Furthermore, a new tax break in the economic stimulus act adds some icing on the cake.

The three main tax breaks for munis are as follows:

1. Muni interest is generally exempt from federal income tax. In other words, although a muni may yield a lower return than a comparable taxable investment, the actual return from the muni may be greater. Example: For an investor in the 28% tax bracket, a municipal bond with a yield of 6% is the equivalent of a taxable investment with a yield of 8.33%. **Note**: These figures are for hypothetical purposes only and are not indicative of any particular investment or yield.

2. Muni interest may also be exempt from state income tax. For instance, if an investor pays a combined (federal and state) 38% tax on his or her top dollars, a 6% muni issued by the investor's state is equivalent to a 9.68% return on a taxable investment.



3. Certain itemized deductions and personal exemption amounts are phased out for high-income taxpayers, depending on their AGI. However, tax-free interest does not count toward your AGI, so investing in munis can help you minimize or avoid the reduction.

On the downside, you should also consider other factors concerning municipal bonds, although one of these potential disadvantages has been eliminated this year.

♦ **Alternative minimum tax**: The interest earned on a certain class of municipal bonds—called "private activity" bonds—is exempt from regular income tax but is treated as a tax preference item for purposes of the alternative minimum tax (AMT). Such investments could effectively increase your overall tax liability. **New tax break**: The new stimulus law suspends this rule for 2009 and 2010. During these two years, investments in any type of municipal bond—including private activity bonds—are excluded from the AMT computation.

♦ **Social Security benefits**: Up to one-half of an individual's Social Security benefits is subject to tax if one-half of the benefits plus modified AGI (MAGI) exceeds certain thresholds. For this purpose, MAGI includes municipal bond income. In other words, an investment in municipal bonds can increase the tax on Social Security benefits.

♦ **Call features**: Most munis have call provisions that allow the issuer to redeem the bonds before maturity. The exact provisions can differ significantly between bonds, so carefully review these provisions before purchasing a bond.

♦ **Redemptions**: Consider the possibility that you may have to pay income tax on a municipal bond when you redeem it if you bought the bond at a discount from par value.

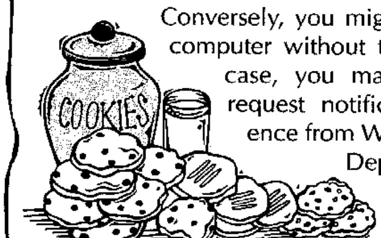
If you are interested in investing in munis, conduct a careful review of the authority issuing the bonds. Also, remember to keep your portfolio diversified to reduce the risks associated with any particular investment.

Cutting Down on Computer Snacks

If your computer is gobbling up a big batch of "cookies" each day, you may want to put it on a stricter diet.

Details: The identification numbers that track the activities on Web sites you visit—known as cookies—are commonly passed on to your computer. A Web site that places a cookie keeps a database of all the computers visiting that particular site. While some sites track their cookies internally, others track your cookies, mainly for advertising purposes, wherever you travel on the information highway.

Note that cookies are not always bad for you. For example, if a particular Web site tracks your activities, it may offer goods or services similar to the offerings you have investigated before. This may simplify or even improve your online shopping habits.



Conversely, you might prefer to use your computer without this intrusion. In that case, you may refuse cookies or request notification of their presence from Web sites that you visit. Depending on the site, your access may be restricted when you make this choice.

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