

TAX NEWS LETTER - 2010

Ideas and Information for your Tax Planning

Haitian Donations

People who give to charities providing earthquake relief in Haiti can claim these donations on the tax return they are completing this season, according to the Internal Revenue Service. Taxpayers who itemize deductions on their 2009 return qualify for this special tax relief provision, enacted Jan. 22. Only cash contributions made to these charities after Jan. 11, 2010, and before March 1, 2010, are eligible. This includes contributions made by text message, check, credit card or debit card. The contributions must be made specifically for the relief of victims in areas affected by the Jan. 12 earthquake in Haiti. Taxpayers have the option of deducting these contributions on either their 2009 or 2010 returns, but not both. To get a tax benefit, taxpayers must itemize their deductions on Schedule A. Those who claim the standard deduction, including all short-form filers, are not eligible.

Business Use of Employer-provided Cell Phone:

An employee with an employer-provided cell phone receives a nontaxable working condition fringe benefit to the extent he or she uses the phone for business purposes, and the cell phone cost is a deductible business expense for the employer if the substantiation requirements are met. In June of 2009, the IRS requested public comments on several proposals to simplify the procedures for substantiating an employee's business use of employer-provided cell phones. As of January 11, 2010 Commissioner Doug Shulman of the IRS has "decided against coming up with rules on the taxation of employer-provided cell phones and said the IRS would instead wait for Congressional legislation." Stay tuned!

IRS Streamlines and Simplifies Taxpayer Notices:

Nine new taxpayer notices feature a format that has a "plain language explanation of the nature of the correspondence [and] clearly states what action the taxpayer must take The new format also guides taxpayers to appropriate pages on IRS.gov where they can find accurate and relevant information quickly and easily. By reducing the potential for confusion, these notices will improve the taxpayers' ability to get problems resolved quickly, and improve overall compliance." Beware when the IRS streamlines and simplifies!

Sales Tax Deduction for Vehicle Purchases

The deduction is available on new vehicles purchased from Feb. 17, 2009, through Dec. 31, 2009. In states that don't have a sales tax, the law provides a deduction for other taxes or fees paid. This deduction is available whether or not a taxpayer itemizes deductions on Schedule A.

The deduction is limited to the taxes and fees paid on up to \$49,500 of the purchase price of an eligible vehicle. The deduction is reduced for joint filers with modified adjusted gross incomes (MAGI) between \$250,000 and \$260,000 and other taxpayers with MAGI between \$125,000 and \$135,000. Taxpayers with higher incomes do not qualify.



Taxpayers Can Now Use Refunds to Buy Savings Bonds; New Direct Deposit Option

In an effort to help individuals build their savings and retirement funds, a new direct deposit option in 2010 allows taxpayers to use their tax refunds to purchase U.S. Series I Savings Bonds.

Taxpayers who use IRS e-file with direct deposit can get their refunds in as few as 10 days.

Using Direct Deposit

A taxpayer who wants to have his entire refund deposited into one account — a checking, savings or retirement account — simply needs to include his financial institution account number and nine-digit routing number on his tax return. But the taxpayer may also split his refund into as many as three financial accounts. For example, he might designate that part of the refund be deposited into a savings account, part into a checking account and part into a retirement fund. Other examples of financial accounts eligible to receive deposits include health savings accounts and Coverdell education savings accounts.

And this year, for the first time, taxpayers may also use the split-refund option to purchase Treasury I Bonds.

Splitting a Refund

The taxpayer selects the accounts and the amount of the direct deposit he wants to designate for each account. The taxpayer should check with his financial institution to get the correct routing and account numbers and ensure the direct deposit will be accepted. The routing number on a deposit slip should not be used if it differs from the routing numbers on a corresponding check.

Buying Savings Bonds

This year, a taxpayer for the first time can request a portion of his refund be used to buy up to \$5,000 in low-risk, liquid Treasury I Bonds, which earn interest and protect owners against inflation.

The resulting bonds will be issued in the taxpayer's name. If the refund is a joint refund, the bonds will be issued in the names of both taxpayers. No beneficiary may be selected. The taxpayer need not have a TreasuryDirect account to purchase I Bonds using this option.

An I Bond request must be a multiple of \$50. The taxpayer also needs to designate an account to which he wants the IRS to deposit the balance of his refund. For example, if his refund is \$280, the taxpayer can request that \$250 be used to purchase I Bonds and that the remaining \$30 is to be deposited into a checking, savings or investment account.

In cases where a refund is an exact multiple of \$50 but less than \$5,000, the taxpayer may direct that all of the refund be applied to I Bond purchases by filling out the direct deposit information on his tax return and simply not using Form 8888.

The savings bonds will be mailed to the taxpayer.

Bonds will not be purchased in situations where the taxpayer makes an error figuring his refund or if the bond request is not a multiple of \$50 or the refund is offset for any reason. In these cases, the requested purchase will be cancelled and the entire refund mailed to the taxpayer in the form of a check.

