

TAX NEWS & TIPS

YEAR-END 2009

Tax Time Again!

I agree – too soon! It's time to begin collecting the information for your 2009 return.

Tough Year – Lots of Changes!

We have more law changes for 2009 than for any year I can recall. And, Congress isn't done yet!

It's a "good news, bad news" situation. Good News – I can help many of you save more than ever. Bad News – you need more records than ever before, or you miss out on some benefits. Getting an early start helps in two ways – the work is simpler and you save more money.

Changes for the future? No firm word yet. Congress is still at work, and has a lot on its plate. Perhaps more laws will have changed by the time you read this!

2009 Rule Changes

Keep These in Mind While You Gather Records

Some of the rules you knew for 2008 are different for 2009.

Look For Documentation! Most of the items here are new. IRS has the job of policing tax laws. They will be required to check (audit) some returns claiming new benefits. Face it – some folks who are not entitled will try to take advantage of the new laws, and IRS will be looking for them. For our mutual protection I'll be copying/scanning more documents this year. If we face an audit, I'd like to know we can quickly settle any doubts.

First-Time Homebuyer Credit. If you bought a home in 2009 before December 1, there might be a BIG credit for you. If you

didn't own a "principal residence" inside the US for a full three years prior to buying the home, you get 10% of the cost (capped at \$8,000) as a direct tax rebate. There's talk of extending the program, but as I write this, it ends after November 30.

Sales Tax On New Cars. If you bought a new car (not a used car) after February 16 this year, there's a valuable deduction for any sales or excise tax you paid. You get it even if you don't normally itemize your deductions. I'll want to see a copy of the purchase contract.

Government Retirees may get a special \$250 tax credit this year. If you collect any government pension for work that was exempt from social security you may qualify. This can include school districts, libraries, law enforcement – any government work at all. You can lose the credit if you collect social security or if you're still working.

Non-Fileers. There's a catch – you must file a tax return to get this credit. Perhaps an older member of your family earned a government pension, but no longer needs to file tax returns. I can help this person collect the \$250 – but a 2009 tax return MUST be filed.

Home Energy Credits. Two different kinds of credits here.

Conservation. Energy-saving improvements to your main home can cut your taxes in 2009 and 2010. Main home only – not for rental or vacation properties. You get 30% of the first \$5,000 you spend in '09-'10 for installing new insulation, doors, windows, skylights, certain furnaces, heat pumps, and air conditioners. IRS says you can rely on the manufacturer's statement that a given device qualifies. I recommend you keep the brochure, or print out the information from their website.

Generation. Bigger credits apply if you *generate* energy. Solar systems, fuel cell equipment, wind, and geothermal devices give a 30% credit. There's no upper limit. The credits apply for any property where you reside, even a vacation home. These are definitely more expensive projects. This credit is available through 2016. With both credits you may count costs of materials, plus costs to install.

College Expenses. Special credits have been available since 1997. But, rules for 2009 and 2010 are more liberal than ever. The only problem is we must segregate the costs into several categories.

General Costs. First: tuition and fees for college classes. Schools send out Form 1098-T in January reporting tuitions paid. It's sent to the *student's* address, but credits belong on the return claiming the student's "personal exemption". Usually it's the parents' return. In 2009 and 2010 there's a new benefit. You can also claim costs for books,

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course materials, and class supplies. That's our second category. The credit can be up to \$2,500 – full rebate of the first \$2,000 spent, plus 25% of the next \$2,000. It phases out for higher incomes, but income limits are higher than in the past.

College Savings Plans. If you set up a “section 529” plan to pay for your child's education, you must show that withdrawals were spent on education, or you can face a tax. The costs above count, but you may also add room and board – a third category. For 2009 and 2010 there's a fourth category. You can claim costs for the student's computer, software, and on-line fees.

Over 70½ IRA Rules. Two special rules if you have “mandatory distributions” from your IRA. Both are set to expire this year, but could be extended.

