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Dear Friends:

There's a lot going on in the income tax world these days. The Congress and President have sought to stimulate the economy in many ways, one of which is through the tax code. Most of the changes are beneficial to you and me, but there's always a catch. Many of the new deductions and credits are subject to income limits. The good news is that most of you will be under these limits. What follows is **my longest newsletter in 18 years**.

But FIRST . . . the **Early Bird Discount** is still in force. You remember it. It's a **10% discount** off your tax preparation fee. To take advantage, you need to make your tax preparation appointment by **Saturday, January 9th**, or let me know you will be dropping off or mailing in your income tax information. Call, e-mail or text message me, and I'll put you on the list.

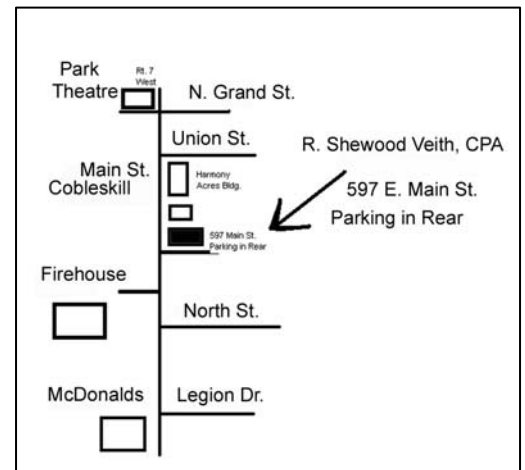
Beginning in January I will be accepting **MasterCard and Visa credit and debit cards**.

What's new for 2009?

The Standard Deduction - As you know, taxpayers may choose to itemize their deductions or claim the standard deduction, whichever is larger. Taking standard deduction is easier and simpler than itemizing, right? In 2009 there's a new full-page form that must be completed, called Schedule L, for some people who take the standard deduction. Consider taking the standard deduction Itemizing Lite.

Sales Tax Deduction for Purchasing a New Vehicle - There's no need to itemize deductions to claim this deduction. It increases your standard deduction (see Schedule L above), or increases your itemized deductions. Here are the specifics: You must have purchased one or more new **automobiles, motorcycles or motor homes** by the end of December with a combined cost of less than \$49,500. If you qualify for this deduction, please include your bill of sale(s) with your tax information. Used vehicles are not eligible. There is an income phase out. The deduction phases out for single filers who have income greater than \$125,000 and joint filers with income over \$250,000.

Making Work Pay Credit - Remember back in April when your take-home pay increased, because the amount of Federal withholding was reduced? This was a result of the Making Work Pay Credit, which is for taxpayers with earned income (wages and self-employment). The credit is \$400 for singles and \$800 for couples, subject, of course to income limits - \$75,000 for singles and \$150,000 for joint filers. Along with this was the \$250 that certain government retirees and social security recipients received last spring. Social Security recipients that also work may be eligible for an additional \$150 per person. Note that the credit cannot exceed \$400.



Tax Break for Unemployment Benefits - Unemployment benefits have always been taxable, but this year *the first \$2,400 of unemployment benefits are exempt from tax*. Are you happy now? I thought so. You will still need to bring in your 1099 from the state, though, even if the amount is less than \$2,400.

Property Tax Deduction Extended - Last year, for the first time, taxpayers who didn't itemize could still deduct some property taxes - \$500 for individuals and \$1,000 for joint filers - by increasing their standard deduction. That law has been extended another year, so be sure to bring in the amount of the land/school/village taxes you **paid** during 2009. This is another deduction taken on new Schedule L.

Education Credits Enhanced - With 2 kids in college this year, I was particularly excited to see this change. The HOPE education credit was extended from 2 to 4 years with a maximum credit of \$2,500 per student per year. Not only was the credit enhanced, but the income limits were raised so that more people will qualify for the credit. The income limits were raised for singles from \$50,000 to \$80,000, and for joint filers from \$100,000 to \$160,000. I promise that this will be a major tax savings for many of you that have kids in college. Tax savings will be measured in the thousands of dollars.

