

clientTALK

Spring 2009



Welcome to the Spring issue of clientTALK. Although traces of snow may remain on the ground, spring is in the air. Spring also brings to conclusion another successful tax season. We at KRD have all worked hard to complete your tax returns in a timely manner and to help you take advantage of every allowable tax savings.

Our featured client this month is John Podmajersky, owner and president of a third-generation family business that was started by his grandfather in the early 1920s. We hope you enjoy this story.

On pages two and three, you will find a summary of the more popular provisions of the Economic Stimulus Bill, which contains tax incentives for businesses as well as thousands of dollars in tax breaks for first-time homebuyers and new car buyers. Most individuals will receive a \$400 tax credit; couples will receive an \$800 tax credit. College students will receive a \$2,500 tax credit for 2009 and 2010—if costs are more than \$4,000. All of this adds up to a host of new rules. Feel free to call us with any questions.

The partners at KRD

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The heart of the Chicago Arts District, one of the city's most vibrant and well-established creative communities, is located just two miles south and west of the Loop. Here, within eight square blocks surrounding south Halsted and 18th streets, live and work hundreds of artists, designers, creative individuals and business owners.

To understand the history of the Chicago Arts District, one has to reach back to the early 1960s when John Podmajersky's parents (Annelies and John) began to revitalize the Pilsen East neighborhood with innovative and urban planning. They converted dilapidated residential and commercial buildings into artists' lofts and studios and transformed vacant alleyways into beautiful lush gardens.

In the mid-1980s, John started his own real estate company. He too began remodeling properties. In 2000, his parents retired and John merged the two companies into Podmajersky, Inc.

"Over three generations, my family created this assembly of property; it is very unique because it has given us the ability to shape the character of the neighborhood. We work hard to ensure that each of our properties preserves the integrity of the surrounding environment while setting new, high standards of excellence in architecture and design."

Today, Podmajersky, Inc. offers approximately 150,000 square feet of existing retail opportunities and 100,000 square feet of office/commercial space in what has become known as the Chicago Arts District. Many of the artists lofts are available in historic buildings that feature hardwood floors, high ceilings



John Podmajersky visits the Vespine Art Gallery & Studio. The gallery is ideally located in the Chicago Arts District.

First-Time Homebuyer Tax Credit

Taxpayers who qualify for the first-time homebuyer credit and purchase a home this year before December 1 have a special option available for claiming the tax credit either on their 2008 tax return due April 15 or on their 2009 tax return next year.

Qualifying taxpayers who buy a home before the end of the year can claim 10 percent of the purchase price up to \$8,000, or \$4,000 for married filing separately. The amount of the credit begins to phase out for taxpayers whose adjusted gross income is more than \$75,000, or \$150,000 for joint filers. The credit does not have to be repaid, provided the home remains the buyer's main home for 36 months after the purchase date. Last year's version of the credit was only \$7,500, and it had to be paid back over 15 years.

You are considered to be a first-time homebuyer if you and your spouse did not own any other main home during the three-year period ending on the date of the purchase. ☐

New Withholding Tables Available

The "Making Work Pay" tax credit contained in the American Recovery and Reinvestment Act of 2009 cuts taxes for more than 95 percent of working families.

For 2009 and 2010, the bill provides a refundable tax credit of up to \$400 for working individuals and \$800 for working families. This tax credit is calculated at a rate of 6.2 percent of earned income,

and phases out for taxpayers with adjusted gross income in excess of \$75,000 (\$150,000 for married couples filing jointly).

Taxpayers can receive this benefit through a reduction in the amount of income tax that is withheld from their paychecks, or through claiming the credit on their tax returns.

For most taxpayers the credit will automatically start showing up in their paychecks this spring. Since employers and payroll companies will handle this change, eligible workers won't need to take any additional action such as filling out new W-4 withholding forms. However, individuals and couples with multiple jobs may want to submit revised W-4 forms to ensure enough withholding is held to cover the tax for the combined income.

New withholding tables that incorporate the credit, along with other instructions related to the new law, are incorporated in Publication 15-T. This publication, which will be mailed to more than nine million employers in mid-March, is also available at www.irs.gov. The IRS asks that employers start using these new tables as soon as possible, but not later than April 1.