Information about Individual Retirement Arrangements

Refunds may be deposited directly into previously established traditional IRAs, Roth IRAs and SEP-IRAs. (They may not be deposited into SIMPLE IRAs.)

The taxpayer should check with his financial institution to confirm that it accepts direct deposits as well as inform the trustee of the tax year to which the IRA should be contributed. For example, if a taxpayer intends for a direct deposit to be designated as a 2009 IRA contribution but fails to inform the trustee, the deposit might be designated as a 2010 contribution. The direct deposit contribution to an IRA must be made prior to April 15 in order to apply to the 2009 tax year.

Other Changes

Mileage

For the year 2009, mileage rates are as follows:

The standard mileage rate for business use of a car, van, pick-up or panel truck is 55 cents for each mile driven. The standard mileage rate for the cost of operating a vehicle for medical reasons or as part of a deductible move is 24 cents per mile. The rate for using a car to provide services to charitable organizations is set by law and remains at 14 cents a mile.

Beginning January 1, 2010 the mileage rates are as follows:

The standard mileage rate for business use of a car, van, pick-up or panel truck is 50 cents for each mile driven. The standard mileage rate for the cost of operating a vehicle for medical reasons or as part of a deductible move is 16.5 cents per mile. The rate for using a car to provide services to charitable organizations is set by law and remains at 14 cents a mile.

Dependent Exemption

The value of each personal and dependency exemption is \$3,650, up \$150 from 2008. Most taxpayers can take personal exemptions for themselves and an additional exemption for each eligible dependent. This is one of more than three dozen individual and business tax provisions that are adjusted each year to keep pace with inflation. A complete rundown of these changes can be found on the IRS web site at 2009 Inflation Adjustments Widen Tax Brackets, Change Tax Benefits.

Child's Income

The amount of taxable investment income a child can have without it being taxed at the parent's rate is \$1,900, up \$100 from 2008. For details, see Form 8615.



Qualifying Child

There are several modifications to the definition of a qualifying child. For example, the child must be younger than the taxpayer, unless the child is totally and permanently disabled. These changes affect who can claim various tax benefits including the dependency exemption, child tax credit, credit for child and dependent care expenses, head of household filing status and the EITC.

Noncustodial Parents

A new rule applies to the noncustodial parent in situations where a couple is divorced or legally separated after 2008. To claim a child as a dependent, the noncustodial parent must attach Form 8332 or a similar statement to his or her tax return. For pre-2009 divorces and separations, the noncustodial spouse still has the option of attaching certain pages from the divorce decree or separation agreement, instead of Form 8332. See Form 8332 for further details.

Cash For Clunkers

A \$3,500 or \$4,500 voucher or payment made for such a voucher under the CARS “cash for clunkers” program is not taxable to the consumer buying or leasing a new car.

Unemployment

Unemployment benefits up to \$2,400 received in 2009 are tax free for unemployed workers. Every person who receives unemployment benefits can exclude the first \$2,400 of these benefits on their return. Unemployment benefit amounts over \$2,400 are taxed.

Energy Credits

Non-business Energy Property Credit:

This credit equals 30 percent of what a homeowner spends on eligible energy-saving improvements, up to a maximum tax credit of \$1,500 for the combined 2009 and 2010 tax years. This means that a homeowner can get the maximum credit by spending at least \$5,000 on qualifying improvements. Homeowners must make the improvements to an existing principal residence; this tax credit is not available for new construction. The cost of certain high-efficiency heating and air conditioning systems, water heaters and stoves that burn biomass all qualify, along with labor costs for installing these items. In addition, the cost of energy-efficient windows and skylights, energy-efficient doors, qualifying insulation and certain roofs are also eligible for the credit, though the cost of installing these items does not count.

Residential Energy Efficient Property Credit:

The residential energy efficient property credit, equals 30 percent of what a homeowner spends on qualifying property such as solar electric systems, solar hot water heaters, geothermal heat pumps, wind turbines, and fuel cell property. Qualifying property purchased for new construction or an existing home is eligible for the credit. Generally, labor costs are included when calculating this credit. Also, no cap exists on the amount of credit available except in the case of fuel cell property.



Not all energy-efficient improvements qualify for these tax credits. For that reason, homeowners should check the manufacturer's tax credit certification statement before purchasing or installing any of these improvements. The certification statement can usually be found on the manufacturer's Web site or the product packaging. Normally, a homeowner can rely on this certification. The IRS cautions that the manufacturer's certification is different from the Department of Energy's Energy Star label, and not all Energy Star labeled products qualify for the tax credits.

Earned Income Credit

The earned income threshold for the credit has been reduced from \$12,050 to \$8,500 to qualify.

Online Scams

The IRS and E-mail

Generally, the IRS does not send unsolicited e-mails to taxpayers. Further, the IRS does not discuss tax account information with taxpayers via e-mail or use e-mail to solicit sensitive financial and personal information from taxpayers. The IRS does not request financial account security information, such as PIN numbers, from taxpayers.