No 2009 Distribution. You are free to *not take any distribution* this year. Take as much or as little as you wish. This was intended to help compensate for dramatic losses in financial markets. However, it also offers a planning opportunity. If you have not yet taken a distribution, you might be able to take some amount at lower tax rates.

Directly To A Charity. If you have your IRA Custodian send a check to a charity, the amount can be excluded from your income. You don't need to itemize deductions, so you get full value for the gift.

Non-Itemizers. If you don't have many tax deductions, we use the “standard deduction”. For 2009, there are two deductions you can claim even if you can't itemize. (1) Sales tax on new cars bought after February 16, 2009. (2) Up to \$500 of real estate taxes on any property you own (\$1,000 for a couple). Please be sure to remind me if either of these apply to you.

Mortgage Insurance. Last year for this one. Form 1098 will show the interest you paid on your mortgage. It should also show any mortgage insurance. We can deduct this along with the interest.

Foreclosures. If you lost a property this year, I need lots of details. Your problems are not behind you until we deal with the income tax issues. You might have income from the cancellation of the mortgage. Official forms may have

arrived – 1099-A and/or 1099-C. I must see these. I'll need as much information as possible about what really happened. I need to know the complete history of loans for the property. It will help if I can see the last few mortgage statements. These cases involve more than simply tax law, so please be as thorough as possible.

Miscellaneous Items. A host of other provisions are set to expire after 2009. We can deal with these at the time of filing your return.

Businesses. Liberal rules for depreciation were extended to 2009. Vehicle deductions are normally limited by “luxury car caps”, but for 2009 we can claim an extra \$8,000 in the first year you own the car.

Hybrid Car Credits are drying up. No more credits for Honda and Toyota/Lexus vehicles. Ford and Mercury hybrids get full credits for purchases before April, 2009. From April 1 to September 30, the credit is 50%. As of October 1, it's 25%. Full credits still apply for hybrids from GM, Mazda, and Nissan.

2010 Withholding Issues. I'd like to check your withholding. For

the first time in history IRS adjusted withholding tables mid-year.

A 2009 program gives special tax credits to most workers. Instead of sending checks, IRS was told to take less withholding. They revised the tables in April. Problem: for many folks, the withholding reduction is *greater* than their tax credits. They must *pay back* the difference at tax time. Folks with multiple jobs (or families where both spouses work) got too much take-home pay. Folks with civilian pensions get no credits, but had less withholding.

Tables for 2010 are also reduced. Will you have too little withheld? I can help, but I need to know your withholding “status”. You filled out Form W-4 (W-4P for pensions). You asked to be treated as either “single” or “married”, and claimed some “allowances”. Find this information and I can help.

Prepare Early. This will be a special year. We don't want to miss anything. Prepare carefully, and there are two benefits: (1) You'll see the maximum tax savings, and (2) my fee will be as low as possible. We may even have a little time to plan for future savings!

In January – Important Tax Information

IRS Receives the same reports of income and deductions as are sent to you. After all returns are filed, their computers will compare the reports with your return. They rarely miss an error. Watch January's mail. You'll see “Important Tax Information Enclosed” on the envelope.



1099's. You get 1099-INT or 1099-DIV for any account paying interest or dividends. Did you find all of them? Keep notes.

Other 1099's. Real estate sales are on Form 1099-S. Stock sales on 1099-B. Pensions or IRAs are on 1099-R. There are several others.

Other Income. You may see forms for unemployment benefits, state tax refunds, prizes, awards, or gambling winnings. Don't lose these!

Partnerships, etc. Forms K-1 from partnerships, trusts, estates, and corporations arrive later. We can do the rest of your return early. Mail these forms to me when they arrive.

Form 1098. Some deductions. Form 1098 reports your mortgage interest. For a private loan, get your payment book. If your lender was the seller, you need name, address, and tax I.D. number. Form 1098-T is for tuitions paid. Student loan interest is on Form 1098-E. If you donated a vehicle to charity you'll see Form 1098-C.



After January. In February figure out what's missing. Missing a W-2? Contact the employer. If you can't locate the employer, find your pay stubs. Missing an expected 1099? It's time to call the bank or broker.

