The Bankler Report

November 5, 2008

INTRODUCTION

President-elect Obama intends to let the Bush tax cuts expire, which will raise tax rates back to 39.6%.

Post-Election and Year-End Tax Planning Ideas

While our firm is a strong proponent of deferring taxes, we suggest you might consider accelerating income and/or deferring deductions. If your business is utilizing our firm's multiple-entity concept (including a "C" type Corporation), then you already have the structure in place to accomplish this.

If you still have unrealized gains (securities, real estate, etc.), you might consider selling them to a controlled (or friendly) buyer on the installment basis, and file an extension for your tax return. If Congress does change capital gains rates, we would probably know by summer the full extent of the changes (such as effective date and grandfathering in prior installment sales). With the benefit of hindsight, we would know how to handle these transactions on the 2008 tax returns. However, care must be exercised in utilizing this type of planning technique because capital gain treatment is NOT ALLOWED when selling depreciable property to "related" entities!

The Social Security Administration has released a breakdown of the percentage of 2007 W-2s by income. 94.1 % of those taxpayers earned less than $100,000. The wage cap in 2007 was $97,500. Fixing Social Security (and/or raising funds for the federal government) will probably entail removing the cap on Social Security wages.

Is your business structured so that owners can receive non-wage income? While S Corporations allow such flexibility, the IRS has been winning cases when the owners were paid unrealistically low (or no) wages.

A Democratic Congress will probably look to raise additional revenue, as they operate under the "pay-go" rules. One easy target is the exclusion of the profit from the sale of your primary residence (currently $250,000 [single], $500,000 [married filing joint]). Consider selling your residence to a friendly buyer, electing installment sale treatment, and buying it back in 2010, which will step up your basis in the residence.

Should you wish to continue deferring income taxes, Congress increased the amount of furniture and equipment that can be expensed from $125,000 to $250,000 for 2008 and 2009. I would be happy to meet with you to discuss various planning options.

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