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Sauppé Tax News

Brought to you by
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Special points of interest:

- Emergency Economic Stabilization Act
- IRA's Explained Part II
- HEART (Heroes Earnings Assistance Relief Tax Act)
- Housing and Economic Stabilization Act
- Economic Stimulus Act

INSIDE THIS ISSUE:

Six New Tax Bills Liven The Season

In the last 12 months, six tax bills have been passed. They are:

1. Mortgage Forgiveness Debt Relief Act of 2007
2. Economic Stimulus Act of 2008
3. Food, Conservation, and Energy Act of 2008
4. Heroes Earnings Assistance and Relief Act of 2008
5. Housing and Economic Recovery Act of 2008
6. Emergency Economic Stabilization Act of 2008

Some of these bills have gotten a lot of media attentionl, while others have received little or no attention.

Our office has reviewed all of these bills and how they will affect you. More information can be found in this newsletter or you can call our office to discuss further.

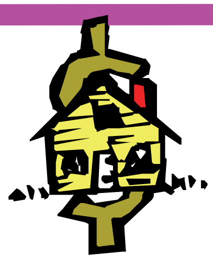
Economic Stimulus Act

Probably the most widely known tax bill of the last 12 months is the Economic Stimulus Act of 2008. This is the bill that authorized the stimulus checks most of you received during the summer.

It is important to understand that even though the checks you received were calculated based on the 2007 return numbers, the stimulus is really a reduction in the 2008 taxes. Therefore, information on the stimulus must be taken into consideration when preparing your 2008 tax return. If you did not receive an advance stimulus check in 2008, you may still be entitled to this payment which will be calculated on your 2008 return. Or you may have received a check in 2008, but when the 2008 return is prepared, it turns out you are entitled to more than the advance check you receive. Again, this additional amount will be determined on the 2008 return and included in your 2008 refund (or will reduce the balance due on your 2008 return).

Two points to note about the stimulus checks. First, if you did receive an advance check, but it turns out you are not entitled to the stimulus check based on your 2008 tax return, you do NOT have to return this money. Second, this stimulus amount is NOT considered income to you and will not figure into the normal tax calculation on your return. It will only be used to determine if you have an additional credit due to you.

The other major section of this bill increases the Section 179 depreciation deduction allowed in 2008 from $128,000 to $250,000, and adds a bonus 50% depreciation on qualifying property. For those of you who run a small business (this can include rental properties) this means if you qualify you can immediately write off up to $250,000 of assets purchased in 2008. Or if you prefer to not take the full write off in 2008, you can instead write off up to ½ of assets purchased this year, and take normal depreciation on the balance. Be sure to provide this office with details on all asset purchases for 2008 so that we can properly calculate your 2008 depreciation.



Emergency Economic Stabilization Act

Much has been discussed about the Economic Stabilization Act, yet most of that discussion has been centered on the financial markets rescue plan. Less attention has been paid to the items that will **directly** impact you and I. First, if you are unfortunate enough to have your home placed in foreclosure, you may be able to avoid tax on the cancellation of indebtedness. Believe it or not, in the past if you did lose your home to foreclosure, you often faced the additional issue of a big tax bill because of the debt forgiven by the bank. This tax break actually became law in 2007 (see page 5) but has been extended from a 2009 expiration to a 2012 expiration.

Another item in the bill which has a broader impact is the Alternative Minimum Tax (AMT) patch for 2008. The AMT exemption amounts have been increased to $69,950 for married couples and $34,975 for single and head of household taxpayers. As they have done in the past, Congress only made the patch effective for one year (2008) so many people will again have to plan for 2009 taxes using the assumption that they *will* be subject to the AMT.

For anyone who has been subject to the AMT in the past because of Incentive Stock Options that have now become practically worthless, Congress has allowed faster refunding of the minimum tax credit.

The Economic Stabilization bill also reinstated some expired tax breaks including the state and local sales tax deduction, the higher education tuition deduction, and the teacher's classroom expense deduction. Rest assured, that we will be reviewing all your tax paperwork to determine if any of these reinstated deductions may apply to you.

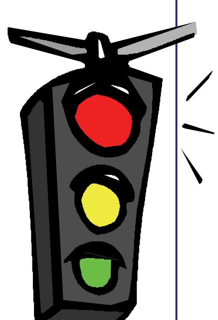
One new item this year is the ability for non-itemizers to get a benefit from the real estate taxes they pay. The standard deduction amount will be increased by the amount of real estate taxes you paid in 2008 up to a maximum of $500 for singles and $1000 for married couples filing jointly. As an example, a married couple pays real estate taxes in 2008 of $2,300. Their standard deduction will increase to $11,900 up from $10,900.