Earned Income Credit (EIC) - The EIC maximum is \$5,657 for 2009, but you need 3 children under 18 years of age, or in full-time college to qualify. If you have 2 children, the maximum credit is \$5,028, \$3,043 for one child and \$457 for no children. Income limits for EIC were also raised so that more taxpayers qualify.

Vehicle Credits - The big, new credit is \$7,500 for plug-in electric vehicles. Though I don't know of any on the market yet, there is at least one slated to arrive in 2010 (Chevrolet Volt). There are still credits available for a few hybrids and lean-burn diesels. If you qualify, or think you qualify, please bring in your bill of sale so I can look up your vehicle (new vehicles only). Finally, there is a \$4,000 credit to convert your hybrid to a plug-in. I heard of one company that is making this conversion on Toyota Priuses. There are even credits for low-speed electric vehicles. These are primarily seen in Florida retirement communities. We northerners would call them glorified golf carts. There are rules for required equipment (brake lights, doors, turn signals, etc.) to make them eligible for the credit. Check before you buy.

Foreign Bank Account Registration - If you have a bank account in a foreign country that had \$10,000 in it on any day of the year, you must disclose the account on form TDF-90.22. This is not a tax form, but a Department of Treasury form. The fine for **not** disclosing is \$10,000 with a maximum penalty of \$100,000. You have until June 30 to file the form. This is an anti-money-laundering law. Don't mess with it!!

Gambling Income/Losses - Do you like to visit Turning Stone, Atlantic City or Saratoga? In the past you would net your slot machine winnings and losses and maybe the casino would issue you a 1099. The IRS would like you to track your winnings and losses separately. You should obtain an itemized statement from the casino, if possible, or keep an accurate log.

Traditional IRA Conversions to ROTH IRAs - In 2010 you may convert your traditional IRA to a ROTH IRA and pay the tax due over 2 years. The income limit allowing the conversion jumps from \$100,000 in 2009 to UNLIMITED for 2010. This may or may not be a good thing for you, so before your broker convinces you to jump, if he hasn't already, please call me.

First Time Home Buyer Credit - If you took the First Time Home Buyer Credit (FTHBC) in 2008 of \$7,500, you must repay the credit over 15 years. But if you waited to 2009 to buy your house, the credit increased to \$8,000 and it *doesn't need to be repaid*. "Not fair!," I hear some of you say. True, but it's the new law. In 2009 you must have closed on your home by December 1st, and you must own your home for 3 years. . . . or you have to pay it back. If you built a new home, you must receive your Certificate of Occupancy by December 1st.

Long Time Resident Credit - If you don't qualify for the FTHBC, you may qualify for the \$6,500 Long Time Resident Credit. This is for taxpayers who have owned a home for 5 consecutive years and purchase a new

home after November 6, 2009. It's probably more applicable for 2010, and this law was passed only a month ago, so details are pending. Stay tuned.

FTHBC Fraud and Reporting - Because of the amount of the FTHBC credit (\$8,000 is a lot of money), IRS is concerned with the fraud possibilities. To claim the FTHBC you will need to provide a copy of the closing documents and your driver's license *to attach with the return*. Also, FTHBC returns *may not be electronically filed*, because of the extra documentation that must be attached. Basically, the IRS will audit the FTHBC form before issuing the refund - not the whole return, just the FTHBC form and documentation.

Energy Improvement Credit - For qualified energy improvements there is a credit up to \$1,500, or 30% of the cost of the materials (installation and labor not included). The improvement must come with a **government certification**. Your retailer/dealer should provide you with this certification, and you should keep a copy of it in your file. **Pellet stoves qualify** for the credit if the manufacturer received government certification. Again, your dealer will tell you if your stove and/or improvement qualifies for the credit. *The improvement must be placed in service to qualify*. Going to Home Depot on December 31st and buying qualifying windows won't get you the credit unless you install them the same day.

Dependent Exemption - The IRS is making a greater effort than ever to make sure *the correct parent claims their child* as a dependent in the case of divorced, separated or unmarried parents. Though the law isn't new, enforcement is taking another step up. The parent that has physical custody of the child always determines who will take the exemption deduction. *Physical custody is determined by counting days with each parent*, not what the family court or divorce decree says. The parent with the most days has physical custody. The parent that has physical custody may claim the child, or may allow the other parent to claim the child, but the custodial parent **must** sign an IRS release form and attach the form to their return. This can be challenging with broken relationships, or where the other spouse lives out of state, or even out of the county. So many tax credits and deductions hinge on children, that it's important make sure the child is claimed correctly by the correct parent.

