

# George Johnson & Company Informer

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### To Our Clients and Friends:

Despite difficult economic circumstances, this has been a fast-paced summer for our firm, as we recently completed another busy audit season.

We recently opened a new office in Ann Arbor, Michigan, affiliated with Renaissance Financial Group, where we will continue to develop new business in our firm's areas of expertise.

In addition, to reward our team members for their hard work during the audit season, we visited Cedar Point amusement park, where everyone enjoyed exciting rides, great food, and beautiful weather.

As always, our commitment to training and team development remains an ongoing goal of our firm, with team members attending outside courses from the American Institute of Certified Public Accountants and the Michigan Association of Certified Public Accountants, in addition to in-house training.

Our senior team members have been especially busy recently, developing weekly, morning training sessions, coordinated by team member Kimberley Alleman. These sessions have helped keep our auditors current on the latest audit updates and new accounting pronouncements. This new training plan has achieved tremendous success, resulting in improved engagement efficiency and enhancing the orientation of new team members to the firm.

In early 2010, we plan to host informational seminars for our clients on non-profits and employee benefit plans, including a session on the new audit requirements for 403(b) plans.

We hope you enjoy this issue of *The Informer*.

Sincerely,



George G. Johnson  
Managing Director

## Review Your Investments to Increase After-Tax Returns

This is a good time of year to review and rebalance your investment portfolio. Although the recent market volatility has been disastrous for many investors, there may still be some year-end moves you can make that will cut your 2009 taxes and increase your after-tax returns. As you identify investments to buy and sell, keep the following tax implications in mind:

- Any sales you make within your retirement accounts are free of tax. If you need to trade just to rebalance your portfolio, consider doing it in your IRA or 401(k) plan.
- If you are selling investments to weed out poor performers, remember that losses can cut your tax bill. You can use capital losses to offset taxable gains, plus up to \$3,000 of other income. If you still have losses left over, you can carry them forward to use in future years.
- Not all dividends on stocks and mutual funds are taxed at the same rate. "Qualified" dividends paid by most U.S. and some foreign companies enjoy lower rates of 5% or 15%, depending on your tax bracket.
- You can often manage the size of your gain or loss when you decide to sell some, but not all, of a particular stock or mutual fund. To do this, you must have kept good records of the date and the price for each share purchase. By selling the highest cost shares first, you will minimize your taxable gain or maximize your loss. You must specify the particular shares you are selling at the time you sell.
- Do not forget to include any reinvested dividends when you calculate your cost basis for mutual fund shares.
- If you are planning to buy or sell mutual fund shares close to year-end, take the tax consequences of the fund's year-end distribution into account.
- If you want to dispose of stock that has appreciated, consider donating it to your favorite charity. You can generally claim a deduction for the appreciated value and avoid paying any tax on your gain.

## Tax-Saving Opportunities for Small Businesses

The American Recovery and Reinvestment Act of 2009, the economic stimulus law passed earlier this year, included a number of tax-saving opportunities for businesses. Because some of these tax breaks are available for a short time only, the IRS is urging small businesses to act now to benefit from the act's provisions.

- **Equipment Purchases** The \$250,000 limit for immediately expensing qualified equipment purchases was extended through 2009. The deduction is gradually reduced once annual equipment acquisitions exceed \$800,000. Both new and used equipment qualify for this tax break. Sport utility vehicles are still subject to the \$25,000 expensing limit.

In addition to the expensing option, purchases of new equipment, software, and qualified leasehold improvements can qualify for 50% first-year bonus depreciation through the end of 2009.

- **COBRA Credit** Employers providing the 65% COBRA health insurance premium for former employees claim credit for this subsidy on their quarterly or annual employment tax returns. According to the IRS, businesses can ease cash flow problems by reducing their employment tax deposits by the amount of the credit. The IRS website ([www.irs.gov](http://www.irs.gov)) provides details.

## It's Time to Start Year-End Tax Planning

An important part of our service to you is helping to identify actions you can take before year-end to minimize your 2009 income tax bill. Accelerating deductions, delaying income, contributing to retirement plans, and taking investment losses are all strategies you might want to consider. There are also tax credits that require careful planning or they may be lost. Please call us if we can be of assistance.

**Mortgage Debt Relief:** To compound the financial woes resulting from a foreclosure or other mortgage restructuring for your home, the IRS generally imposes tax when debt is cancelled. In other words, you are taxed on the amount forgiven by the lender as if you actually received it as income. However, Congress provided some relief to homeowners under the Mortgage Forgiveness Debt Relief Act of 2007.