A section in the bill does not become effective until 1/1/09. The law reinstated the credit for purchase of certain energy efficient property which had expired at the end of 2007. So if you are considering purchasing energy efficient windows, doors, etc. hold off until 1/1/09. The lifetime maximum credit of $500 still applies, so your credit available in 2009 will be reduced by the credits claimed on the 2006 and 2007 tax returns. The $200 cap on windows also still applies. To qualify as residential energy property, the property must meet certification requirements prescribed by the Secretary of the Treasury and must be installed in the taxpayer's main home in the United States.

Finally, the bill added some disaster relief provisions for those affected by the Midwest flooding and Hurricane Ike in Texas. Even if you do not live in one of the presidentially declared disaster areas, but have children attending college there, you may be eligible for some of this relief. Call our office for more details.

Use Taxes Explained

What is use tax? This is just another name for sales tax. Most states that have a sales tax also charge a use tax. If you purchase something online or thru a catalog and do not pay sales tax, you must pay a use tax to Ohio on this purchase. Question #3 on the annual questionnaire addresses this issue. By providing us with this information, we can compute any use tax you may owe and include it on the Ohio income tax return. Note that just because you make a purchase online does not necessarily mean you have not paid sales tax already. If the seller already has a "presence" in Ohio, the seller is required to collect and pay the sales tax. For example, you make a purchase online at Target.com. Because Target has stores in Ohio, they must charge the sales tax even on online orders. I suggest you keep a folder of all invoices that do NOT include sales tax and provide our office with this folder when you submit your other tax paperwork. As always, contact us.



BRINGING IN YOUR PAPERWORK

Once again, there are three ways to provide us with your tax paperwork.

You may send your paperwork by US postal mail (or UPS, Fedex, etc.). We will review the paperwork, contact you with questions, and send the completed return back to you.

You may drop off your paperwork with no appointment necessary in our locking drop box located by the front door. You can access this box 24 hours a day, seven days a week, and we check the box every day. Again, we will contact you with questions, and send the completed return back to you.

You can schedule an appointment to review your taxes in person. Call our office at 440-933-3178 or e-mail us at taxaid@oh.rr.com to schedule your appointment. We have day, evening, and weekend appointments available.

Please note—our driving directions have changed. The traffic light that used to be located at Redwood Blvd. and Route 83 has been removed. You will no longer be able to use that as a reference point. You may be able to spot the turn lane for both directions at the intersection. If you need driving directions and use Mapquest, Expedia, or your GPS be sure they have you near the Avon Lake High School.

IRA's (Traditional and Roth) Part II

Last year I talked about IRA's versus 401K's and explained what was meant by Question #6 on the questionnaire. Just a reminder here that this question refers to NEW money you put into an IRA for 2008 and should not be confused with money taken out of your paycheck and put into an employer sponsored plan or with money you rollover from one plan to another. If you are unsure about this, please contact our office.

With the drop in the stock market, a lot of people are wondering about losses on their IRA's. First, until you take the money out of the IRA, your "loss" is only on paper. If you move the money from one location to another (i.e. a mutual fund to a bank) but leave it titled the same, there should be no tax consequences.

Keep in mind that losses on traditional IRA's will only be an issue on your taxes IF you have a basis because of non-deductible contributions. Let's say for example, that you have a traditional IRA that you opened 10 years ago. You put $2,000 per year into the IRA for five years and then stopped contributing for a total of $10,000 If you were able to deduct the $2,000 annual contributions every year, you already received a tax break on that money. The IRA grew over the years to $18,000, but with the stock market slump it is now worth $9,000. In your mind, you lost $1,000, but according to tax laws, you have actually made $9,000. If you were to withdraw all that money and go on a cruise (let me know and I will join you), you will pay tax on the full $9,000. You may also have to pay a penalty if you are under 59 ½.

Now let's say you contributed the same $2,000 a year for five years, but in 3 of those years you were NOT able to deduct the contributions. You therefore have a basis in the IRA of $6,000. In the example above, the IRS still says you made money, but they would only tax you on $3,000 ($9,000 value of the IRA taken out less your $6,000 basis). Keep in mind it is your responsibility to keep track of any non-deductible contributions as the IRS will assume the full amount is taxable unless you can prove otherwise.