Late Information! If information arrives late, mail it to me. Missing receipts for deductions? Make a list of your best recollection, sign and date it, and keep it with your records. This can help if you are audited.

Do You Need To Send Form 1099?

You may need to send Form 1099 to someone. There are two cases:

- **Business/Rental.** You must report payments to others for services.
- “Nominee” amounts. If you are named as receiving income, but part of the income belongs to another, you are a nominee.

You must issue Form 1099 to the other party by February 1. Copies are due at IRS by March 1. There are penalties for not sending them!

Business/Rental. If you paid \$600 or more to anyone during 2009 you may need to issue a form. Applies to “business” expense only. There is no need to report payment for personal expenses or any payments made to a corporation.

Was any part of the payment for services? If so, you must report the total amount on Form 1099. Rents you pay to a manager (but, not to the landlord) are excepted. Same if you pay for merchandise alone. Check your records for repairs, painters, consultants, builders and the like.

Get name, address, and Tax I.D. Number. Call or use Form W-9. If someone gives his/her name, get a Social Security Number (looks like 555-55-5555). If a business name is used, get an Employer I.D. Number (looks like 55-555555).

Rental Managers. A property manager who runs your rental sends Form 1099 to you reporting the rents. Ask if the 1099’s for service people were sent. The law here is not clear, so play it safe. Ask if they issued a 1099 to themselves for what you paid them. If not, you should do it!

Nominees. Limits are lower. If you pay \$10 or more to another, you may need to send the form. You file the same type of 1099 as you received, but you are filing as a “middle man”.

Getting the Forms. I can help, or you can get forms from IRS and do them yourself. If you need my help, please call early! My tax season is hectic, and the February 1 deadline comes up quickly. If you need forms from IRS you can reach them at 1-800-829-3676, or download forms at www.irs.gov. You’ll need Form 1099 and Form 1096.

IRA To Roth – New Rule in 2010

Roth accounts are very popular. Why? Easy – you pay no tax on the growth if you follow the rules. But, not everyone can have Roth accounts.

There are income limits that don’t allow wealthier folks to contribute to Roth Accounts.

You can convert a traditional IRA account to a Roth account if you’re willing to pay tax on the growth to date. But, there’s an income-based limit here, too. Conversions are not allowed if income is over \$100,000.

Beginning in 2010 anyone is free to make such conversions.

Warning: This is *not* as simple as it seems. First, you must pay any tax due on the converted IRA. For 2010 conversions the tax is spread over years 2011 and 2012. Then you must wait until the later of five tax

years or age 59½ before the Roth account’s growth is free from tax. *And that’s the easy part.* The second issue – how much of your IRA is taxable? Many folks have multiple IRA accounts, but tax laws forces us to combine *all* such accounts into one big pile for this calculation. If you wish to make a conversion in 2010, we really should look at the figures. I’ll need information on the balances at December 31 for *all* IRA accounts you may have. Plus, the history – was the account funded by your contributions, or was it a pension rollover? If your case is complex, I may ask you to wait until my busy tax season is done before I can give you the answers you seek.

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This publication has been sent to you by your tax advisor for informational purposes only. The tax opinions are generalizations and may not apply to all taxpayers.

Got Everything We Need?

*Here’s a list of things most often forgotten.
Compare it with your own list of missing information.*

