

THE LEDGER

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CONSIDER STRATEGIES TO USE YOUR STOCK LOSSES TO CUT TAXES

Successful stock investors know how to take advantage of current market conditions, good or bad. When times are tough, restructuring your portfolio and selling stocks for a loss can actually yield tax benefits down the road.

The Basics

The tax code allows investors to offset capital gains (such as from the sale of publicly traded securities) with capital losses. Sales of stock owned for more than one year are netted together to determine your long-term gain or loss. Similarly, sales of stock owned for one year or less are combined to calculate short-term gain or loss. Long-term gains are taxed at 15% for most taxpayers. Short-term gains are taxed at the regular individual tax rate, which can be as high as 35%.

When capital losses for any one year exceed capital gains, up to \$3,000 can be deducted from taxable income. Losses in excess of this are carried forward to future years.

Some Strategies

So how can you best take advantage of these rules? If you own a stock that lost value and is unlikely to recover soon, you might “harvest” that loss by selling, while at the same time selling a stock that has appreciated in value. Your goal should be to offset your gains with losses and write off an additional \$3,000 each year to boot. Just remember that you must first match up your long-term gains with long-term

losses, and short-term gains with short-term losses and then net the result.

Even if you don’t want to sell your winning stocks right now, getting rid of your long-term losers might still make sense. If long-term capital gain tax rates go up in the future as many expect them to, losses carried forward will be even more valuable than they are

today. Harvesting stock losses now might provide a stockpile that you can use to offset future gains for years to come.

A key component in this strategy is keeping track of individual stock shares. If you bought shares of the same company over time and later sell only some of them, you

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CRAY KAISER SPONSORS UIC FAMILY BUSINESS COUNCIL

As part of our continuing commitment to family-owned businesses in the Chicagoland area, Cray Kaiser is proud to become part of an elite group of organizations providing guidance and support to UIC Family Business Council.

Our dedication to families and family-held businesses goes beyond the financial support we provide the FBC, but also through the services and resources our firm offers to the growing number of family-owned and other closely-held business members of the FBC.

The FBC was founded in the belief that family businesses offer a challenging and fulfilling way to create a legacy for oneself and society. At the same time, the FBC offers an opportunity to business leaders of all backgrounds and interests to share experiences and proven best practices. By pooling resources, FBC members can become better leaders, better spouses and better parents.

Firm to Present at BusinessKillers® Event on October 15, 2009. This event focuses on helping business owners avoid potentially disastrous mistakes that can threaten their businesses and their personal financial future. The workshop will be presented by a team of experts and UIC Family Business Council members who have experienced some of these issues first hand. Please contact Deanna Salo for more information on how you can attend this event.

UIC Family Business Council
UNIVERSITY OF ILLINOIS AT CHICAGO
COLLEGE OF BUSINESS ADMINISTRATION



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Certified Public Accountants and Consultants to Business

SIX TIPS TO HELP YOUR BUSINESS SURVIVE THE RECESSION

The economic downturn is taking its toll on entrepreneurs. How can your small business survive these tough times? There's no magic formula, but these six suggestions should help.

1 Trim expenses. Determine what is truly essential and what you can do without until the economy improves. For instance, do you really need to stock your break room cupboards with an abundance of coffee blends? On the other hand, you should not ignore the benefits of installing new technology that will gradually save the business money. Make intelligent, informed decisions about purchases.



2 Be creative. For example, if it has become obvious that your company needs to reduce payroll, you might do so in ways that enable you to retain most of the workers. Some of these innovations may include work-sharing arrangements, unpaid furloughs, and four-day work weeks. Open up your mind to possibilities you haven't considered before.



3 Contact your customer base. Just as your situation has probably changed dramatically over the last year, so has theirs. Find out what their current needs are and what new challenges they are facing. Try to adapt your operation to accommodate this fast-changing environment. Offer assurances that you will continue to provide top-quality service.



4 Polish your image. Consider the public perception of your company. What can you do to restore the faith of customers if you've been forced to lay off workers or make other cutbacks? How can you refocus marketing efforts to accentuate the positive and downplay the negative? Map out a revised marketing plan for the year taking the latest developments into account.



