

Sauppé Tax News

Brought to you by
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New Tax Bills for 2009

Special points of interest:

- **ARRA**
- **First Time Homebuyer**
- **Electronic Filing Mandate**
- **Energy Credits**
- **Exemption Requirements**

There has been a lot of talk in the last year about the changes to the tax code. Most of these changes were the result of two major bills—the **American Recovery and Reinvestment Act of 2009** and the **Workers, Homeowners, and Business Assistance Act of 2009**. There were many provisions in these bills that may affect your taxes

depending on your situation. Different sections of these bills are explained in the articles in this newsletter. I encourage you to read the articles that may affect you. If you have any questions, please contact this office by e-mail or phone and we can provide further information.

There are also changes in

2009 that are the result of bills passed in previous years. Many of these changes are either addressed in this newsletter or have been in the past. We highly recommend that you keep us informed of any changes in your tax situation from year to year so we can determine if you have been affected.

ARRA

ARRA stands for the American Recovery and Reinvestment Act. This bill was passed in early 2009. This massive bill made many changes to the tax code. The following is a recap of the major provisions of this bill. Detailed information about some of the items can be found in articles elsewhere in this newsletter.

Probably the most well-known provision of this act was the Making Work Pay section which reduced the tax due for workers by \$400 a year or \$800 for couples. Unlike the 2008 stimulus payment in which you received a check, this credit should have already been received in your paychecks via reduced withholding amounts.

If you are a married couple filing jointly, your combined

withholding may have been reduced by more than the full credit. If that is the case, you may have to "repay" a small amount on your 2009 return. Keep in mind that if you normally receive a refund, this "repayment" would simply reduce the amount of the refund by probably less than a few hundred dollars.

If for some reason your employer did not reduce your withholding, the credit will be calculated on your tax return and included in your tax refund (or reducing your balance due).

This act also gave some relief to unemployed workers in 2009 by allowing the first \$2400 of unemployment benefits to be tax free, and by giving them some assistance with any COBRA

payments they made to maintain their health insurance while unemployed. If you received unemployment benefits, you do not need to do anything other than provide this office with your 1099G from the state which shows the total amount of benefits you received. We will automatically reduce this amount by \$2400 to calculate the amount that is taxable.

Another provision in this bill expanded the Hope credit (and renamed it). More information can be found on Page 2 in the section regarding education credits.

The First Time Homebuyer provision of this bill can be found in more detail on Page 3.

Information on the Energy Credits in this bill can be found on Page 5.

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Education Credits

After purchasing a house, one of the next major "purchases" in your life may be getting your child or children through college. With the cost of many private colleges exceeding \$40,000 per year, it behooves you to take advantage of every tax break available to you for education expenses.

Many of the provisions available are not new with the exception of the Hope Credit which has been expanded and renamed the American Opportunity Credit. This credit is only available in 2009 and 2010. In 2011 the credit reverts back to the old Hope credit rules.

The American Opportunity credit allows you to take a credit for up to \$2,500 of certain expenses paid for each college student in your family. The credit is 100% of the first \$2,000 and 25% of the next \$2,000. Qualifying expenses are tuition, and certain fees and course

materials including books (note—books are new this year). Another major change to the Hope credit rules is that this credit can be used for the first four years of college (as opposed to only the first two for the Hope credit)

So let's say your child is in their third year of college and you paid \$5,000 for tuition. You can take the full \$2,500 credit assuming none of this tuition was paid with scholarships, tax free earnings from a qualified tuition program, tax free distributions from an Education Savings Account, or tax free interest from US Savings Bonds.

The other education credits have not changed. If you have two children in college and have already maxed out on the American Opportunity credit for one child, you may be able to utilize the Lifetime Learning Credit for the other child (or you may decide to

return to college yourself). This credit is 20% of the tuition and fees only (no books on this credit) up to a maximum credit of \$2,000.

Again using our example from before, you also took some classes and spent \$3,000 in tuition. In addition to the American Opportunity credit for your child, you can take a credit of \$600 for the classes you took, for a total credit of \$3,100.

