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From my office window I can see the rain pooling in the parking lot, a grim reminder that we're all on the verge of another Oregon winter. Too depressing; let's talk about something fun, like taxes.

THE NEWS IN BRIEF

◆ **Special Election Will Settle State Tax Hikes:** Oregonians go to the polls January 26 to vote on ballot measures affecting individual and corporate taxes. . . Measure 66 hikes individual tax rates an additional 1.8 percent on joint income over \$250,000 and an extra two percent on income above \$500,000. . . the measure also eliminates income tax on the first \$2,400 of 2009 unemployment benefits. . . Measure 67 raises the minimum tax to \$150 for S corporations and partnerships. . . C corporations with over \$500,000 in revenue would pay a minimum tax of 0.1 percent of Oregon gross revenue and face higher tax rates. . . the provisions are effective for the 2009 tax year.

◆ **Health Care Reform Marches On:** Nothing official yet, but here are some tax changes currently attached to pending legislation. . . a new 40% tax for insurers on "excess" health care coverage. . . employers would be required to report the value of health benefits on Form W-2. . . the floor on deductible medical expenses would increase from 7.5 to 10 percent of adjusted gross income. . . allowable contributions to health flexible spending accounts in cafeteria plans would be capped at \$2,500. . . the penalty for nonqualified contributions to health savings accounts would be increased from 10 to 20 percent.

◆ **Shrinking Federal Tax Base?** CNN Money.com reports that more US households pay no federal income tax. . . 47 percent of households—some 71 million in all—will not owe any income tax for 2009. . . look for the trend to reverse in the future; financial pressures exerted by things like economic stimulus and health care reform will likely lead to an expanded tax base.

YEAR END TAX PLANNING

This is the time of year we meet with many of our clients to discuss tax return projections and year end tax strategies. Some of the ideas we kick around include:

◆ **Tax Qualified Retirement Accounts.** Contributions and earnings on traditional IRAs and company retirement plan accounts are generally sheltered from current tax. . . Roth IRA accounts offer no deduction for contributions but hold a promise of tax free earnings. . . relaxed rules now allow all taxpayers to convert traditional, SEP and some SIMPLE IRAs to Roth IRAs.

◆ **Harvesting Capital Losses.** Many investments in non-qualified accounts have lost value recently. . . net capital losses of up to \$3,000 per year can offset other taxable income such as wages. . . excess losses are carried forward to offset other income in future years.

◆ **Pay Those State Taxes Now, Maybe.** Paying 2009 Oregon income taxes by December 31 may provide an additional federal tax

deduction. . .this strategy can backfire for anyone facing alternative minimum tax.

◆ **Other Year End Tax Tactics.** Contributing to the Oregon College Savings Plan can save residents up to \$360 of state income tax. . .taxpayers can immediately deduct up to \$250,000 of fixed asset purchases used in a business. . .spend down your cafeteria plan account if the plan has a December 31 "use it or lose it" deadline. . .purchase a new home by December 1 and potentially reap a refundable tax credit of up to \$8,000.

Call us today if you'd like to schedule a year end tax planning session.

HOLD ON - BUT FOR HOW LONG?

We're frequently asked by clients how long they should retain their business records. Here are a few guidelines:

◆ **Income Tax Returns.** Minimum four years, longer if you're a pack rat. . .you can obtain copies of federal tax returns up to six years old by filing IRS Form 4506 and paying a \$57 processing fee. . .abbreviated tax return transcripts are available free for returns up to three years old.

◆ **Tax Return Supporting Documents.** At least four years, as the IRS generally has up to three years from the date the return is filed (or the date due, if later) to audit a return and assess additional tax. . .the IRS can take up to six years to audit returns with unreported income that's more than 25% of gross income. . .there's no limit on the time the IRS can audit a false or fraudulent return. . .documents supporting cost of long term assets with potential tax consequences (homes, securities, etc.) should be kept permanently.

◆ **Personal Records.** Up to you, but here are some suggestions gleaned from a website that looked official (so you KNOW it's trustworthy). . .accident reports and real property records: six years. . .medical bills, credit card statements, expired insurance policies: three years. . .important correspondence, insurance policies, legal records, retirement and pension records: keep forever.

Anyone else surprised at their property tax statement? The real market value of my home, a rural property outside the city limits, dropped almost 25 percent. Not taking into account all the maintenance costs, my residence has increased in value at an annual rate of about 6.2 percent since we bought it some 20 years ago. By contrast, the Dow Jones Industrial Average over the same period grew by an annual rate of 8.3 percent.

Please note that our office will be closed for remodeling all day on Friday, November 6. We will reopen to new carpet and paint fumes Monday, November 9 at 8 a.m.

We hope all of you get to spend lots of time with your family members over the coming weeks and months. Best holiday wishes to all of you, and many happy returns.