Here are the answers to several common questions in this area:

- **What relief does the new law provide?** Generally, it excludes tax on cancellation-of-debt income realized from a foreclosure, short sale, or other mortgage restructuring. This tax break only applies to debt used to buy, build, or improve your principal residence. It is not available for vacation homes or investment property.
- **Is there a limit?** Yes. The exclusion can cover the tax due on up to \$2 million of forgiven debt (\$1 million if you are married and file separate tax returns). Any excess is taxable under the general rules.

- **How does the exclusion affect your basis in the home?**

You must reduce your basis (the amount used to determine taxable gain or loss from a home sale) by the amount of cancelled debt excluded from taxable income. For example, if a loan restructuring results in cancellation of \$50,000 of debt on a home with a basis of \$450,000, your basis is reduced to \$400,000. This could increase your taxable gain when you sell the home, although the first \$250,000 of gain (\$500,000 for joint filers) may still be sheltered by the home sale exclusion.

- **How do I know how much debt is excluded?** Your lender will send you Form 1099-C (Cancellation of Debt), showing the amount of debt forgiven and the fair market value of property relinquished through foreclosure. The lender also sends the IRS a copy of the form. The IRS encourages homeowners to check this information carefully.

- **What is a short sale?** Instead of foreclosing on a home, a lender may allow you to sell it for less than the mortgage amount and take the proceeds in full satisfaction of the debt. For instance, let's say you still have a mortgage of \$250,000 on your home, but the home's value has dropped to \$225,000. Assuming the bank agrees to a short sale and you incur \$15,000 in selling expenses, you turn over the remaining \$210,000 to the bank. The \$40,000 difference, which will be reported on Form 1099-C, qualifies for the new tax exclusion on cancellation-of-debt income.

- **Is the new tax relief permanent?** No. Initially, the tax exclusion only applied to debt forgiven in 2007, 2008, or 2009. But the economic stimulus law passed last year – the Emergency Economic Stabilization Act of 2008 – extended this tax break for three years through 2012.

## New Tax Breaks from the IRS

The IRS recently issued a news release reminding taxpayers to take advantage of the tax breaks provided in the American Recovery and Reinvestment Act of 2009, the stimulus law passed earlier this year.

Among the tax benefits that are available for a limited time:

- First-time homebuyer credit of up to \$8,000 for homes purchased before December 1, 2009
- Deduction for state and local sales and excise taxes paid on the purchase of a new car, light truck, motor home, or motorcycle (There is no limit on the number of vehicles you may buy, but the deduction per vehicle is limited to tax on up to \$49,500 of the purchase price. Higher-income taxpayers will not qualify for the deduction, and the deduction ends after 2009.)
- Credit for energy-efficient home improvements of up to \$1,500 for improvements done in 2009 and 2010

- American Opportunity Tax Credit of up to \$2,500 for qualifying higher education expenses for 2009 and 2010

The IRS is so concerned that taxpayers will not utilize these tax breaks that it has also posted a video to YouTube and an iTunes podcast with information about these tax breaks.

## Cruise Scams to Be Aware Of

Cruises top the list of dream vacation getaways for many families. Unfortunately, fraudsters and thieves view cruises in a different light. They will scam you with fake bookings before you even set foot on a ship, after you are aboard, or during some exotic port-of-call excursion.

***The Hook*** It may start with an e-mail or phone call offering a “free” or deeply discounted cruise. Bogus travel agencies have made tens of thousands of dollars from gullible would-be travelers without ever contacting a cruise line. Unfortunately, some people respond to these solicitations, book the cruise, make a down payment, then discover that they owe port fees, fuel charges, registration fees, service fees, or anything else the fraudster can think up. In some cases, con artists use the free cruise ploy to entice you into divulging sensitive personal information as a way to steal your identity.

***Your Defense*** How can you defend against these schemes? First, remember that offers received via unsolicited e-mails and phone calls are more likely to be fraudulent. Second, never – never – give personal information, such as bank account or credit card information, to a business or person you do not know to be genuine. Third, get details in writing before you buy. Finally, do not succumb to high-pressure sales pitches. Take your time. If the person on the other end of the line refuses to provide detailed answers to your legitimate questions, hang up.