There are some income limitations on these credits, so if your income exceeds \$50,000 for single and Head of Household or \$100,000 for married filing joint, your credits may be reduced or eliminated all together. But you may then be able to take advantage of the tuition and fees deduction which allows you to deduct up to \$4,000 of the qualified tuition and fees you paid. A deduction is not as valuable as a credit, but it will still provide you with some tax benefit on that



tuition payment. Please note that as of right now, the tuition and fee provision is set to expire at the end of 2009 and will not be available on the 2010 tax returns.

If you have been saving for your child's education and have put money into an Education Savings Account and/or a Qualified Tuition Program, you may want to contact this office to determine the best tax way to tap into that money

Depending on where your child attends college, there may also be some additional credit amounts allowed. Be sure to provide copies of all 1098T's from the college your child attends as well as any other pertinent paperwork on education items.

Charity And Paperwork

If you wish to claim a charitable deduction on your tax return, you **MUST** have the proper documentation. These rules have not changed, but they are listed here again for your help in year end planning. Absolutely NO cash donations without documentation will be allowed. What type of receipt or documentation you will need depends on the type and amount of the donation. If you write checks to charities, and each check or credit card charge is less than \$250, your cancelled check or receipt from the bank is sufficient

proof. You can simply provide this office with a list of these donations showing payee, date, amount, and check number or charge card involved. You can attach to this recap any receipts received from the charities for these donations, but it is not required.

If any check or credit card item is for \$250 or more, you must have a written acknowledgement from the charity showing the amount of the donation. No deduction may be taken on the return without this receipt.

Non-monetary donations must have a detailed list of the items donated and the value assigned to each item. A charitable valuation guide is enclosed to help you value any of these donations you may make. Please do NOT ask our office to assign a value to your donation as we have no way of knowing the condition of the items donated.

The same receipt requirements exist for non-monetary donations. In other words, if your non-monetary donation is \$250 or more, you must also have a written acknowledgement from the charity.

E-Filing Mandate

Electronic filing is no longer a choice. The Internal Revenue Service will **REQUIRE** all preparers to electronically file all returns starting in 2011. The State of Ohio requires all tax preparers to file their client returns electronically starting 1/1/2010. Therefore, all returns this office prepares for you that are eligible for electronic filing will be e-filed unless you specifically notify us in writing that you wish to mail in your return. The written notification for this year can be either the Ohio Opt-Out Form which can be found on the Ohio web site at www.tax.ohio.gov (type in

IT Waiver in the search box) or you can simply include a note in with your tax paperwork and questionnaire and we will send you the waiver form to sign before returning your completed taxes.

As we have done in the past, if we have current banking information for you, all refunds will be set up to be directly deposited into your bank account and all balances due will be set up for automatic withdrawal on April 15th. It is your responsibility to ensure that the routing and account numbers we have on file are correct before approving the return for filing.

IRA's (Traditional and Roth) Part III



It's time to talk IRA's again. This is an area that is so important for your retirement planning and is so misunderstood, probably because the terms are often used incorrectly and the rules are complicated.

An IRA (or Individual Retirement Account) is a method whereby you can invest money until you retire. This is similar to 401k, 403b, and 457 plans offered by many employers, though each have slightly different rules and regulations. If you have questions about your employer's retirement plan, you should consult with your Human Resources Dept. who can help you understand the rules. There are also SIMPLE IRA's and SEP-IRA's but again there is usually an employer involved (unless you are self-employed).

IRA's are plans you establish yourself usually with a bank, credit union, or brokerage house. They can be established by rolling over an existing retirement account into this new account (called a rollover IRA) or by putting "new" money in. If you wish to put new money into an IRA you must meet some requirements. Please note that Question 6 on the questionnaire refers to new money you put into an IRA. It does NOT refer to money you have deducted from your paycheck and put into your employer's retirement plan or to Rollover IRA contributions.

A traditional IRA usually provides you with a tax deduction on your current year return. However, when you withdraw money from this IRA, you will pay tax on the full amount withdrawn (unless you have non-deductible contributions).

Roth IRA's do not give you any tax benefit in the year you put money into the account. You are putting in "after tax" money. But when you withdraw the funds, you will pay no tax on any of the Roth withdrawals if you meet the requirements.

