



MEMO

Date: December 10, 2008
From: Jonathan D. Weir, JD*
To: WFR Clients and Friends
Subject: Year End Planning

As the end of the year approaches, it is a good time to think of planning moves that will help lower your tax bill this year and possibly the next. Factors that compound the challenge include the stock market's recent swoon, the difficult economic climate we're in right now, and the possibility that there will be tax changes in the works next year.

The indisputably good news we are certain of is that Congress has acted to “patch” the AMT problem for 2008, has retroactively reinstated a number of tax breaks (such as the option to deduct state and local general sales tax instead of state and local income tax and the above-the-line deduction for higher education expenses), and has created new tax breaks that go into effect for the 2008 tax year (including a tax credit for first-time homebuyers, a nonitemizers' deduction for state and local property tax and a nonitemizers' deduction for certain disaster losses). For 2008, businesses enjoy tax breaks such as a beefed-up expensing option under Code Sec. 179, a 50% bonus first-year depreciation write-off for most new machinery, equipment and software placed into service this year.

We have compiled a checklist of actions that may help you to save taxes if you act before year-end. Not all actions will apply in your particular situation, but you will likely benefit from many of them. Working with your tax advisor, you can narrow down the specific actions that you can take to tailor a particular plan for your circumstances. In the meantime, please review the following list of potential tax-saving moves:

Realize losses on stock while substantially preserving your investment position. There are several ways this can be done. It may be advisable for us to meet to discuss year-end trades you should consider making.

Postpone income until 2009 and accelerate deductions into 2008 to lower your 2008 tax bill. This strategy may enable you to claim larger deductions, credits, and other tax breaks for 2008 that are phased out over varying levels of adjusted gross income (AGI). These include IRA and Roth IRA contributions, conversions of regular IRAs to Roth IRAs, child credits, higher education tax credits, the above-the-line deduction for higher-education expenses, and deductions for student loan interest. Postponing income also is desirable for those taxpayers who anticipate being in a

lower tax bracket next year due to changed financial circumstances. Prior to implementing any deferral or acceleration strategy your tax advisor must analyze your AMT exposure.

If you believe a Roth IRA is better than a traditional IRA, and you desire to remain in the market for the long term, consider converting traditional-IRAs into Roth IRAs if eligible to do so. Keep in mind, however, that such a conversion will increase your adjusted gross income for 2008. Taxes for a conversion must be paid from non IRA funds for this strategy to work.

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

Estimate the effect of any year-end planning moves on the alternative minimum tax (AMT) for 2008, keeping in mind that many tax breaks allowed for purposes of calculating regular taxes are disallowed for AMT purposes. This includes the deduction for state property taxes (including taxes on your residence), state income taxes (or state sales tax if you elect this deduction option), miscellaneous itemized deductions, and personal exemption deductions. As a result, in some cases, deductions should be deferred rather than accelerated to keep them from being lost because of the AMT.

If you are thinking of making energy saving improvements to your home, such as putting in extra insulation or installing energy saving windows, postpone your move until 2009. A credit of up to \$500 may be available for such improvements if made next year (but not this year).

Substantial tax credits are available for installing energy generating equipment (such as solar electric panels or solar hot water heaters) to your home. The credits are available whether you spend the money this year or next, but if you're installing solar electric property, and will be spending more than \$6,667, the credit will be larger for expenses made in 2009 rather than 2008.

Businesses should consider making expenditures that qualify for the up to \$250,000 business property expensing option for assets bought and placed in service this year; the maximum expensing amount will drop to \$133,000 for assets bought and placed in service next year (higher expensing amounts apply to certain specialized assets). Businesses also should consider making expenditures that qualify for 50% bonus first year depreciation if bought and placed in service this year. This bonus write-off generally won't be available next year (some exceptions apply, such as for businesses affected by Presidentially declared disasters).

If you are self-employed and haven't done so yet, set up a self-employed retirement plan.

You can save gift and estate taxes by making gifts sheltered by the annual gift tax exclusion before the end of the year. You can give \$12,000 in 2008 to an unlimited number of individuals but you can't carry over unused exclusions from one year to the next.

If you are age 70 1/2 or older, own IRAs (or Roth IRAs), and are thinking of making a charitable gift before year-end, consider arranging for the gift to be made directly by the IRA trustee. Such a transfer can achieve important tax savings.

These are just some of the year-end steps that can be taken to save taxes. By contacting us, we can work with you and your tax advisor to tailor a particular plan that will work best for you.

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