

TAX NEWS LETTER 2009

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December 28, 2009

The following is a listing of significant changes for the 2009 including 2010 where applicable.

New federal tax law changes:

- **Making Work Pay Credit** – Calculated and reported on a new Schedule “M”. Refundable tax credit equal to the lesser of 6.2% of an individual’s earned income or \$400 (\$ 800 if filing joint) for returns with an adjusted gross income (“AGI”, \$ 150,000 if filing joint) of \$75,000 or less. “Phased out” at a 2% rate above these amounts.
- **First-Time Homebuyers Credit Expanded** – Credit applies the purchase of a primary home from April 1, 2008 and before December 1, 2009. Credit equals the lesser of 10% of the purchase price or \$ 8,000 (\$ 7,500 if purchased before January 1, 2009. Must not have owned a home in the three year period ending on the home purchase date.
- **New Car Purchase Excise Tax Deduction** – New Schedule L, “above the line” (for those who do not itemize personal deductions) deduction for excise taxes paid for the purchase of a new vehicle between February 17th and December 31, 2009. Vehicles includes: passenger auto, light truck, motorcycle (all less than 8,500 gross weight) or a motor home. Deduction applies to the first \$ 49,500 of the price paid for the vehicle. Phase-outs start for individuals with AGI income of \$ 125,000 or more (\$ 250,000 for filing joint).
- **Unemployment Compensation** – For 2009 only, the first \$ 2,400 of unemployment income received is exempt from federal tax.
- **Hope Education Credit Expanded** – Available credit increases from \$ 1,800 to \$2,500 with 40% refundable in 2009 and 2010.
- **Business NOL deduction term extended** - Businesses with a net operating loss (“NOL”, in general if expenses are greater than income) in 2008 can now carry the loss back five years as opposed to only two for tax years ending n 2009.
- **Energy Tax Credits for property purchased in 2009 and 2010 includes:**
 - Rate increase to 30% from 10%
 - Maximum cap increase to \$ 1,500
 - Elimination of “life-time” cap

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- **Energy Tax Credits for property purchased in 2009 and 2010 includes - continued**
 - Property includes:
 - Exterior doors and windows
 - Insulation, heat pumps, furnaces central air conditioners and water heaters
 - Solar, geothermal heat pumps and wind
 - Building "envelope" improvements – any insulation material or system designed to prevent heat loss, exterior windows, metal roof, etc

On-going federal tax provisions:

- **Real Estate Tax "Standard" Deduction** – For taxpayers that do not itemize their deductions (on Schedule A), a separate additional real estate tax deduction is allowed up to \$1,000 for joint returns and \$500 for single taxpayers. Taxes include amounts paid for your residence or investment property but not for those used in a business.
- **Required minimum pension distributions (RMD)** – For those affected over age 70, the RMD distribution is waived for the 2009 year.
- **Charitable donations** -
 - Cash donations – No deduction allowed for contributions of cash, checks or other monetary gifts, **regardless of the amount** unless the donor has a cancelled check, bank statement, receipt, letter or other written acknowledgement.
 - Cash contributions more than \$250 – must be acknowledged by a written receipt from the donee organization.
- **State sales taxes** continue to be deductible as "itemized deduction" if larger than any state income taxes deducted.
- **School teachers** - Out-of-pocket expenses paid are deductible - limit \$250 for "above the line" deductions.

Federal Facts and Rates:

- **Long-Term Capital Gain and Qualifying Dividends Tax Rate** – The maximum tax rate on capital gain and qualifying dividend income continues to be 15%. However, the rate is only 0% if the taxpayer is in a 10% or 15% tax bracket for all other income.

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Federal Facts and Rates – continued:

- **IRA deductions** - The allowed contribution for 2009 and 2010 will be \$ 5,000 per person (\$6,000 if over age 49).
- **Mileage deduction standard rates** –
 - Business: \$0.55 cents per mile for 2009, \$ 0.50 in 2010
 - Medical care: \$0.24 cents per mile in 2009
 - Charitable remains the same at 14 cents per mile
- **Standard deduction** – 2009 and 2010: filing joint is \$ 11,400 each, \$ 8,350 head of household and \$ 5,700 for single or filing separate.
- **Personal exemption** - 2009 exemption deduction will be \$ 3,650 and in 2010.
- **Gift Tax exemption** limited to \$13,000 in 2009.