5 Rethink your procedures. Just

because something has worked well in the past doesn't mean you should continue to follow the same routines. Examine your "best practices" carefully to analyze whether a slight modification may help or whether a major overhaul is needed. Don't make assumptions without hard data to back up your position.



6 Set yourself apart. As the recession continues, only the strongest businesses will survive the

shake-out. Identify your main local competitors and pinpoint their strengths and weaknesses. Find a way to turn differences to your advantage. The ultimate goal: Convince clients and prospects why they should use your company.



We can fine-tune these ideas to fit your specific business. Call us today if you would like to discuss your situation.

CARING FOR PARENTS: UNDERSTAND THE TAX ISSUES

As the population in the U.S. continues to age, more and more people will find themselves caring for their parents. Here are some of the tax breaks that caregivers should consider.

■ If you provide more than half of your parent's support, you may be able to claim your parent as a dependent on your tax return. To be eligible, your parent can't earn more than \$3,650 in 2009, excluding their nontaxable social security and disability income.

■ What if you and your siblings all pitch in to support a parent? Anyone who contributes at least 10% of the total support can be the one to claim the \$3,650 exemption if all of you agree in a multiple support agreement.

■ Even if a parent's income exceeds \$3,650 this year, you can still deduct the medical

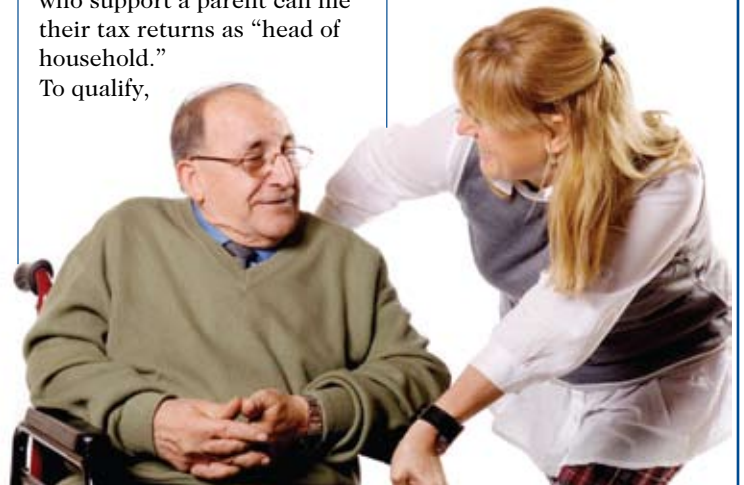
expenses paid on the parent's behalf, as long as you provide more than half of his or her support.

■ If you hire someone to take care of your parent while you work, you might qualify for the dependent care tax credit. Your parent must be physically or mentally incapable of caring for himself.

■ Unmarried individuals who support a parent can file their tax returns as "head of household." To qualify,

your parent doesn't need to live with you. Instead, as long as you pay more than half of the cost of maintaining your parent's main home or nursing facility, you qualify for this preferential tax treatment.

For more information about the tax issues affecting caregivers and their parents, please give us a call.



WILL THE IRS SAY “BUSINESS” OR “HOBBY”?

For federal tax purposes, the determination of “business” or “hobby” is a matter of deduction. If your new venture is considered a business, you can deduct losses against other income.

However, when the activity is classified as a hobby, the “hobby loss” rules limit the amount you can write off. Expenses you incur might be deductible only if you itemize – or they might even be nondeductible.

The distinction affects the amount of tax you owe. So how can you prove you’re trying to run a money-making business despite several years of losses?

One test is the general rule of earning a profit in three of the past five years. If your business has more income than deductions in three of five consecutive taxable years, the IRS generally accepts that you have a profit motive. (The time frame is two years in seven for certain horse-related activities.)

Unable to meet that test? Additional factors play a role as well. Here are some of the determining factors.

Examine your conduct. Even if your business loses money, you may be able to deduct the losses if you can show that you were engaged in this activity with the intent of making a profit.

Keep good books. You must keep accurate books and records, and conduct

the activity as a business. If your recordkeeping is haphazard, it will probably be difficult for you to demonstrate that your activity was a business rather than a hobby.

Have a plan. It’s a good idea to develop and maintain an up-to-date business plan. This plan could include projections of future income and expenses, marketing strategies, personnel policies, and so forth. The idea is to show the IRS that you plan to grow your business.