How an Identity Theft Scam Works

Most of the scams that impersonate the IRS are identity theft scams. Typically, a consumer will receive an e-mail that claims to come from the IRS or Treasury Department. The message will contain an enticing or intimidating subject line, such as tax refund, inherited funds or IRS notice. Usually, the message will state that the recipient needs to provide the IRS with information to obtain the refund or avoid some penalty.

Phony Web or Commercial Sites

In many IRS-impersonation scams, the scammer sends the consumer to a phony Web site that mimics the appearance of the genuine IRS Web site, IRS.gov. This allows the scammer to steer victims to phony interactive forms or applications that appear genuine but require the targeted victim to enter personal and financial information that will be used to commit identity theft.

The official Web site for the Internal Revenue Service is IRS.gov, and all IRS.gov Web page addresses begin with <http://www.irs.gov/>.

In addition to Web sites established by scammers, there are commercial Internet sites that often resemble the authentic IRS site or contain some form of the IRS name in the address but end with a .com, .net, .org or other designation instead of .gov. These sites have no connection to the IRS. Consumers may unknowingly visit these sites when searching the Internet to retrieve tax forms, publications and other information from the IRS.

Frequent or Recent Scams

- Refund Scam
- Lottery winnings or cash consignment
- Beneficial Owner Form



Tax Credits for Home Buyers

Tax Credit in General

For first time homebuyers, there is a refundable credit equal to 10 percent of the purchase price up to a maximum of \$8,000 (\$4,000 if married filing separately). A first-time homebuyer is an individual who, with his or her spouse if married, has not owned any other principal residence for three years prior to the date of purchase of the new principal residence for which the credit is being claimed.

There are several situations in which a taxpayer cannot claim the credit:

- The taxpayer is a nonresident alien;
- The taxpayer purchases a home located outside the United States;
- The taxpayer sells the home or if it stops being the taxpayer's principal residence in the year the taxpayer purchased the home;
- The taxpayer receives the home, or any portion of the home, as a gift or as an inheritance; and
- The taxpayer exceeds the income limits.

The Worker, Homeownership, and Business Assistance Act of 2009 extended and expanded the tax credit for first time homebuyers that had been created in 2008. The new law extends the deadline for qualifying home purchases from Nov. 30, 2009, to April 30, 2010. If a buyer enters into a binding contract by April 30, 2010, the buyer has until June 30, 2010, to settle on the purchase.

Members of the Armed Forces and certain federal employees serving outside the U.S. have an extra year to buy a principal residence in the U.S. and still qualify for the credit. An eligible taxpayer must buy or enter into a binding contract to buy a home by April 30, 2011, and settle on the purchase by June 30, 2011.

Purchases made after Nov. 6, 2009

Taxpayers should be aware of some changes to the law that apply to home purchases after Nov. 6, 2009, the date of enactment of the new law.

The new law expands the tax credit to include not just first-time buyers but also long-time residents who buy a new principal residence. They are eligible for a credit of 10 percent of the purchase price up to a maximum credit of \$6,500. A long-time resident is an individual who, with his or her spouse if married, has owned and used the same home as a principal residence for any period of 5 consecutive years during the 8-year period ending on the date of purchase of the new principal residence for which the credit is being claimed.

Income Limitation

For people who purchase homes after Nov. 6, the full credit will be available to taxpayers with a modified adjusted

gross income (MAGI) up to \$125,000, or \$225,000 for joint filers. MAGI is your adjusted gross income plus the total of certain foreign earned income. Those with MAGI between \$125,000 and \$145,000, or \$225,000 and \$245,000 for joint filers, are eligible for a reduced credit. Those with higher incomes do not qualify.

However, for homes purchased before Nov. 7, 2009, existing income limits remain in place. The full credit is available to taxpayers with MAGI up to \$75,000, or \$150,000 for joint filers. Those with MAGI between \$75,000 and \$95,000, or \$150,000 and \$170,000 for joint filers, are eligible for a reduced credit. Those with higher incomes do not qualify.

Several new restrictions apply to purchases that occur after Nov. 6:

- Dependents are not eligible to claim the credit;
- No credit is available if the purchase price of a home is more than \$800,000; and
- A purchaser must be at least 18 years of age on the date of purchase.

Credit Claimed on a 2009 or 2010 Tax Return

For all qualifying purchases in 2010, taxpayers have the option of claiming the credit on either their 2009 or 2010 tax returns.

A new version of Form 5405, First-Time Homebuyer Credit, is expected to be available by Jan. 15, 2010, for taxpayers who purchased a home after Nov. 6; this new version of the form must be used to claim the credit. Likewise, taxpayers claiming the credit on their 2009 returns, no matter when the house was purchased, must also use the new version of Form 5405. Taxpayers who claim the credit on their 2009 tax return will not be able to file an electronic return, but instead will need to file a paper return.

Credit Claimed on a 2008 Tax Return

The maximum credit was originally \$7,500 (\$3,750 if married filing separately). A taxpayer who chose to claim the credit on the 2008 tax return for a home purchased in 2009 and who also did not use the February 2009 revision of Form 5405 may now be able to claim the additional \$500 on an amended 2008 tax return.

