

2009 YEAR-END TAX LETTER

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IT'S TAX TIME AGAIN...

The good news:
Taxes are lower than ever before.

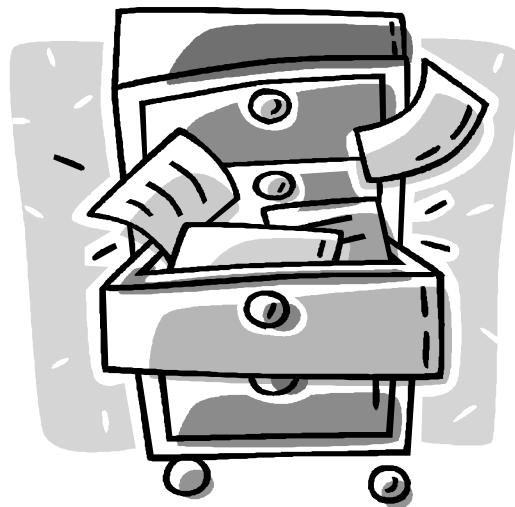
The bad news:
The recession is starving the government of revenue. Tax receipts are expected to be down 18% this year, And... The Federal deficit has hit a record \$1.8 trillion.

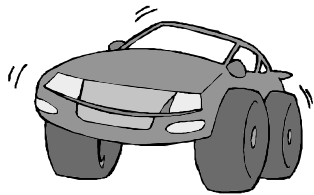
Times will be changing. The following pages are filled with tax saving ideas to help you save tax dollars while you still can.

Time to get organized

The following checklist will help you collect the documents you'll need to file your tax return. When all of the boxes are checked, you're ready.

- Your last 3 years' tax returns (new client).** Maybe we can amend and save money.
- Social Security numbers and dates of birth** are needed for all taxpayers, spouses and dependents.
- W-2 Forms.**
- Your last paycheck stub of the year** is full of information.
- 1099 Forms for interest, dividends, retirement, Social Security, debt cancellation, and unemployment** need to be entered correctly to comply with the IRS matching program.
- Property tax statements** contain important information. They list the tax (deductible) and special assessments (not deductible).
- Forms 1098 for mortgage interest** need to be entered as printed. The IRS cross checks.
- Year-end statements from mutual funds** showing the transaction detail for the year.
- Purchase and sale information**, including dates, relating to anything sold during 2009 is needed.
- Child care provider information** (name, address, SS#, amount paid) is needed for the child care credit (even if you are reimbursed at work).
- Names, addresses, and Social Security numbers** from whom you received interest, or to whom you paid interest.
- Bankruptcy or divorce papers** (if applicable).
- If you paid an individual person \$600 or more for services rendered in connection with your business or rental property**, please provide their name, address, and Social Security number.
- Records showing income and expense for any small business or rental property you own** will be needed.
- If you have an investment in a Partnership, S Corporation, Estate or Trust** you will need to bring Form K-1.
- Bring IRA year-end statements.**
- Bring all other statements of income**, whether you think they are taxable or not.
- Forms 1098-T** and amounts paid for post-secondary tuition are needed.
- Bring your records of estimated taxes paid.**
- Student loan interest 1098.**
- Adoption costs** (if appl.).
- Form 1098-C for donations of automobiles or boats.**
- Details on all noncash donations greater than \$500.** Include date, place, fair market value, and original cost.
- If you purchased a new hybrid / alternative fuel vehicle in 2009**, bring the year, make and purchase date.
- Bring direct deposit information** for any refunds you expect to receive.
- Noncustodial parents claiming children** need a signed IRS Form 8332 to claim the child.
- If your mortgage was forgiven due to foreclosure**, bring Form 1099-C or A.
- If you bought a new home**, bring the purchase papers.
- If you purchased a new vehicle**, bring evidence of the sales tax paid.
- Information on energy saving home improvements** might get you a tax credit.
- If you were an investor caught in a Ponzi-type scheme**, bring the details.
- If you received a \$250 stimulus payment**, we need to know.





Caution: the IRS is very attentive to taxpayers who write off local travel costs.

A daily log is essential.

DEDUCTING MILEAGE?

Did you drive for charity? If so, you can deduct 14¢ for every mile you drove.