Roth IRA's work a little differently, as you were never able to deduct your initial contributions. Once again, you contributed $2,000 per year for five years. The Roth also grew to $18,000, but has now dropped to $9,000. You can take the full $9,000 out and none of the proceeds will be taxable because all of the money represents your initial contribution. You also have a deductible loss of $1,000 (your total contribution of $10,000 less the $9,000 you received). This amount is considered a miscellaneous itemized deduction and is subject to the 2% of AGI limitation, so you may not get much benefit from this. You must also keep in mind that this deduction is only allowed if you have cashed in ALL your Roth IRA's. So if you have this Roth in which you contributed $10,000 and another Roth in which you contributed $4,000 and you only close out one of them, you may NOT deduct the loss on the Roth IRA. You do not lose the loss, but must postpone taking it until you completely cash in all your Roth IRA's.

Housing And Economic Recovery Act

This act has a number of provisions regarding taxes including liberalizing low income housing tax credit rules and revamps REIT rules. But the one provision in this bill that has received the most attention is the First Time Homebuyers Credit, which is a bit of a misnomer. This "credit" is available to anyone who has not owned a main home is the last three years and can reduce taxes by up to $7,500. But keep in mind, this "credit" must be repaid by the taxpayer over a period not to exceed 15 years.

An example would probably help here. Sam and Julie just got married in 2008. Neither of them has owned a main home before. Sam does own a property on Middle Bass Island, but that is a rental or vacation home. His main home before marriage was an apartment he rented.

Sam and Julie decide to buy a home together in December 2008. If the home costs $75,000 or more, they will receive a "credit" of $7,500 on their 2008 tax return. This is a refundable credit which means even if they owe zero tax, they will get a check for $7,500 from the IRS.

This $7,500 must be repaid beginning in 2010 with $500 due that year and every year for the next 14 until the full $7,500 is repaid.

Let's assume Sam and Julie live in their home for 7 years and sell it in 2015. They have repaid $2,500 of the $7,500 at that point ($500 per year in 2010, 2011, 2012, 2013, and 2014). Because they have sold the house in 2015, they must repay the full amount still due, or $5,000 on the 2015 return.

For those of you who already own a home, this bill also contains a break. People who pay real estate taxes on their main home can increase their standard deduction for the 2008 and 2009 years. The increase is $500 for most taxpayers and $1,000 for married couples filing jointly. or the amount actually paid whichever is less.

There is one major tightening in this act. The home sale exclusion will not apply on sales after 12/31/08 for any non-qualified use. For example, you purchase a rental property in 2009. You rent it for three years, then start using it solely as your principal residence. At the end of 2014, you sell the property for $225,000 more than you paid for it. In the past, most of this gain could have been tax free. Under the new rules, 1/2 of the gain is taxable because the property was used 1/2 of the time owned as rental property. The other half would be tax free under the home sale rules.

Charitable Donation Rules Tightened

As we mentioned in last year's newsletter, the IRS is cracking down on charitable contributions.

ALL monetary donations must now have proper documentation in order to be deducted on your tax return. You must have either a cancelled check, credit card statement, or a receipt from the charity in order to take a deduction on your tax return. Any money "dropped" into a collection box without documentation cannot be included on the tax return. If you regularly put cash into the Sunday collection plate and don't get proof from the church, you will NOT be able to claim this on your tax return.

All non-monetary donations (clothing, household items, etc), must now be in good or better condition for a deduction to be taken. The IRS has not provided guidance on how to prove the condition of an item after it has been donated, but has stated that it will not accept donations of used socks or underwear.

If you wish to claim a deduction for non-monetary donations, regardless of the amount, you must have a detailed list of the items donated, their fair market value, and a receipt from the charity that received the goods. The charity does not usually place the value on the item—that is your responsibility. A possible source for determining valuation can be found at http://www.goodwill.org/page/guest/about/howweoperate/donations/

Please do not ask our office to determine a value for your donations—we are not allowed to do that.

A single donation (monetary or non-monetary) of $250 or more also requires a written acknowledgement from the charity. This acknowledgement must be in your possession *before* you file the return. Be sure to include all required paperwork for your charitable contributions with your tax paperwork.

