

AVIATOR TAX TALK

CATERING TO THE UNIQUE TAX NEEDS OF THE AVIATION PROFESSIONAL

WINTER 2008-2009



Susannah W. Walsh, CPA

Almost every day, there's another news report about the slowing economy. The crisis in the financial markets, the housing slump and the credit crunch are straining our fragile economy.

Consumer and business spending is down and everyone it seems is looking for ways to make their money go further. Congress has been reacting in large measures. Likely the most impactful piece of tax legislation in 2008 for you was the Emergency Economic Stabilization Act of 2008 (EESA), signed into law on October 3, 2008. It was the \$850 billion financial markets rescue package, but included more than \$150 billion in tax incentives.

This issue hits the highlights of the recent tax changes and considerations of tax planning.

ANOTHER "PATCH" TO THE ALTERNATIVE MINIMUM TAX (AMT)

It seems I am always talking or writing about the dreaded AMT. It is important to many of you since, without a patch, it could burden you with, on average, \$2,000 additional tax. Thankfully, the Emergency Economic Stabilization Act of 2008 "EESA" (part of the "Bail-Out" package in October 2008) included among its many provisions the so-called alternative minimum tax "patch". For the 2008 tax year, the AMT exemption amounts are raised to once again insulate most middle-income taxpayers from the reach of the AMT. The patch is only for 2008. Hopes are high that in 2009 Congress finally will face up to the need to find a permanent solution to the AMT and pass AMT reform rather than yet another patch.

"TAX EXTENDERS" EXTENDED AGAIN!

Many of the tax incentives in the EESA rescue are commonly known as "extenders". These are popular but temporary tax breaks which expire every year or two years unless Congress extends them. Some of these temporary tax cuts have been extended so many times that individuals and businesses mistakenly believe they are permanent when, in reality, they are still temporary. The temporary nature of these incentives makes tax planning challenging because you may be able to take a credit or deduction in one year but not in a future year.

Originally, the EESA rescue package did not include the "extenders". Only after the House defeated the original rescue



package on September 30 did the Senate add these "sweeteners" to win more support for the rescue plan. The Senate's strategy worked. On October 3, the House passed the Senate's version of the rescue plan including the tax incentives. President Bush signed the bill into law later that day.

Many of individual incentives are familiar. The new law extends the state and local sales tax deduction (which you can take in lieu of deducting state and local income taxes); higher education tuition deduction, teachers' classroom expense deduction, and tax-free distributions from IRAs for charitable purposes. In all, more than a dozen important tax breaks have been given new life by being extended. These incentives are now available for 2008 and 2009.

QUESTIONS? CALL TOLL FREE 877.626.8299

All topics provide general information only. Contact a tax professional to see how they may apply to your tax situation.

VACATION HOME CONVERSIONS



Gain from the sale of a principal residence that is allocable to periods of "nonqualified use" can no longer be excluded from the taxpayer's gain realized on its sale. A technique that has been used by many vacation home owners is to eventually convert that second home into a principal residence before its sale and claim a full \$250,000 principal residence exclusion (\$500,000 for joint filers) on the gain. Due to a loophole closing provision in the 2008 Housing Assistance Tax Act, any conversions can no longer shelter the portion of that gain allocable to post-2008 appreciation.

RESIDENTIAL ENERGY PROPERTY - BACK AGAIN IN 2009

The high cost of energy is encouraging many people to make energy efficient improvements to their homes. If you are contemplating installing energy-efficient doors and windows, water heaters or other items in 2008, you may want to wait until 2009.

Several years ago, Congress created a residential tax credit for installing energy efficient doors and windows, water heaters and similar items. The nonrefundable lifetime credit could reach as high as \$500. However, the credit expired at the end of 2007. A recent tax change reinstates the credit for 2009 through 2016. The credit is also expanded to include certain stoves that use renewable plant-derived fuel along with other enhancements.

MILITARY TAX RELIEF

Many of my clients are active, reserve, or retired military. Let's take a quick look at the highlights of tax incentives in the military tax relief act (the Heroes Earnings Assistance and Relief Act). These tax breaks are targeted to servicemen and women on active duty, reservists who are called to active duty, military families, and employers. Here are some of the highlights of the military tax relief act:

Combat pay. Tens of thousands of U.S. troops are serving in combat zones around the world. Combat pay is tax-free. However, this tax-free treatment can cause some military families to lose eligibility for the earned income credit. The military tax relief act treats combat pay as earned income for purposes of the earned income credit. This treatment is permanent and is also retroactive to December 31, 2007.

Retirement and other plans. When a reservist is called to active duty, he or she may want to make an early withdrawal from a 401(k) plan or other retirement arrangement. Generally, there is an early-withdrawal penalty. The military tax relief act permanently waives this penalty for reservists who are called to active duty for at least 179 days. The reservist generally has two years after the end of the active duty period to repay (in one or more contributions) the amount of the distribution.



TAX PLANNING

Our unprecedented financial crisis looms large. This crisis generates tax loss situations that we may not have faced in recent years, as well as a more urgent need to maximize current income that involves taking steps to minimize tax payments whenever possible. Now is an ideal time to review your tax situation and evaluate strategies that may help minimize your tax bill. Tried and true tax planning techniques can help virtually every taxpayer save money; some, of course, more than others.

How much you can save depends on your individual circumstances, but examination of the following general areas is worth a look --in addition to considering the tax impact of any special circumstances in which you might find yourself this year: **Income shifting, Deduction management, Portfolio timing, Retirement planning, New opportunities.**

I encourage you to consult with me on a regular basis for tax planning techniques, significant life and economic changes, and other issues that will impact your tax situation. I am available year round to assist you on an individual basis.