- Refinance.** I need to see the settlement statement. Maybe it’s best to bring all the paperwork.
- Sale of Stock.** Brokers send Form 1099-B to show sale price. Look for a “Statement of Realized Gain/Loss”. Without it, we need to do all the work. We need the *original* cost. Can you find the “buy” slip? A mutual fund requires a complete history.
- Buy/Sell Property.** Settlement statement shows the details. Find it, or else gather everything.
- Estimated Tax Payments.** If you paid estimates, find the exact amounts and dates. In 2009 look near April 15, June 15, Sept. 15. In 2010 look near January 15.
- Social Security Benefits.** Find your Form 1099-SSA. It shows the proper amount to claim. The amount is different than what went into your bank account.
- Property Tax.** Find the amount actually paid during the year on your home, other real estate, boats, and automobiles.
- Employer Reimbursements.** We need the records. We can claim the excess expenses.
- Work-Related Driving.** Deductions for extra driving add up quickly. Review your work schedule and your calendar.
- New Car.** We deduct sales tax if you bought after February 16.
- Child Care Credit.** We must report the full name, address, and I.D. number of the care providers, not simply the amount you paid. Some states even ask for the provider’s telephone number.
- Charity And Receipts.** All contributions require records. Your check is OK for single gifts up to \$250 – above this you need a receipt from the charity. If you donated a vehicle, I need to see Form 1098-C, or you will be limited to a \$500 deduction.
- Special Events.** Jot down information about a death in the family, legal costs, expenses for your job, or any unusual medical costs. You may have found a deduction, but you have to let me know what happened. I will try to ask a lot of questions, but I’m not a mind reader. *Write down* the questions, or you may forget and lose a valuable deduction.

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Tips For You

Mortgage Interest Update.

Mortgages (over \$1 Million) have tough rules. The law allows interest deductions on up to \$1 Million of "acquisition debt", plus another \$100,000 of "equity debt" for your main home, plus one other property you use personally. "Acquisition" debts are to "buy, build, or improve" the property. "Equity" debt is any other debt secured by the property.

Good News. Though the Courts have said an original loan of more than \$1 Million contains no "equity" debt, IRS now disagrees. They feel any "acquisition" loan or loans not exceeding \$1.1 Million are OK.

Bad News. Two items: (1) IRS is now routinely auditing any return claiming over \$75,000 in mortgage interest. (2) IRS recently said where two unmarried persons buy a home together, the \$1.1 Million limit is for *total* loans. We had thought *each* buyer had a \$1.1 Million limit.

IRS On YouTube. IRS is using videos to explain some newer tax provisions. You can view them at www.youtube.com/irsvideos. There are a couple of dozen videos. Most are in English, but there are a few in Spanish, and even some in American Sign Language.

Curiously, IRS has resisted such things in the past. They continue to warn that they *never* send emails to taxpayers. They even ask you to

forward suspicious emails and bogus websites to phishing@irs.gov.

Last-Minute Tax Savers. These involve moving deductions from 2010 into 2009.

Contributions. If there are contributions already planned, ask if you can afford to make them this year. Get the savings now. If you're thinking of cleaning out the garage, do it now. Call your favorite charity, make a good list (possibly even a couple of snapshots!), and get your deduction in 2009.

Business/Work Supplies. If you buy office supplies, think about stocking up in December. Load up on paper, toner or printer cartridges, envelopes, maybe even some extra postage stamps. You can also buy business fixtures or equipment, but must be able to show the equipment was actually *used* in 2009.

Landlords/Businesses. Are there maintenance items you've been putting off? You get the deduction in 2009 if you do the work in 2009. Consider painting, carpet cleaning, replacing screens or furnace filters.

Timing of Income/Expense. An expense item is counted when you pay. Sign the check. Sign the credit card slip. Postmark the mail. When the funds leave your control, payment has been made.

With income, you cannot simply wait to cash a check – IRS says you have "constructively received" the money – it's yours right now. (You are free to delay billings, though!)

A Dutchman was explaining the red, white, and blue Netherlands flag to an American. "Our flag is symbolic of our taxes. We get red when we talk about them, white when we get our tax bills and blue after we pay them." The American nodded. "It's the same in the USA, only we see stars, too!"

Happy New Year!

May 2010 bring you and yours joy, good health, and the finest things in life.

Your Tax Calendar

Dec 31	A check mailed today counts for 2009. Last chance for deductions! Last chance for IRA withdrawals. State estimated tax paid today is deductible on 2009 Federal return.
Jan 15	4 th quarter estimated tax payments due.
Feb 1	Employers – Quarterly payroll & FUTA due. W-2's and 1099's due to recipients.
Mar 1	W-2's and 1099's due to IRS.
April 15	2009 tax returns due. Last day for 2009 IRA contributions.