Many higher-income taxpayers will see little or no change in their take-home pay since the credit is phased out between \$150,000 and \$190,000 for married couples filing jointly and for other taxpayers whose AGI is between \$75,000 and \$95,000. ☐



Help for Employers to Claim COBRA Credit

The IRS has taken the first step in its efforts to help employers claim credit for the COBRA medical premiums they pay for their former employees.

The IRS unveiled new information on its website (www.irs.gov) that includes an extensive set of questions and answers for employers. In



addition, the website contains a revised version of the quarterly payroll tax return that employers will use to claim credit for the COBRA medical premiums they pay for their former employees.

Form 941, Employer's Quarterly Federal Tax Return, will be sent to about two million employers in mid-March. The form is used to claim the new COBRA premium assistance payments credit, beginning with the first quarter of 2009.

Under the new Stimulus Plan, eligible former employees, enrolled in their employer's health plan at the time they lost their jobs, are required to pay only 35 percent of the cost of COBRA coverage. Employers must treat the 35 percent payment by eligible former employees as full payment, but the employers are entitled to a credit for the other 65 percent of the COBRA cost on their payroll tax return.

Employers must maintain supporting documentation for the credit claimed. This includes:

- Documentation of receipt of the employee's 35 percent share of the premium.
- In the case of insured plans: A copy of invoice or other supporting statement from the insurance carrier and proof of timely payment of the full premium to the insurance carrier.
- Declaration of the former employee's involuntary termination.

COBRA provides certain former employees, retirees, spouses, former spouses and dependent children the right to temporary continuation of health coverage at group rates. COBRA generally covers health plans maintained by private-sector employers with 20 or more full and part-time employees. ☐

Extension of Bonus Depreciation

Businesses are allowed to recover the costs of new capital expenditures over time according to a depreciation schedule. Last year, Congress temporarily allowed businesses to recover the costs of capital expenditures made in 2008 faster than the ordinary depreciation schedule would allow by permitting businesses to immediately write off 50 percent of the cost of depreciable property (equipment, tractors, wind turbines, solar panels and computers) acquired in 2008 for use in the United States. The Stimulus Bill extends this temporary benefit for capital expenditures incurred in 2009. ☐

Sales Tax Deduction for Vehicle Purchases

The Stimulus Bill contains a new vehicle tax deduction, which means you will be able to deduct the amount of the sales or excise tax on a new car from your income before calculating your taxes. This is not a tax credit, which is a dollar-for-dollar reduction on your tax liability.



Even if you don't otherwise itemize deductions, you will be able to claim the amount of the tax because this is an "above the line" deduction. The amount of the benefit depends on your overall income and how much tax you usually pay. Typical savings are estimated to range from \$300 to \$600.

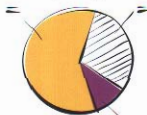
While the benefit applies to the purchase of any new car—not one previously owned by anyone else—the deduction only applies to sales tax on the amount of the purchase up to \$49,500. If you spend more, only the sales tax on that amount is deductible. It also applies only to families making less than \$250,000 a year or individuals making less than \$125,000.

The big question is: Is this enough of an incentive to motivate people into buying new cars? The auto makers sure hope so! ☐

Businesses Get a Piece of the Tax Cut Pie

As part of the Economic Stimulus Package, companies will be allowed to carry back most or all of their net operating losses (NOL) for five years instead of two, except for firms that received special aid payments from the Treasury. This will provide significant relief to home builders and other unprofitable industries.

Companies will still be able to carry forward operating losses to each of the succeeding twenty taxable years after the year that the loss arises. ☐



Be on the Alert for Identity Theft

Scammers continue to commit identity theft, and consumers need to be more alert than ever for emails and phone calls that claim to come from the IRS or other federal agencies. These emails or calls usually mention a tax refund or economic stimulus payment. These are almost certainly scams whose purpose is to obtain personal and financial information such as a Social Security number, bank account or credit card number.

They usually state that the IRS needs information to process a refund or stimulus payment or deposit it into the taxpayer's bank account. Remember, no matter how genuine the call or email appears, the IRS does not send taxpayers emails about their tax accounts. ☐

Extension of Small Business Expensing

In order to help small businesses to quickly recover the cost of certain capital expenses, small business taxpayers may elect to write off the cost of these expenses in the year of acquisition in lieu of recovering costs over time through depreciation.

