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## Tax Strategies for Individuals

### Conversion to a Roth IRA from a Traditional IRA

It may make sense to consider the idea of converting your current traditional (deductible or nondeductible) IRA to a Roth IRA. With the decline in value of your traditional IRA, due to the current stock market conditions, the time to convert to the Roth IRA may be now. A decline in the market value of your IRA would lead to lower value that is subject to income tax. If your modified AGI is not more than \$100,000, and your filing status is not married filing separately, you can convert an existing traditional IRA to a Roth IRA. An early distribution penalty will not apply on the conversion; however, normal income taxes will apply.

### Benefits of a Roth IRA

- The entire value of the Roth IRA balance (including earnings) will be tax-free when funds are withdrawn by you and/or your beneficiary.
- No RMD (Required Minimum Distributions) beginning at age 70 ½ as is necessary with a traditional IRA.

Please contact us to see if the conversion is right for you. The conversion may put you in a higher tax bracket that may limit the ability for you to receive certain other tax deductions and credits. By providing for some advanced planning, we will be able to help quantify your benefits.

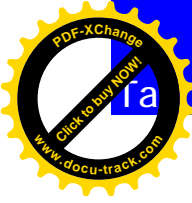
### Kiddie Tax

The kiddie tax now not only applies to children under age 18 but extends to children ages 18 years old or **full-time students ages of 18 but under age 24**, but only if such children's earned income does not exceed one half of their support. Steps taken now may incur only limited tax savings once the child is no longer a kiddie. (See page 4 of our tax planning guide)

### First Time Home Buyer Credit

For individuals purchasing a principal home residence between April 8, 2008 and July 1, 2009, a first time homebuyer tax credit of up to \$7,500 is available as part of The Housing Assistance Act of 2008. You can qualify for this first time homebuyer credit for the purchase of the principal residence as long as you haven't owned a principal residence in the U.S. during the three years before your home purchase. For married individuals both you and your spouse must meet the three year rule.

The first time homebuyer tax credit phases out for taxpayers with modified AGI between \$75,000 and \$95,000 for single filers and \$150,000 and \$170,000 for joint filers. However, the credit is in the form of a loan and will need to be repaid over a 15 year period. The repayments are interest free. If the home is sold prior to the end of the 15 year payback period, generally the unpaid remaining credit will need to be repaid in the tax year of the sale.



## Wash Sales Regarding Real Estate and Loss Deduction Allowed

A wash sale relating to real estate means a sale of a property at a tax loss followed by a purchase of an identical property. Typically, this leaves the seller in the same place as if the original sale never happened.

The Code disallows any loss deduction from the sale of shares of stock or securities for the following:

- During a 61 day period the investor acquires a substantially identical stock or securities.
- The 61 day period is 30 days before the sale and 30 days after a sale.

**Real estate sales do not adhere to the same rules as stock.** A taxpayer can sell a piece of real estate and purchase similar or like real estate and be allowed a deduction for the loss. Please note that if the sale is an exchange (Code Section 1031) for tax purposes it will produce a tax loss disallowance. An exchange has taken place when the sale and subsequent purchase involved the same parties in a short period of time and the sale would not have happened except for the purchase to be made.

## New Tax Rates on Dividends

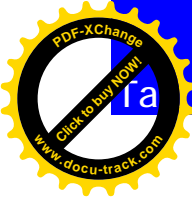
A married couple could receive as much as \$65,100 of capital gains and dividends tax-free in 2008. You must have no other income (net of personal exemptions and deductions).

If you have capital gains this year and you are in the 15% tax bracket, there will be no tax for federal purposes for 2008. Please contact us to discuss this opportunity.

## Selling off Under Performing Stocks

Is it time to sell off those under performing stocks? Keep some points in mind regarding tax savings:

- If your losses exceed your gains, then the net loss is tax deductible but only up to \$3,000 to offset other taxable income.
- The balance of the losses carries forward to the subsequent year as a capital loss carryforward.
- Losses may be deferred under a wash sale if you repurchase the same investment within one month of selling.



## Selling off Under Performing Stocks

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Year-end gifts of stock:

- Gifts to a relative now may be a better opportunity than waiting until the stock price rises. One would sell stock in which there are losses first to receive the capital loss tax benefit and then gift the proceeds.

Contact our office to discuss this unique opportunity.

## Energy Credits – Home Improvements

Did you know that a tax credit is available for certain improvements to your home? A maximum credit up to \$500 is available for energy efficient home improvements made to your personal residence.

Some qualifying improvements include:

- Insulation
- Exterior windows
- Exterior Doors

Also a \$300 maximum credit is available for qualified heating and hot water improvements to your personal residence.

Give us a call to discuss this situation to see if you qualify.

## Alternative Minimum Tax (AMT) News

The Alternative Minimum Tax exemption amounts have been increased for 2008 to \$46,200 for single taxpayers and \$69,590 for married filing joint taxpayers.

The Emergency Economic Stabilization Act of 2008 created a provision whereby certain tax credits are allowed to reduce the individual's tax liability below the tentative AMT tax and include the following:

- Education Credits – Hope and Lifetime Learning Credits
- Child and dependent care expenses credit
- Mortgage interest credit for interest paid on certain low-income home mortgages.

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