If your medical expenses exceed 7.5% of your income, you may want to calculate a mileage deduction. Medical miles for 2009 are calculated at 24¢ per mile.

If you drove for business purposes, the situation is a little more complicated: First decide which miles qualify.

Use the following three scenarios to determine how many miles you can deduct. Keep in mind the following statement: **In general, commuting is not deductible.**

If you have an office or regular place of business outside your home, you may not deduct miles commuting to and from work or to your first or from your last stop, but you

may deduct mileage to drive to a *temporary work place* (less than one year's duration or less than 35 times a year) and mileage to and from different work locations during the day.

If you have an office in your home that qualifies for a home office deduction, all of your business-related mileage is deductible.

If you work out of your home but do not qualify for the home office deduction, the distance between home and your first stop and between your last stop and home are nondeductible commuting miles. You should carefully plan to have your first and last stops close to home to maximize the mileage deduction. A trip to the bank, post office, or a nearby supplier can help increase deductible business miles. Careful planning can save a lot of dollars at tax

time.

Once you have determined which miles to count, you need to decide whether to use the *standard mileage rate* or actual expenses.

The *standard mileage rate* for 2009 is 55¢ per mile for qualifying business usage.

Don't forget to record the year-end odometer reading if you are planning on a business mileage deduction.

Which method is best?

In general, the standard method works best if your business miles are high or your vehicle is economical to run.

The actual expense method works best if your vehicle weighs over 6000 pounds, is costly to run, or you do not have that many miles in total.

DO YOU WORK AT HOME?

If you are self-employed, you may qualify for the home office deduction if you use a portion of your home **exclusively** as your principal place of business, to store inventory, or to conduct substantial management or administrative activities. There can be no other fixed location where the above activities can be done.

If you are an employee, your home office must be required by your employer.

The office space still needs to be **used regularly and exclusively for business.** You can not have any other usage of the area whatsoever. Using your office for personal or investment reasons eliminates the deduction as far as the IRS is concerned, so be careful to keep your office space and computer usage all business.

Having a deductible home office means you can deduct all of your local business travel as described earlier, and you will

not have to keep a log of computer usage because your computer will be used exclusively for business.

If your office qualifies, you will need additional information: Measure the business space and the total space. You will also need your mortgage interest, taxes, insurance, association fees, repairs, maintenance, utilities, garbage, security, and rent paid. Also, provide an accounting of the total investment in your home.

To avail yourself of tax deductions, you need to be organized and well documented.



Save proof of all tax deductible purchases.

COMPUTER & CELL PHONE GUIDELINES

Did you buy a computer that you would like to deduct? You can use the following guide to determine what is deductible.

If you are an employee, a computer must be required as a condition of employment, and for the convenience of your employer, to be deductible.

If you are self-employed, the business percentage of computer usage, measured by time, is deductible.

If you use your computer for investment reasons, the business percentage of use may also be deductible if you itemize.

If you are a student, the use of a computer is not deductible, but you now can tap your 529 plan for a computer purchase.

It is wise to keep a log of computer usage to support your deduction.

The same documentation rules for computers also apply to cell phones. Your records should show time, place and purposes of deductible business calls.

The IRS has a hard time believing that any cell phone is used 100% for business, but pressure from business is pushing for simpler documentation. You can expect a more streamlined substantiation process soon. Stay tuned.

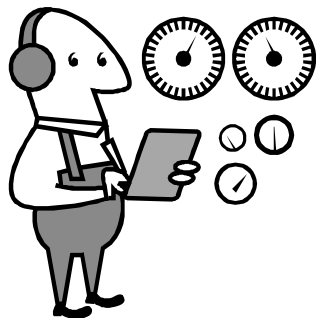
WHAT'S NEW FOR 2009?

How will you fare?

Are you a retiree over age 70½ or an heir required to take a required minimum distribution for 2009? Because of the downturn in stock prices, you can choose to skip the distribution this year.

Did you convert a second home to your principal residence in 2009? The entire amount of gain will no longer be excludable when you sell. The portion relating to non-personal usage beginning on 1/1/2009 will be taxed.

Are you a worker? The *Making Work Pay Credit* was designed to give workers a payroll tax credit of 6.2% of earned income with a cap of \$400 per person on the 2009 and 2010 tax returns.