Mileage Rate Change - The IRS business mileage rate for 2009 is 55 cents per mile, the charitable mileage rate is 14 cents per mile, and medical is 24 cents per mile. The 2010 business rate will be 50.5 cents per mile.

Charitable Contributions - All contributions, even those made with a check, *must have a written receipt for substantiation*, if audited. Clothing and household donations to Salvation Army, etc. must have an itemized list of ALL items donated. **Contrary to popular myth, there is no standard or automatic charitable deduction.**

2009 IRA Contributions - The 2009 IRA and ROTH IRA maximum contribution is still \$5,000 for individuals under 50, and an additional \$1,000 for those over 50 years old (\$6,000 total). Your 2009 contributions may be made until April 15, 2010.

Tax Myths . . .

Home improvements are NOT deductible, unless they qualify under the home energy credit. A bathroom remodel is not deductible, for example. It would be for your rental property, but not your home.

Filing an extension is NOT a red flag. Taxpayers that extend their returns are no more likely to be audited than those that don't. There are any number legitimate reasons (excuses?) to extend a return. Fear of an audit should not discourage you.

Filing and extension does NOT give you more time to pay your tax. An extension only eliminates the failure to file timely penalty. If you owe tax when you file your extended tax return, there will still be late payment penalties and interest to pay.

Now the annual housekeeping items. . .

If you had a new child in 2009, make sure that ***your new baby has a social security number***. No dependency deduction can be claimed without a SSN for the child. I will also need your new baby's date of birth.

Make sure your banks, brokerage firms, mortgage companies, employers, IRA custodians, pension companies and any other institution from which you will receive tax information – *including former employers* – **have your correct address**. Failure to get a W-2 or 1099 on time may delay processing of your tax return.

For those of you who claim a business mileage deduction, take your odometer readings on December 31 and **compute your total miles and business miles**. Remember, commuting and personal miles are not deductible.

If you plan to take the **child care credit**, obtain the name, address and social security number or tax identification number of your daycare provider, as well as the amount paid for each child. NOTE: I will need this information even if you used your employer's pre-tax daycare plan.

On a personal note, my son Josh announced his **wedding date** will be Saturday, April 17th in Seattle, Washington. So . . . Debbie, Rachel and I will need to be on an airplane late in the day on the April 15th. I will be making every effort to wrap up the income tax filing season a day early this year, and will have a strict cut-off day of Saturday, April 10th to E-File your returns so there is enough time to resolve problems in case an E-Filed return is rejected. **I will prepare extensions until April 14th, and I will close my office at noon on April 15th**. I apologize in advance if this causes you inconvenience.

I will gladly prepare your dependent children's tax returns. Every tax season a taxpayer's child files their 1040EZ form in January looking for a quick refund. Later mom's and dad' tax return is rejected by IRS, because the child claimed him/herself on their tax return. Now mom and dad can't claim the child, they are angry and frustrated; amended returns need to be filed, tax has to be repaid on the kid's return and mom's and dad's refund is delayed. It's easier for me to prepare the child's tax return correctly than deal with the fallout from an impatient child. AND . . . there's *no charge* to do dependent children's tax returns.

I am currently accepting appointments for the third week of January and beyond. For those who would like to visit with me, appointment times are as follow:

Monday, Tuesday	6:30 p.m. to 8:30 p.m.
Wednesday	1 p.m. to 5:30 p.m.
Thursday	10 a.m. to 8:30 p.m.
Friday	8 a.m. to 4:30 p.m.
Saturday	9 a.m. to 3:30 p.m.

If you **do not need an appointment**, please feel free to **drop off** or **mail** your information to me. I will call or e-mail you if I have any questions. You may do the same, of course.

I will be posting this newsletter on my website. Please check my website for contact information, office hours, or directions.

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My daughter Rachel will be in the front office this year. We're both looking forward to spending the tax filing season together. Wish us luck!!

Sherwood