

# Johnston Harrington, P.C.

## Certified Public Accountants

Robert L. Johnston, CPA (Retired)  
Deron R. Harrington, JD, CPA  
Anthony D. Carbone, CPA  
Marilyn Allison, CPA

November 14, 2007

Dear Johnston Harrington, P.C. Client:

As the end of the year approaches, it is a good time for you to engage in tax planning, which will be more challenging than usual because of uncertainty over whether and how Congress will extend AMT relief to avoid millions more becoming entrapped by it in 2007, and whether Congress will extend a number of important tax breaks expiring at the end of 2007.

For individuals, these include the option to deduct state and local sales and use taxes, the above-the-line deductions for qualified tuition expenses and educator expenses, the tax credit for making qualifying energy saving improvements to a home, such as insulation and energy-saving windows, and the option for individuals who have attained age 70-1/2 to exclude up to \$100,000 a year for otherwise taxable distributions from an IRA (or a Roth IRA) that are paid directly to a qualifying charitable organization by the IRA trustee. For businesses, tax breaks that will expire at the end of this year unless they are extended by Congress include the research tax credit, faster writeoffs for leasehold and restaurant improvements, and enhanced deductions for certain contributions to charity.

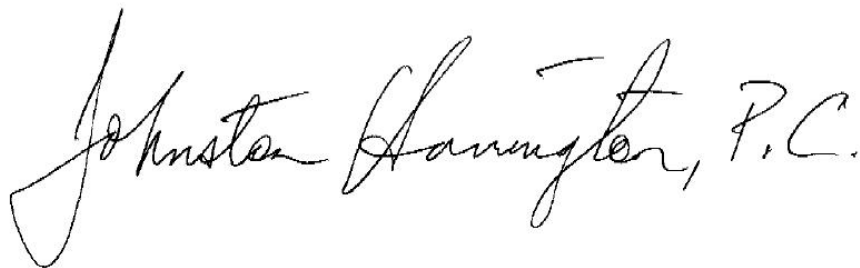
We have compiled a checklist of actions that may help you to save taxes if you act before year-end. Not all actions will apply in your particular situation, but you will likely benefit from many of them. We can narrow down the specific actions that you can take once we meet with you to tailor a particular plan. In the meantime, please review the following list and contact us at your earliest convenience so that we can advise you on which tax-saving moves to make:

- Increase the amount you set aside for next year in your employer's health flexible spending account if you set aside too little for this year. Don't forget you can set aside amounts to get tax-free reimbursements for over-the-counter drugs, such as aspirin and antacids.
- If you have any capital gains or losses from sales of stock or other capital assets or you have stock or other capital assets that are ripe for sale, it may be advisable for us to meet to discuss how you can best coordinate timing your gains and losses to minimize tax on your gains and maximize the tax benefit from your losses.
- If you or a family member are thinking of selling appreciated stock or other capital assets, and your (or their) income isn't taxed at a rate higher than 15%, it may pay to hold off on the sale until 2008. That way you may pay a zero tax on the gain; if you sell this year, you will pay a 5% tax on the gain.
- It may be advantageous to try to arrange with your employer to defer a bonus that may be coming your way until 2008.
- If you own an interest in a partnership or S corporation you may need to increase your basis in the entity so you can deduct a loss from it for this year.
- Consider using a credit card to prepay expenses that can generate deductions for this year.
- If you are thinking of making energy saving improvements to your home, such as putting in extra insulation or installing energy saving windows, consider doing so before year end in order to qualify for a tax credit that may not be available after 2007.
- If you are thinking of buying a hybrid vehicle eligible for a tax credit, purchase it before year-end.
- You may want to pay contested taxes to be able to deduct them this year while continuing to contest them next year.

- Business clients also should consider making expenditures that qualify for the \$125,000 business property expensing option.
- You may want to settle an insurance or damage claim in order to maximize your casualty loss deduction this year.
- You may be able to save taxes this year and next year by applying a bunching strategy to “miscellaneous” itemized deductions, medical expenses and other itemized deductions.
- Those facing a penalty for underpayment of estimated tax may be able to eliminate or reduce it by increasing their withholding.
- Self-employed individuals should consider setting 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 2007 to an unlimited number of individuals but you can't carry over unused exclusions from one year to the next.
- This year, the kiddie tax rules apply to kids under age 18; next year they will also ensnare most children age 18 and most full time students age 19 through 23. If your child holds appreciated stock, and isn't in kiddie tax territory this year but will be in 2008, consider having him or her sell the stock this year. In many cases this will result in a 5% tax on the gain, instead of 15% if the sale is postponed till next year.
- If you're thinking of donating a used auto to charity, you may want to inquire whether the charity plans to sell the car or use it in its charitable activities; the latter may yield a bigger deduction for you.
- If you are contemplating marriage or divorce consider how marriage penalties could affect you.
- If you are age 70-1/2 or older, and own IRAs (or Roth IRAs), and are thinking of making a charitable gift before year-end, arrange for the gift to be made directly by the IRA trustee. Such a transfer can achieve important tax savings but it won't be available after 2007 under current law.
- If you are receiving Social Security benefits, there are a number of steps you can take to reduce or eliminate tax on your benefits. Consider asking your employer to increase withholding of state and local taxes to pull the deduction of those taxes into this year (but only if doing so won't cause an AMT problem).
- Consider extending your subscriptions to professional journals, paying union or professional dues, enrolling in (and paying tuition for) job-related courses, etc., to bunch into 2007 miscellaneous itemized deductions subject to the 2%-of-AGI floor.
- Depending on your particular situation, you may also want to consider deferring a debt-cancellation event until 2008, electing to deduct investment interest against capital gains, and disposing of a passive activity to allow you to deduct suspended losses.

These are just some of the year-end steps that can be taken to save taxes. Again, by contacting us, we can tailor a particular plan that will work best for you.

Very truly yours,



*Johnston Hamington, P.C.*