***On Board*** Even after booking a cruise with a legitimate company and boarding the ship, you can become a victim. Modern cruise ships are like small cities, with many of the same pleasures and hazards. So be sure to lock valuables in your cabin's safe. Make copies of credit card notification numbers, passports, driver's licenses, and other valuable documents. Leave one set of copies at home, keep another set with you (packed separately from the originals), and place another set in the cabin safe.

When going ashore – which, experts say, is where most petty theft occurs – remain on the alert. Do not display expensive jewelry; it's an invitation to pickpockets. Carry handbags in front of you and use an under-clothing money belt. Stay in organized groups, stick to public areas, and use shore transportation and tours approved by the cruise line.

These days, taking a cruise can be a fun and reasonably priced vacation. A little common sense can keep a swindler from turning it into a nightmare.

## New COBRA Subsidies

Job loss brings many challenges to families, and that often includes obtaining affordable health insurance coverage. Under a 1985 federal law referred to as “COBRA,” many employees who are discharged can keep health insurance coverage provided by their former employer for as many as 18 months. But to do so, the employee has to pay 100% of the COBRA premiums.

### *Employee Subsidy*

The economic stimulus law enacted last February significantly reduces the cost of COBRA health coverage for those who lose their job.

Qualified individuals who timely elect COBRA coverage are required to pay only 35% (instead of 100%) of these premiums. The remaining 65% is paid by the employer, but reimbursed by the federal government through tax credits. This subsidy is available for up to nine months after the job loss.

Those qualified for the subsidy include terminated employees and their family members who are eligible for COBRA coverage at any time from September 1, 2008 to December 31, 2009. Employees who voluntarily terminate employment or who are qualified to participate in another group health coverage plan (such as a spouse’s employer’s plan or Medicare) are not eligible for the subsidy.

The subsidy is phased out for higher-income taxpayers. For singles, the phase-out starts once modified adjusted gross income (AGI) exceeds \$125,000. It is fully phased out at \$145,000. The phase-out for married taxpayers filing jointly begins with modified AGI of \$250,000 and is complete at \$290,000. Any part of the subsidy paid to an individual that is subject to phase-out because of these income limitations must be repaid as an additional tax on the employee’s federal income tax return.

### *Employer Credit*

COBRA coverage is only required for employers with 20 or more full-time and part-time employees, but many states sponsor plans similar to COBRA for small employers.

An employer that sponsored a health insurance plan that included COBRA coverage is required to pay 65% of the COBRA premium if the terminated employee pays the remaining 35%. The government reimburses their employers through tax credits on quarterly payroll tax returns.

## Develop Three Habits to Stay Out of Debt

Staying out of debt is simple, but it’s not easy. It requires fortitude. It means foregoing impulsive purchases in exchange for long-term financial freedom. Staying out of debt requires that you deny cravings, at least temporarily, for the “must-have” stuff that beckons from every mall, television advertisement, and slick magazine.

Personal debt can be categorized as necessary or unnecessary. Necessary debt can generally be linked to appreciating assets, such as your home mortgage, or assets used to generate income, such as a basic car for getting to work or a college degree. Unnecessary debt, on the other hand, might include routine credit card charges or installment loans for depreciable items.

If your goal is long-term financial freedom, avoiding unnecessary debt is crucial. Three simple habits can help you achieve this goal:

1. **Live below your means** Much of the stuff that seems so essential today will, in fact, grow less desirable over time. Of course, living below your means requires that you discover what those “means” are. For many people, this means tracking your income and expenses over a period of time – a month or more – to learn where your money comes from and how it is spent. You might be surprised. That cup of gourmet coffee on the way to work, that weekly meal at the fine dining establishment, that car payment for the latest sedan – all cut into your disposable income. By spending less on such items, you will be able to save for the future and develop long-term wealth.
2. **Save for emergencies** By setting aside money in easily accessible accounts, you avoid racking up credit card bills when unexpected expenses occur. Such expenses could include trips to the emergency room, replacing the water pump on the family car, or patching a hole in the roof. A reserve fund can also help you survive periods of unemployment without incurring additional debt.
3. **Use debt wisely** If you decide to incur debt, know what you are doing. Slow down, take a deep breath, think about how valuable this item will seem three months from today. Also, ask yourself whether you can pay off these new charges out of next month’s income.

Staying out of debt is not glamorous, and it requires more than a little self-discipline. But the long-term benefits are substantial.

### Your Referrals Are Appreciated

We appreciate your business, and we would appreciate your referrals. If you know someone in need of our services, please mention our name to them. We are a growing firm, and we would like more good clients like you.

Please contact our office by phone: 313.965.2655

*This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.*