

Fall 2008  
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**SPECIAL INTEREST  
ARTICLES:**

To Roll or Not to Roll—401(k)  
Versus IRA

The American Housing Rescue  
& Foreclosure Prevention Act of  
2008

**HIGHLIGHTS:**

Presidential Election  
and Taxes 1

Taxes for 2008 2

IRS Issues 2

The American Housing Rescue  
& Foreclosure Prevention  
Act of 2008 2

To Roll or Not to Roll—401(k)  
Versus IRA 3

Standard Mileage Rate 3

Client Spotlight—Janiczek  
Homes 3

We Welcome New Business  
Clients to the Firm 4

What's New at Brinker,  
Simpson & Company 4

## Presidential Election and Taxes – What the Candidates Propose

With election day about five weeks away, McCain and Obama are battling over taxes. We've sorted through the campaign rhetoric and compared the plans to see who really comes out ahead:

### Obama's Plan:

- He will retain the current tax cuts for joint filers under \$250,000 of income. He wants to maintain \$1,000 child credit and 15% top rate on capital gains and dividends, and keep the current marginal rates for those under \$250,000.
- He will raise the top rate on capital gains and dividends to 20% on filers with adjusted gross income (AGI) over \$250,000.
- He will raise the top tax rate from 35% to 39.6% on income over \$373,000.
- He will re-institute social security tax (employee and employer) on wages and self employed earnings over \$250,000 (currently stops at \$102,000).
- He will expand the earned income credit and child care credits, and seniors with AGI less than \$50,000 would pay no tax.

### Health Care:

- Obama will mandate employer coverage for employees, and companies that do not have a health insurance plan (over 10 employees) would pay a 6% tax on payroll to fund a national health insurance plan.

### Estate Tax:

- Obama favors a tax free estate limit of \$3.5 million and a tax rate of 45%.

### McCain's Plan:

- He will maintain tax rates as they are today.
- He will give filers a choice to pay taxes under an alternate system of two rates – most likely 15% and 20% – without itemized deductions – but a larger standard deduction and exemption amount.
- He will index the dependent exemption by \$500 a year up to \$7,000 in 2016.

### Health Care:

- McCain favors tax credits for individuals who buy health insurance up to \$5,000 per family. He will end the income tax exclusion for insurance workers receive from employers, but keep the payroll tax exemption.

### Estate Tax:

- McCain plans on a tax free limit of \$5 million and a top rate of 15%.



## Taxes for 2008 – What Happened in September

Congress had plenty of tax work left to do as lawmakers returned from their summer breaks. A pending bill that revived expiring tax breaks topped the list. Lawmakers acted quickly and deductions for state sales tax, college tuition and teachers expenses will be available in 2008. Foot dragging by Congress on other issues will disrupt the 2009 filing season. In the end, it's likely all expired tax breaks will be extended retroactively.

- expanded minimum tax exemptions
- tax free IRA distributions to charity
- energy credits for wind, solar, and geothermal power – coal and biofuels.
- tax credits for research and development

## IRS Issues

Many lawmakers believe the IRS is severely underfunded and are pushing a bigger budget to make a real dent in the tax gap (“what should be paid versus what is paid”). But other members cite the IRS' recent track record of computer glitches and botched rebate processing problems and it makes them leery of forking over more money until the IRS can show it will spend it wisely.

The recent rebate program produced such a backlog, the IRS assigned collection agents to help answer calls and taxpayer correspondence. The cost of this reassignment is estimated at more than \$500 million in lost revenue.

## WARNING About IRS E-Mails

**Do not open any e-mails from the IRS.** A typical e-mail may say “the IRS has a refund for you of \$139.12 from 2006. Please contact us.” Then you are asked to provide your social security number for verification. THAT is when the real trouble starts! DO NOT OPEN OR RESPOND TO ANY OF THESE E-MAILS! There have been 33,000 cases of identity theft reported in 2008 as a result of this scam.

## The American Housing Rescue & Foreclosure Prevention Act of 2008

**Temporary Tax Credit for First Time Home buyers:** This new tax credit is available to first time home buyers. The maximum credit equals the lesser of (1) 10% of the purchase price of a principal residence or (2) \$7,500. This credit is refundable which means it can be used to offset your entire federal income tax liability with any remaining credit refunded to you. This credit is available for a principal residence purchased after 4/8/08 and before 7/1/09. If you purchase a home during 2009, but before 7/1/09, you can treat the transaction as if it happened in 2008 and claim this credit on your 2008 personal tax return.

Unfortunately this credit must be repaid. The new credit is really just a loan from the government. You must repay the credit received (without interest) over 15 years starting with the second year after the year the credit was claimed. Each year's repayment will be added to the tax bill shown on that year's personal tax return.

**Phase out Rule** – The credit is phased out or completely eliminated if your adjusted gross income (AGI) is too high. The phase-out range for unmarried individuals and married who file separately is between AGI of \$75,000 and \$95,000. The phase out range from married joint filers is between AGI of \$150,000 and \$170,000.

**Temporary Property Tax Deduction for Non – Itemizers:** For 2008 only, an unmarried taxpayer who doesn't itemize can add up to \$500 of property taxes to the standard deduction amount. Married joint filers can add up to \$1,000.

