

2009 Tax Cures for the Summertime Blues - 6/3/2009

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Tax Cures For The Summertime Blues *By Sandy Botkin CPA. Esq. President of the Tax Reduction Institute* *June 3, 2009*

“Summertime and the living is easy”- found in play Porgy and Bess

I can't help but think of summertime as the season of renewal, fun and frolic. However, there are some good tax planning opportunities available too that can heat up some of those tax savings:

1. Cool down with energy credits: You can actually get the government to give you up to a whopping 30% tax credit for energy efficient property.

Sandy's elaboration: A credit is better than a deduction because it is a dollar for dollar reduction in your taxes. Thus, if you get a \$500 tax credit, you can reduce your taxes by \$500.

With the new Economic Recovery Act, there are actually two types of credits:

The first is a 30% tax credit for the purchase of energy efficient property such as solar hot water heaters, solar or geothermal heat pumps etc. Moreover, there is no limit on the credit! If you are thinking of putting in solar panels or solar hot water heaters, this is the year to do it and let the government perspire on your tax savings. This new change applies to all of these types of properties purchased after 2008 and before 2017.

The second type of credit, which also is a 30% tax credit, is the homeowner's energy credit, which you can get through December 2010. This is a yummy 30% tax credit for energy efficient building components such as insulation materials, systems that reduce heat gain/loss, exterior doors, exterior windows and skylights, certain metal roofs with pigmented coatings or asphalt roofs with cooling granules (which meet the Energy Star requirements) that are expected to last at least five years, more efficient heat pump, or main circulating fan. There is an overall cap for this second type of credit of \$1,500.

2. Hire your kids during the summer: If I were to tell you that you could deduct some of the equivalent of your kid's educational tuition, room and board, books, car expenses and video games, you would probably think I lost my mind. However, you can accomplish all this if done correctly! Reasonable wages paid to an assistant in business are deductible. If they use that money to pay for part of their own education or car expenses or room and board, aren't you getting the equivalent of a deduction for these items? You surely are! The key is that the wages must be reasonable for the work performed, and you have to have them fill out time sheets or a tax diary noting the hours worked and what jobs they did. Having an employment contract also helps. I should note that the first \$5,700 that they earn in 2009 is income tax free too. In addition, if they are under 18 years of age and hired by a non-corporate firm, the wages are exempt for social security and federal unemployment. How nice is that!

Sandy's elaboration: In addition, summer workers can even give you a whopping 40% tax credit on the first \$6,000 of wages under the "Work Opportunity Credit." Generally, you would need to hire certain disadvantaged folks to get this addition credit such as folks on welfare, unemployed veterans, and qualified members of families receiving food stamp assistance.

3. Have a summer barbecue for your employees: Normally, entertainment is 50% deductible. However, if you have a social or recreational party where everyone is your employee or members of their family, you can deduct 100% of the cost of the party. Thus, a summer barbecue where all the participants are your employees or member of their family would result in a 100% deduction for you. Moreover, according to some commentators^[1], "you can include a handful of other business and social guests without any tax repercussions."

4. Make your vacations tax deductible: Normally vacations aren't deductible. However, if you properly combine your trip with business so that your primary purpose of the trip was business, you can deduct the cost of that trip. The key is that your primary purpose of the trip must be for business and that the majority of the days were spent on business.

Sandy's elaboration: Weekends can count as business days if you sandwich your business days around them. Thus, if you have a business day on Friday and a seminar on Monday, the costs of Saturday and Sunday would be considered business related.

Following my advice can make your life a LOT less taxing.

[1] *Volume 4, No 6, Small Business Tax Strategies, June 2009*

NOTE: Neither the author nor any affiliated company is giving specific tax advice. Everyone situation is different and all material should be reviewed by your tax professional.

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