Be aware that with the new charitable donation rules, the IRS is more than likely going to be looking closely at all donation deductions, especially non-monetary donations. By all means claim any qualifying charitable donations you make. Just be sure to have all paperwork rquired in case of audit. More information on charitable donations can be found in IRS Pub. 561

HEART (Heroes Earnings Assistance and Relief Tax Act)

The Heroes Act (also known as the Military Relief Act) provides $1.2 billion in tax breaks for members of the US military. These breaks cover both active duty personnel and reservists.

The act has made permanent a provision that lets combat pay be used when determining the Earned Income Credit.

Reservists called to active duty can draw upon their Flexible Spending Accounts (FSA's) for any reason, not just for medical bills.

Survivors of military personnel may be entitled to special breaks regarding Qualifited Plan Survivor Benefits.

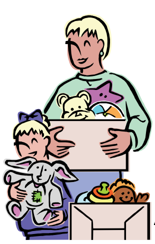
Roth IRA contribution limits and Coverdell Education Savings accounts limits can be ignored when contributing military death benefits.

State veteran's bonuses are excluded from taxable income.

If you believe any of these provisions apply to you, contact this office so we can discuss further.

IRA's & Donations

If you are 70 ½ or older and wish to make a donation to your favorite charity, consider giving money directly from your IRA. There are certain restrictions on what charities are qualified, but your IRA plan sponsor should be able to help you with this. Keep in mind that these direct contributions will not be taxable to you and the donation is not a deduction. However, these contributions can help you satisfy your required minimum distribution without increasing your adjusted gross income. So if you don't need the money but you do have to take money out of your IRA, giving it directly to a charity may be your best bet.



Charity Begins At Home (and so does the paperwork)

Don't forget that there are stringent recordkeeping requirements for all charitable contributions. To take any contribution (no matter the amount) you must have some type of written documentation. What type of documentation you need depends on the amount of the contribution. Keep in mind, this office CANNOT include any charitable contribution on your tax return unless you can confirm that you have the required paperwork, so be sure to include all pertinent receipts in with your tax paperwork. A detailed explanation of the record-keeping requirements is detailed above. Please review carefully and contact our office if you have questions.

Mortgage Forgiveness Debt Relief Act

This act was passed 12/20/07 and allowed taxpayers to exclude from taxable income up to $2 million ($1 million married filing separately) from discharge of debt on your principal residence.

Bear in mind there are a number of factors that must be considered when determining if the full $2 million is excludable. If you feel your home is in jeopardy of foreclosure due to unpaid mortgage debt, contact our office to discuss further.

This act also allowed a surviving spouse to extend the time to sell their home to two years after the spouse's date of death and still take the full $500,000 exclusion allowed as if they had been married at the time of the sale.

The deduction allowed on 2007 returns for mortgage insurance premiums has been extended.

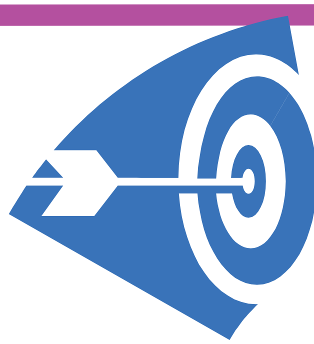
To pay for some of these tax breaks, late filing penalties for partnership and S corporation returns have been increased.

If you are a *volunteer* firefighter or emergency medical responder, you pay be able to exclude from income a small amount of any qualified payments you receive for these services.

Checklist

Here is a recap of the items to include in your tax paperwork.

- _____Completed questionnaire (front and back)
- _____All W-2's
- _____All 1099's including 1099INT, 1099DIV, 1099B, 1099MISC, and 1099R
- _____Real estate tax bills paid in 2008 if not included in your monthly mortgage payment
- _____All 1098's and K-1's received
- _____Your economic stimulus notice if available
- _____Most recent statement or billing notice from your residence and work cities, if applicable
- _____Recap of charitable donations segregated by monetary and non-monetary. Be sure to include all required written acknowledgements.
- _____Information on child care expenses paid.
- _____Recap of medical bills (if you believe they may exceed 7.5% of your adjusted gross income).
- _____Recap of income and expenses (if self-employed or job expenses if an employee).
- _____Recap of rental income and expenses (if you own rental property). If used partly for personal use, please indicate number of days used for each purpose.
- _____Settlement statements for any homes bought or sold during the year.
- _____Any other tax related paperwork received



IRS Audit Targets

The IRS has long been known to target Schedule C Self-Employed taxpayers because of the potential they see for abuse in this area. It is imperative that if you are self-employed, you have all required documentation for any expenses taken including a complete mileage log for all business miles, receipts for all expenditures, and contemporaneous records for all business meals showing the amount, reason, and people involved.