Maine tax return - Possible Significant Tax Changes for 2010:

This past year, the Maine legislature enacted new laws that will significantly change the way taxpayers calculate their income tax for the 2010 year. At present, time is being granted to allow interested parties to gather information for a possible referendum vote next fall. If no referendum is filed by the summer of 2010 then the legislative bill will be put into law.

The tax return computation will change in several ways. First, there will be a flat tax rate of 6.5% on Maine adjusted gross income. Secondly, deductions allowed for itemized expenses, the standard deduction and personal exemptions will be eliminated. Instead, a household credit will replace these deductions. The credit will be adjusted for the number of dependents in the household and parents involved in their care. The net result will be the total taxpayer tax obligation which when compared to the withholdings, estimated tax payments or other credits will result in a balance owed or refund.

Please note that it is anticipated that the average Maine resident will **pay less state tax under this computation.** The reduced difference will be made up with additional sales taxes on services and products purchased by out-of-state residents and a broadening of the sales tax base.

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Steve's Tax Corner:

Topic 1 - Tax return filing considerations:

Some important considerations concerning filing your personal income tax returns:

1. **Filing your tax return** – As many of you know, our personal income tax returns are due by April 15th each year. Filing your return on time (or with an extension) has the advantage of starting the three-year IRS and state “statute of limitation” period. A return not filed, is considered an “open” year for IRS purposes and will remain so until the return is filed. Only those returns in an open year or for returns in the three year statute period can be audited by the IRS (and therefore by state agencies). Once the three year period is fulfilled, that year can no longer be audited or changes made to it. Therefore, filing a return on time reduces our exposure to further IRS taxes. Current open years for timely filed returns as of today's date are: 2006, 2007 and 2008.
2. **Filing an extension:** Simply extends the due date of the return. Currently only one six-month extension is allowed which extends the return filing date through October 15th. Taxpayers failing to file a return by the due date or with an extension will be subject to a penalty of 5% per month up to 25% of the tax liability.
3. **Payment of tax** – Tax due on a return must be paid by April 15th. An extension does **NOT** extend the due date of any unpaid taxes. All tax balances are expected to be paid by April 15th or the balance will be subject to an underpayment penalty of 6 % and interest at the current rate of about 4% for a total of 10%.
4. **Penalties and interest assessments** – Only returns which report a balance due are subject to additional penalties and interest charges. Exceptions to this rule are for taxpayers that fail to make required, quarterly estimated tax payments. Returns showing a refund are never charged penalties and interest even if filed late and without an extension. However see # 5 below.
5. **Filing a return with a refund** – A special rule limits the period under which the taxpayer will receive a refund when a return is filed late. In general, to receive a refund, a late filed tax return must be filed within two years of its due date. Otherwise, the return will be accepted and the statute of limitations begins running (as noted under # 1 above) but no refund will be issued the taxpayer even though he or she is owed one. This also is applicable to state returns. For example a 2005 return showing refund filed today will not be issued. For tax returns filed by April 15, 2010 only 2007 or 2008 refunds would be paid. If filed on April 16, 2010, only 2008 and 2009 would get a refund paid.

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Topic 2: Surviving the Great Recession:

During these challenging economic times, we need to focus on working “smarter” not “harder”. Working smarter mean making every dollar you have go further and looking out other ways to either save or receive more. Some important items are as follows:

1. Budget preparation – Prepare a personal or family budget. Important items include:
 - a. **Prepare a budget on a yearly basis.** One that is realistic and practical. I know a year sounds like a long time. However, you will see more clearly places where monies are being spent un-necessarily.
 - b. **Include the usual items:** such as mortgage payments, clothing, insurance, food allotments, car payments and the like. Also miscellaneous items
 - c. **Give yourself a weekly allowance and strict to it.** Include this amount in the budget. If you spend all of it a once then stop and wait till next week to spend more
 - d. **Avoid spending anything not in the budget** unless additional monies come in to support it.
 - e. **Update the budget as needed.** The plan can be flexible.
 - f. **Plan where possible for large items and create reserves for the unexpected**
2. Keep tract and avoid items of small amounts that can add up quickly:
 - a. Bank charges – reconcile your bank accounts monthly.
 - b. Coffee runs – treat yourself once in a while
 - c. Tax return interest and penalties – see above
3. Pay-off credit card debt. Pay-off credit card debt. Pay-off credit card debt!

I hope this information has been helpful. I look forward to hearing from you again this year!

Sincerely,

Stephen B. Smith, CPA