Are you self-employed? The \$400 *Making Work Pay Credit* will also help you. Since this is a payroll tax credit, it will reduce your self-employment tax liability even if you pay no income tax.

- The 2009 Stimulus bill included an extension of the enhanced depreciation rules that were in effect in 2008.
- If you are more than 50% self-employed and making estimated payments, your estimated taxes paid need only be 90% of your 2008 tax to avoid penalty.

Are you a retiree, a veteran, or disabled? You most likely already received a payment of \$250. If you were also employed, your \$400 credit will be reduced by the \$250 you received.

Did you purchase your first home in 2009? If you have not owned a main home in at least 3 years and meet the qualifications, you can take a credit of up to \$8,000 or 10% of the purchase price of your new home purchased during 2009 on your tax return. This credit does not have to be repaid unless you dispose of the home within 36 months.

Were you an existing homeowner who purchased a new home after November 6, 2009? If you have maintained your principal residence for five consecutive years in the last eight, and meet the qualifications, you might qualify for a \$6,500 credit.

Did you buy a new vehicle? You can now deduct state and local sales or excise tax on the purchase of a new vehicle costing up to \$49,500. This can be a passenger auto, light truck less than 8500 pounds, motorcycle, or motor home, and you need to be the first owner. To qualify for the full deduction, your income needs to be under \$125,000 (\$250,000 MFJ). You can take advantage of this deduction even if you do not itemize your deductions. The deduction is not limited to just one vehicle.

Were you unemployed? Unemployment is normally fully taxable, but the 2009 Stimulus bill exempted the first \$2400 from Federal tax. Also, if you were involuntarily terminated, and eligible for Cobra, you may qualify to pay only 35% of the premium.

Are you paying college tuition for yourself or your dependent? The American Opportunity Tax Credit modifies the Hope Credit for higher education. For 2009 and beyond, the credit is increased to \$2,500 for tuition, fees, and course materials paid in the first 4 years of a degree program. The income limitations were increased so more taxpayers would qualify, and the credit is now partly refundable if you owe no tax. Also, you can now tap your 529 plan for new items: computer equipment, internet access,

and related services.

Are you a middle-income taxpayer? You are temporarily in luck. Once again, Congress “patched” the Alternative Minimum Tax, so you most likely will not be affected.

Are you a low income family? If your income is under \$45,295 and you have 2 or more children, you may qualify for the Earned Income Credit. If you have 3 or more children, your Earned Income Credit could max out as high as \$5,656. Also, more low income taxpayers will qualify for the refundable Child Tax Credit.

Are you a Homeowner? The Energy Credit is back for 2009 and 2010. Congress scrapped the old Energy Credit and replaced it with one that was more lucrative. You can now get a credit for 30% of your qualified expenditure with a maximum credit of \$1,500. If you invested in energy saving insulation, windows, exterior doors, metal roofs that reduce heat loss, electric heat pumps, central air conditioning, water heaters, biomass fuel stoves, or furnaces you might qualify.

Were you an investor caught in a Madoff-type, Ponzi-style scheme? You may be able to claim a theft loss against your ordinary income.

Did you pay your taxes with a credit or debit card? The fees related to tax payments are now deductible.

Did you buy a new electric plug-in vehicle in 2009? You can get a credit of up to 10% of the vehicle cost up to \$40,000 if you qualify.

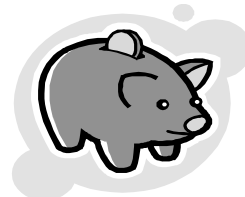
Do you commute to work on your bicycle? Your employer can now give you up to \$20 per month as a qualified transportation fringe benefit.

Feeling patriotic? You can now choose to invest all or a part of your refund in I bonds. These government bonds are adjusted for inflation every 6 months and are considered a long term investment. The current rate of interest is 0%.



Due to indexing, the tax brackets are wider, your exemptions and standard deduction are higher, and many phase-outs of deductions and credits begin at higher income levels. These factors make taxes lower than ever before.

These are only the highlights of the legislation and rulings that were passed affecting your 2009 tax return. A good tax preparer can help you use these new laws to the fullest.



Turn the page for some great tax-saving ideas.

YEAR-END TAX SAVING TIPS

GIVE TO CHARITY

Not sure of where to start? Try charitynavigator.org for guidance.