Because of a recent GAO report that indicates more than half of taxpayers with rental real estate misrepresented their rental activity, the IRS is expected to focus their audit light on taxpayers who fill out Schedule E. The GAO estimates that $12.4 BILLION of income was not reported in 2001, so the numbers are significant.

If you are one of the many taxpayers with a rental property, please keep the following points in mind:

- Any expenses paid by your tenant are considered income to you (though you may also be able totake the amount off as an expenses).
- Any property or service you receive in lieu of money is income. For example, if your tenant cuts your hair for a reduction in the rent, you must report the full amount of rent as income.
- Security deposits are not counted as income if they are to be refunded at the end of the lease.
- Repairs are currently deductible, but improvements that add to the value of the rental property must be added to the value of the property and depreciated.
- Your labor costs are not deductible, so if you paint the rental property, you may only deduct the cost of the paint and supplies but not the value of your time spent doing the painting.

Most individual taxpayers are on the cash basis. Therefore, you need to report as income all money actually received during the year and deduct only those expenses actually paid during the year. Landlords must also maintain all records as detailed above for self-employed individuals.

Landlords with rental property in Ohio should also note the requirement to register with the county in which the property is located and update the information as needed.

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Specializing in personal and small business taxes

TAX TIDBITS

Real Estate Tax Payment Timing—In order to take advantage of the increased standard deduction for real estate taxes (see page 2), you must actually pay some real estate taxes in 2008. So if you normally "bunch" your deductions and are scheduled to pay your real estate taxes in 2009, you may want to pay at least $1,000 if married and $500 if single in 2008 to get the benefit of this increase.

Energy Efficient Purchases –If you are considering purchasing insulation, energy efficient exterior windows or doors, or any of the other items that qualify for the residential energy credit, be sure to wait until 1/1/09 before making your purchase. This credit which was first passed in 2005 expired at the end of 2007. It has been reinstated (see page 2) but ONLY for 2009. Be sure to obtain documentation that confirms the item qualifies for the credit.

Don't Get Penalized -If you are age 70 ½ or older, or a beneficiary of an IRA you inherited from someone other than your spouse, be sure to take your required minimum distribution (RMD) from your traditional IRA before 12/31/08. Failure to do so may result in a penalty of 50% of the amount that should have been withdrawn. If you need help determining your RMD, contact your plan sponsor. Be sure to give them sufficient time to complete the withdrawal before the end of the year.

SSA Mail Scam -Have you received a notice from what appears to be the Social Security Administration stating that they have received your change of address and will start sending your checks to the new location? Yet you have not moved and are afraid you won't get your social security check. The notice gives a number for you to call. Unfortunately, the number does NOT connect you to the SSA, but you don't know that. Once on the line, the person on the other end tells you they can get this straightened out, but they need your name, address, and social security number. You have now given them everything they need to steal your identity. If you are ever unsure of an item received in the mail (or via e-mail), look up the contact information in your local phone book and call that number to be sure you have connect to the right place.

Useful Web Sites— You may want to check out these websites.

search.pbgc.gov/mp/ - allows you to search to see if you have a forgotten pension with the PBGC
MissingMoney.com— a multi-state database of unclaimed funds.
BankRateMonitor.com—lots of useful information on current rates for CD's, money market accounts, loans, etc.
bigcharts.marketwatch.com/historical/ - you can look up the price of any publicly traded stock on any date of your choosing

What do those initials mean?

Have you ever wondered just what those initials E.A. after my name mean?

They stand for Enrolled Agent. To obtain those initials I had to pass a rigorous two day exam administered by the IRS to prove my proficiency in tax laws. To maintain those initials I need to take 72 hours or more of continuing education every three years (24 hours per year) with at least 2 hours per year in Ethics courses. In the past three years I have taken 84 hours of continuing education, in addition to the many weekly and monthly tax journals and books on tax subjects I read. So you see, taxes are not a part-time job for me, but a year-round profession.

E. A.

A.T.P.

How about ATP? Those initials stand for Accredited Tax Preparer. These credentials are issued by the Accreditation Council For Accountancy and Taxation. This credential is for practitioners who demonstrate a thorough knowledge of the existing tax code and the preparation of individual, corporate, and partnership tax returns. You must have three years of work experience in tax preparation. To maintain this accreditation, I must also complete 72 hours of continuing professional education every three years, with 4 in ethics.