Watch the clock. Document the time you invest in this activity. The amount of time you spend in relation to other activities will, in part, determine whether this activity qualifies as a business.

Watch your bank account. Keep your business and personal funds separate. Don’t pay for Johnny’s bicycle from your business account; don’t deposit sales income into your personal account.

Experience counts. Past experience with similar activities, especially if they were profitable, may be an indicator that this is more than a hobby.

Fun is bad. If the activity has elements of personal pleasure or recreation, it may be more heavily scrutinized by the IRS. However, the facts and circumstances of the individual case are what matter.

For instance, the Tax Court agreed that a volleyball

consulting service with multiple loss years qualified as a business, in part because of a businesslike manner of operation. Among other items, the Court mentioned the maintenance of a separate bank account and accurate records as support for a profit motive.

If you hope to deduct any losses resulting from a sideline business, be certain that you are doing all that is necessary to meet the requirements of running the activity in a business-like manner. For more details or assistance, give us a call at 630-953-4900.

NEW HIRE REPORTING LAW COMPLIANCE

Did you know that federal legislation requires employers to report all new employees within 20 calendar days of their start date, including full-time, part-time, temporary and rehires (persons who had been off the payroll for 180 or more days)? This law is part of federal welfare reform legislation and is intended to assist child support officials and reduce unemployment compensation and welfare fraud.

To comply with this legislation, employers should check with the states in which their employees work to determine the filing requirements. For example, in Illinois, employers are required to report new employee information to the Illinois Department of Employment Security.

Please call us if you’d like any information or have questions about the New Hire Reporting Law.

STOCK LOSS STRATEGIES

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must choose an IRS-approved method for identifying which shares you sold. Generally, it is best to first sell the stocks for which you paid the highest price. That will help minimize gains and maximize losses.

As with most tax strategies, there are some pitfalls to avoid. The first is called the wash-sale rule. You cannot deduct a loss on a security if you buy new shares of that same security (or a “substantially identical” one) within 30 days before or after the date of the sale. You also need to watch your transaction costs. Just as the tax implications of a sale must be

considered, the amount of fees associated with selling your stock must be factored into your trading decision.

Remember that the capital loss rules are not just for stocks. Stock gains or losses can be offset by gains or losses from the sale of any qualifying capital asset, such as commodities or investment property.

The downturn in the stock market has a silver lining for those savvy enough to take advantage of it. For more details on how to restructure your portfolio in a tax-beneficial manner, give our office a call at 630-953-4900.



Work credit applies to two new groups

The work opportunity tax credit is available to businesses that hire workers from any of twelve targeted groups, including two new groups added by recent tax legislation: unemployed veterans and disconnected youth.

The IRS has issued a definition of these two new groups. An “unemployed veteran” is a person released from the military during the five years prior to the hiring date who received unemployment benefits for at least four weeks during the prior year.

A “disconnected youth” is a person aged 16 through 24 on the date of hiring who has not been regularly employed or attending school during

the prior six months and who is “not readily employable” due to a lack of “basic skills.”

The credit will apply to workers hired from these two groups during 2009 and 2010. Certification by the state’s workforce agency is required for the credit.

Tax rules change for 529 plans

Two recent changes have been made to tax rules governing 529 college savings plans. During 2009 and 2010, Internet access, computers and peripherals, and some educational software can be purchased as qualifying tax-free withdrawals from 529 accounts.

The second change is effective for 2009 only: A 529 participant can change the plan’s investment strategy twice during the year in addition to

when there is a change in the account’s beneficiary. Previous

rules allowed only one annual change.

BY THE NUMBERS

IMPORTANT DATES FOR FALL 2009

September**September 15**

Third installment of 2009 individual estimated tax is due.

September 15

Filing deadline for 2008 tax returns for calendar-year corporations with extensions of the March 16 deadline.

September 15

Deadline for filing extended 2008 partnership and limited liability company returns.

October**October 1**

Deadline for businesses to adopt a SIMPLE retirement plan for 2009.

October 15

Filing deadline for 2008 individual tax returns on automatic six-month extensions of the April 15 deadline.

October 15

Deadline for reconverting a Roth to a regular IRA.

This newsletter is issued quarterly to provide you with an informative summary of current business, financial, and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details and/or professional assistance.

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