**Unfavorable New Rule for Properties Converted into Principal Residences:** Under current law, you can convert a former rental property or vacation home into your personal residence, live in it for at least two years, sell it, and take advantage of the federal home-gain exclusion privilege. The maximum exclusion is \$250,000 for unmarried and \$500,000 for married joint filers.

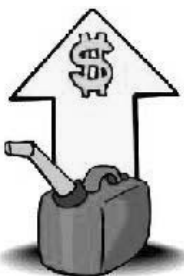
For sales that occur after 2008, however, an unfavorable new rule can delete some of the tax savings from the conversion strategy – based on the amount of post 2008 time that you do not use the property as your principal residence. More specifically, the new rule makes a portion of your gain from selling the residence ineligible for the gain exclusion privilege.

## To Roll Or Not To Roll – 401(k) Versus IRA?

A good question is facing retirees who need to decide whether to keep their savings in a company retirement plan, move it into an IRA, or take the money and run. Each choice has significant implications for taxes, estate planning and investment growth. Here are some points to consider:

- In most cases, it is recommended to roll to an IRA and hire professional investment management which will offer more choices than a company plan.
- IRAs offer an estate planning break to your heirs – the ability to stretch out payments over their lifetimes.
- If you earmark IRAs for different heirs, you can establish separate accounts with different investment strategies.
- Leaving money in a 401(k) if you are between 55 and 59 1/2 when you retire allows you to withdraw funds free from the 10% penalty – IRAs do not.
- Many company plans allow loans – not IRAs.
- If you are 70 1/2 and still working – there is no requirement for you to take minimum distributions from 401(k) (assuming you own less than 5% of the company stock) – but you must start IRA withdrawals.

## Standard Mileage Rate



In response to the skyrocketing price of gasoline, the IRS raised the standard mileage rate to 58.5 cents per mile. This rate is effective July 1, 2008 to December 31, 2008 when it will be adjusted again to reflect pricing.

## Client Spotlight – JANICZEK HOMES

Mark Janiczek of Janiczek Homes knows that any shade of green makes for a more responsible, efficient, resourceful and healthy practice. But in the case of the fine homes that Mark builds, “being green” also means creating homes with extraordinary architectural detail and style that beautify and exemplify green consciousness within the community.

Mark has long been concerned about the environmental impact of new construction, and has worked hard to integrate into his new-home projects materials and techniques that are better for the environment and for his clients. In the residential building business for more than twenty years, Mark’s pioneering practice minimizes material inefficiency, and excessive waste production, successfully incorporating green building practices with an appreciation for fine architecture and high quality artisan craftsmanship.

In Mark’s view, green building not only entails the utilization of sustainable resources, it also means looking at a new-home project as an independent entity, a “system” that must fit into the surrounding environment so that it can perform optimally. Mark accomplishes this in his new-home projects in many ways: by salvaging architectural elements like front door entrance ways and fire place mantels, and by re-purposing used wood planks for flooring and cabinetry. Energy-efficient buildings also include the installation of radiant heat, tankless hot water heaters, highly efficient insulation, and energy efficient mechanical systems and electronic devices that have less impact on the environment and are more compatible with human habitation.

Mark’s green principles speak to all of society, as witnessed by the fact that even though the housing market has slowed, there is keen interest in the 4 homes he will be building in Devon with commitments on 3 so far. These 4 homes have L.E.E.D. (Leadership in Environment and Energy Efficient Design) Certifications, a designation which can only be given to buildings with a very high level of green principles and practices.

If you are interested in finding more resources for making your home “greener” you can contact the Delaware Valley Green Building Council in Philadelphia at 215-625-4485 or [dv gbc.org](http://dv gbc.org). Mark Janiczek can also be reached at 610-952-1221 or [janiczekhomes.com](http://janiczekhomes.com).



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*Personalized  
attention you need...and  
deserve!*

## We Welcome New Business Clients to the Firm

Chamber Associates  
Children of the Father  
Freehouse Restaurant  
Good Shepherd Mediation Program  
New Deck Tavern

Rose Tree Medical Associates  
Russin Eye, L.L.C.  
Senior Transitions, Inc.  
Slainte Restaurant  
Writing Dynamics

## What's New at Brinker, Simpson & Company, L.L.P.

Bob Simpson was appointed to the Board of Directors for the Philadelphia Chapter of EO - Entrepreneurs Forum.

We welcome Leigh Henry to the firm as an Administrative Assistant.

Hannah Leese, Director of Marketing, celebrated her 5th year anniversary with the firm in August.

On October 20th, Cardinal O'Hara Alumni will hold their annual golf outing at the Edgmont Country Club. Anyone who is interested in playing or sponsoring should contact Michael Simpson.

The 8th Annual "Run for Heroes" 5K Run/Walk, to be held on October 12, 2008, raises money for the Delaware County Hero Scholarship Fund. The fund provides money for the children of police, firefighter and emergency responders who have died in the line of duty. More than \$150,000 has been raised since 2000. Brinker, Simpson & Company is a proud sponsor of this organization and many staff members have participated. Contact us if you would like to contribute – or run this year.