Until the end of 2010, small business taxpayers are allowed to write off up to \$125,000 (indexed for inflation) of capital expenditures subject to a phase-out once capital expenditures exceed \$500,000 (indexed for inflation). Last year, Congress temporarily increased to \$250,000 the amount that small businesses could write off and increased the phase-out threshold for 2008 to \$800,000. The Stimulus Plan extends these increases for capital expenditures incurred in 2009. ☐

Where Should I Park My Money?

The Wall Street drama is making investors more nervous than they have been in decades. Yet, most investment experts still maintain that it's best to stay the course. A highly diversified portfolio that reflects the amount of risk you are comfortable with, as well as your goals and time horizons, will ultimately serve you well. That is why so many advisors recommend that you hang in there. In general, investors will most likely come out ahead if they avoid panic selling and panic liquidation.

While it can be tempting to buy or sell securities in response to changes in key economic indicators, you are more likely to achieve your financial goals if you build a sound, long-term strategy based on individual objectives.

Stock and bond funds that pay dividends and fixed and variable annuities are still appropriate investment vehicles. Because variable annuities fluctuate with the market, they allow you to take advantage of a market boom. But they also may not protect you from a down market unless you buy a guaranteed minimum withdrawal benefit. The withdrawal benefit gives you a guaranteed income stream regardless of the performance of the investment accounts. The downside is that it costs more.

In a fixed annuity, the principal is guaranteed and withdrawals of up to 10 percent of the account value are permitted each year without a penalty.

Roth IRAs are great for young investors, who have a lot of time remaining until they retire. You can still contribute to a Roth IRA for 2008 until April 15, 2009, as long as you have modified adjusted gross income of less than \$116,000 (if you are single) or \$169,000 (if you are married and file jointly). For 2009, the income limits for contributions to a Roth IRA are \$120,000 and \$176,000 respectively. You can receive unlimited income and still be eligible to contribute to a regular IRA.

The amount you can contribute to either type of IRA remains the same in 2009: \$5,000 (\$6,000 for those age 50 and over). ☐

**For more information, contact Scott Coleman at KRD Financial, LLC.*

Podmajersky (Cont. from page 1.) and great natural light. These spaces have served as an inspiration to the thousands of artists who have lived and worked in the neighborhood for the past four decades. Many have gone on to national and international fame.

CAD: WHERE PEOPLE MEET ART

As the area's events and activities continued to grow, the Podmajersky family established the Chicago Arts District Organization to assist with strategic development and provide overall support to the numerous creative individuals and businesses in the neighborhood.

"The Chicago Arts District was started as an outreach for all the creative entrepreneurs in the community," shares Cynthia West, CAD director. Cynthia handles the organization's marketing/public relations. In addition, she hosts 2nd Fridays, an evening when the galleries are open, and she oversees the Annual PilsenEast Artists' Open House.

In its 39th year, the PilsenEast Artists' Open House is the neighborhood's most recognizable and anticipated event. Annelies Podmajersky came up with the idea for the event in 1970 when a small group of artists opened

their studio doors to friends and family.

The three-day event, held the last weekend in September, proved to be a huge success. Each year, some 8,000 visitors explore the studios and gardens and hopefully purchase some of the artists' work, according to Cynthia.



John Podmajersky's goal is to move forward with his long-range redevelopment plan, which will attract more businesses to the neighborhood.

INVESTMENT DECISIONS

"Whenever I am starting a new project or making an investment decision, Bruce Robbins provides me with all the tax ramifications. There is often a number of ways I can structure a transaction or a purchase and Bruce has been great at pointing me in the right direction. We don't have an in-house controller, so Bruce serves as our financial advisor

on real estate purchases, in structuring partnerships, and estate and succession planning. He handles the tax planning and preparation for our different business entities, reviews the payroll and files our annual reports. I get the sense that he has enjoyed seeing my business grow and he personally cares whether things go well for us. He is extremely professional and follows up on matters right away. I don't know what more anyone would want in an accountant."

A busy administrator with lots on her plate, Cynthia doesn't mince words. "We love Bruce," she states.

"Whenever I ask Bruce a question I know I'm going to get a well considered response. He makes the investment necessary on his end to get me the correct answer. Because of that, I have developed a great deal of trust in him."

She adds: "Bruce's integrity comes forward when you are working with him and that is something I respect."

As for the future, Cynthia and John are posed to take the company to the next level. With a little help from their accountant, of course! ☐

For information about temporary gallery rental, performance rehearsal space, tours, and residential or commercial spaces for lease, go to: www.chicagoartsdistrict.org.

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