Short of cash? You can still make a last minute gift. Charge your deductions on a credit card and pay later. Consider giving through www.justgive.org. You can privately give to thousands of rated charities by VISA or MasterCard. Your donation goes directly to the charity, and www.justgive.org will send you a confirmation and a year-end summary to satisfy documentation requirements.

Or, better yet, you don't even have to spend money to take a charitable deduction. Clean out your closets of unwanted items to make a noncash gift. Keep in mind, the items must be in at least good condition. You should omit items of minimal value (socks and underwear), and thoroughly document the donation.

If you plan on donating a vehicle before year-end, beware of the rules. Select a charity that will either use or improve the vehicle, and you will be able to deduct *fair market value*. Otherwise your deduction will be limited to the price the charity got when they sold the vehicle. The charity will give you a 1098C documenting the contribution. The 1098C needs to be attached to your tax return.

If you have a stock or piece of property that has increased in value, you can deduct the full value and avoid paying capital gains tax by donating it to charity. If you want to give stock that has fallen in value, sell the stock, take the loss, and give the money to charity.

Keep in mind that proof of payment is needed for donations of any size.



CHECK YOUR TAX PAYMENTS TO AVOID PENALTIES

The IRS will charge a penalty if your tax for 2009 is less than 90% prepaid unless your payments are at least equal to last year's tax. (110% of last year's tax if your income exceeds \$150,000).

You can boost your itemized deductions, and possibly save yourself from a penalty, by sending your last state estimated tax payment before December 31st or by stepping up your state withholding.

CHECK YOUR PORTFOLIO

If you are in the 15% tax bracket or lower (under \$43,300 single or under \$86,600 married) you may be able to sell stocks or property at a gain in 2009 and pay no Federal tax. If you are in the above tax range, or even higher if you itemize, it might be wise to check out the possibility.

If you missed out on last year's credits or deductions because your income went over the limits, it might be wise to check your portfolio for some losses to reduce your income. You can offset up to \$3,000 of other income with stock losses. If you wish to repurchase the stock again, wait at least 31 days to avoid wash sale rules.

If you are planning on deducting worthless stock, remember that it's not deductible until it's completely worthless.

In buying mutual fund shares, avoid the year-end tax trap. Year-end dividends may include a years worth of capital gain in a large taxable payout. The value of your shares declines by the amount of payout, so you end up paying tax on profits that reduce your share value.

SELF-EMPLOYED?

Shelter up to 25% of your net income in a SEP retirement plan. Besides current tax savings, money grows tax-deferred on these investments. A SEP contribution can be made up until the due date of your 2009 tax return, including extensions.

Need business equipment?

The government passed a stimulus package to get the economy moving with the following enticements to buy equipment and save taxes in 2009. Reduce your income substantially by taking advantage of the \$250,000 expensing limit. If you choose not to directly expense equipment, you will be able to take an additional 50% bonus depreciation on new purchases. It's a good year to buy a new business vehicle if you need one.

Pay all bills already received for operating expenses rather than deferring payment until 2010. Remember that you can charge on a credit card and receive a current deduction.

To channel your income into next year for a cash basis business, you must be certain it is not constructively received. You can delay your billing to next year to defer income to 2010.

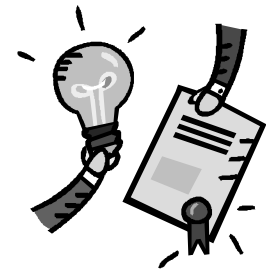


AND...

THE FUTURE?

The good news: The year 2010 brings a unique opportunity for high-income taxpayers. The \$100,000 income limit has been eliminated for Roth conversions. In addition, taxpayers wishing to convert IRA's to Roths in 2010 have a choice of spreading the tax liability to 2011 and 2012 or paying the tax in 2010.

The bad news: Our current tax system is inadequate to support the pledge the government has made (health care overhaul, no new taxes for those earning under \$250,000...) Things will change.



The basic strategy for year-end tax planning can be summed up in the following two statements:

- Channel your income into the year where it will be taxed at a lower rate.
- Channel your deductions to the year where your income will be taxed at a higher rate.

Times are uncertain and money is tight. This is a good year to concentrate on organization and documentation to save money at tax time. A good tax preparer can help you make the right decisions.

