

TAX UPDATE

2009 YEAR END NEWSLETTER

Greetings to clients and friends! The income tax filing season is approaching once again. This Tax Update newsletter provides a summary of key tax law changes and provides some helpful ideas to help you reduce your taxes this year.



Tax Benefits You Might Overlook

As the tax season approaches take some time to determine if you qualify for some of these often overlooked tax breaks. Some of these tax saving ideas require that you itemize your deductions. Others can be claimed by any qualifying taxpayer.

1 Charitable Volunteering. If you volunteer for a charitable organization you may have deductible expenses. Did you purchase supplies or required equipment? Perhaps you volunteer in a hospital and need to purchase a uniform. The costs for the apparel AND the costs to clean the uniform can qualify as charitable deductions. And don't forget mileage, it too can often be deducted.

2 Moving Expenses. While job related moving expenses are a well know deduction, many clients don't realize moving expenses for a first job may also be deducted if the job passes a 50 mile distance test from the place the newly employed person has been living.

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Key 2009 Exemptions and Deductions

Listed here for your reference are key deduction rates for 2009.

PERSONAL EXEMPTIONS –

The personal exemption for each qualifying dependent increases by \$150 for 2009.

	<u>2009</u>	<u>2008</u>
Exemption	\$3,650	\$3,500

The exemption phases out by 2% for each \$2,500 (\$1,250 for married filing separately) by which your income is over:

	<u>2009 PHASE OUT</u>
Single	\$166,800
Married Filing Separately	\$125,100
Married Filing Jointly	\$250,200
Head of Household	\$208,500

2009 Alert: This phaseout may only reduce the exemption by 1/3 in 2009.

STANDARD DEDUCTIONS –

Standard deductions for those who do not itemize are as follows:

	<u>2009</u>	<u>2008</u>
Single	\$5,700	\$5,450
Married Filing Sep.	\$5,700	\$5,450
Married Filing Joint	\$11,400	\$10,900
Head of Household	\$8,350	\$8,000

STANDARD DEDUCTIONS (CONTINUED)

If 65 or over and/or blind add:

	<u>2009</u>	<u>2008</u>
Single/ Head of Household	\$1,400	\$1,350
Married/ Surviving Spouse	\$1,100	\$1,050

2009 Alert: The real estate tax standard deduction is available again in 2009. It is up to \$500 (single) and \$1,000 (married).

ITEMIZED DEDUCTION PHASEOUT –

Deductions are reduced by 3% of every dollar of Adjusted Gross Income over \$166,800 (\$83,400 if married filing separately) up to a maximum phaseout of 80% of your itemized deductions. Medical expenses, investment interest, casualty losses and gambling losses are excluded.

2009 Alert: The phaseout may only reduce your itemized deduction by 1/3 in 2009.

STANDARD MILEAGE RATES –

The standard mileage rates for 2009 are:

<u>Mileage</u>	<u>2009 RATE/MILE</u>
Business Travel	55¢
Medical/Moving	24¢
Charitable Work	14¢

2009 Tax Rates

The income brackets for each tax rate are:

<u>SINGLE</u>	<u>MARRIED JOINTLY</u>	<u>HEAD OF HOUSEHOLD</u>	<u>TAX RATE</u>
\$1 - 8,350	\$1 - 16,700	\$1 - 11,950	10%
\$8,351 - 33,950	\$16,701 - 67,900	\$11,951 - 45,500	15%
\$33,951 - 82,250	\$67,901 - 137,050	\$45,501 - 117,450	25%
\$82,251 - 171,550	\$137,051 - 208,850	\$117,451 - 190,200	28%
\$171,551 - 372,950	\$208,851 - 372,950	\$190,201 - 372,950	33%
Over \$372,950	Over \$372,950	Over \$372,950	35%

More Special 2009 Tax Items

2009 marks another year of major tax law changes. While too vast to mention them all, here are some that will impact many clients.



\$2,400 of unemployment benefits are not taxed this year.



There is a one-year option to avoid the minimum retirement plan distribution rules for qualified accounts.



The “cash for clunkers” vehicle benefit that many took advantage of is not taxable. Plus sales and use tax paid on the purchase of a new vehicle creates a potential tax break!



Social Security benefits will NOT be going up next year so you need to plan accordingly.



The Hope Credit education expense deduction has been increased and expanded from two to four years of post secondary education.



The earned income and child tax credits have been changed and will likely benefit most clients (but not all).



A personal casualty and theft loss must now exceed \$500. This is up from \$100.

As always, please feel free to bring up any questions or concerns that may impact your situation.

Tax Benefits You Might Overlook

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3 Job Hunting Costs. Workers can often deduct job hunting costs provided the expenses are associated with looking for a new job in your present occupation. Qualifying costs include resume preparation, printing, postage, phone calls and outplacement/employment agency fees. Remember these costs, along with other miscellaneous itemized expenses, must exceed 2 percent of your adjusted gross income before they produce any tax savings.

4 Child and Dependent Care Credit. Did you know the popular Child and Dependent Care tax credit also applies to summer day camp costs? As long as the camp is a day-camp and camp officials supervise the child while the parents work you can claim the credit for the camp costs.

5 Mortgage Refinancing Points. If you refinance your house or buy a second residence, any “points” you pay for the loan can be deducted proportionately each year over the life of the loan. If you sell your home or refinance before you have

deducted the full cost of your “points”, you can then deduct the remaining amount in the year of the refinancing or sale.

Caution: The lender in the subsequent refinancing must be different to deduct points this way.

6 Military Reservists’ Travel Expenses. Military reserve forces and National Guard troops are allowed a deduction for travel expenses attending drills or meetings provided you travel more than 100 miles and stay overnight for the training exercise. This deduction includes mileage reimbursement at 55 cents per each mile traveled. Parking toll fees also qualify. You receive this deduction whether or not you itemize your deductions.

So take a minute to examine your activities over the past year and try to identify items that may lower your tax obligation. If you have questions about these topics or have other areas of concern please feel free to call.

This publication provides summary information regarding the subject matter at time of printing. Please call with any questions on how this information may impact your situation.

Energy Efficient Tax Credits 2009

The American Recovery and Reinvestment Act expands your tax-deductible opportunities to make energy efficient home improvements in 2009 and 2010. If you make any of the following improvements, you can possibly recover up to 30% of the costs:

- Exterior Windows and Doors
- Storm Windows and Doors
- Skylights
- Roofs (metal or asphalt)
- Insulation and Sealing
- Central Air Conditioning
- Air Source Heat Pumps
- Furnace (Natural Gas, Propane or Oil)
- Hot Water Boiler (Gas, Propane, or Oil)
- Advanced Main Air Circulating Fan
- Water Heater (Gas, Oil, Propane, or Electric Heat Pump)
- Biomass Stove

Here are some of the stipulations:

- The maximum credit allowed is \$1,500.
- This tax credit doesn’t apply to new construction.
- Not all products and materials qualify so you must question your vendor, re-modeler or service company.
- The equipment or products must last a minimum of five years.
- The improvement must be placed in service on or after February 17, 2009.
- Improvements made before February 17, 2009 have different qualifications.

Improvements made in 2009 may be claimed on your 2009 tax return filed by April 15, 2010. Those made in 2010 will be claimed with your filing in 2011.