There are some changes coming for Roth IRA's and you may want to do some advance planning to maximize your savings. In 2010, the income limitation for converting traditional IRA's to Roth IRA's will be lifted. No matter what your income limit, you may convert. Of course, when you convert from a traditional IRA to a Roth IRA, you will pay tax on the money you convert. But for 2010 only, you may defer the entire conversion amount to 2011 and 2012 (1/2 each year). The key here, as with any IRA decision, is what do you think your personal tax rate will

be in the future.

If you think your tax rate will be lower in the future, then it makes sense to add new money to a traditional IRA and/or defer any 2010 conversions to 2011 and 2012. If you believe your tax rate will be higher in the future, then you should consider putting new money into a Roth IRA and/or reporting any 2010 conversions in full in 2010.

A tax planning tip—if you are usually not eligible to contribute to a traditional IRA and your income is too high to put new money into a Roth IRA, you may want to make a contribution to a traditional IRA in 2009. This contribution would be listed on your return as non-deductible. Then in 2010, you convert this amount to a Roth IRA. Since it is not new money, you can convert and you will only pay tax on the amount above your initial contribution.

First Time Homebuyer Credit A Misnomer

A lot has been in the news lately about the first time homebuyer credit. There are actually three phases to this item.

The first time this "credit" appeared it was actually not a credit but an interest free loan from the government. This "credit" was available in 2008 for people who purchased a home for the first time (or it had been at least 3

years since you owned a principal residence). The amount you could claim was \$7,500 and you had to begin repaying it in 2010. This phase has NOT changed. If you took advantage of the first time homebuyer credit in 2008, you are still required to pay it back. If you sell the home before you pay the full "credit" back, you may be required to pay the remaining balance due in the year of the sale.

Phase 2 of the credit was for first time homes purchased in 2009 and has now been extended to April 30, 2010 (with

some provisions which could allow it to go as late as June 30, 2010). It is now truly a credit of up to \$8,000 and you do NOT have to repay it unless you move out of the home before 3 years have passed.

The third phase of the credit (found in the Worker, Homeownership, and Business Assistance Act) expanded the program to allow people who were not first time homebuyers to claim the credit on a new home purchase. The key provisions here are that you must have resided in your current home for at least five of the preceding 8 years before you purchase the new one, and again you must

reside in the new home for at least 3 years. If you are considered a first time homebuyer using these definitions, your credit amount is maxed out at \$6,500 not \$8,000.

There are many other restrictions including income limitations, purchase price cap for the house, and relationship tests that must be met between buyer and seller (for example, you do not qualify for this credit if you buy your grandparent's house). If you want to purchase a new home and are not sure if you would qualify for this credit, please contact us and we can discuss further. But remember, this program will end on April 30, 2010 so you must act quickly.

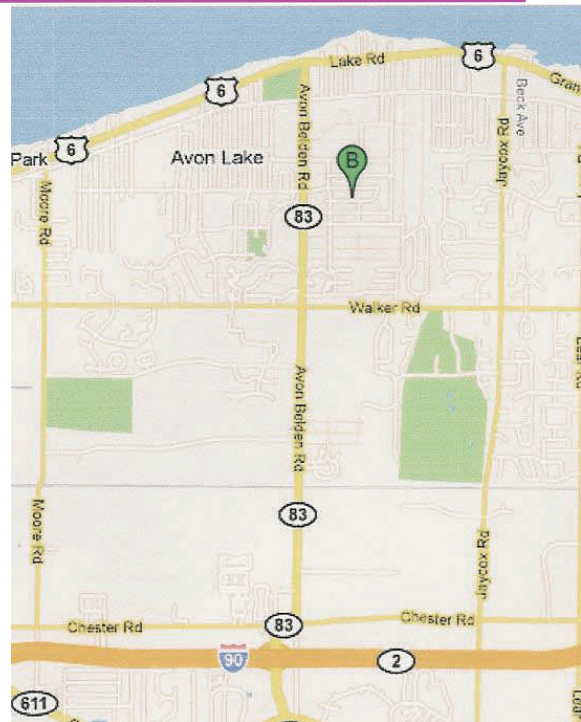


New Rules for Child Exemptions

In the past, the IRS requested that a non-custodial parent obtain a signed Form 8332 from the custodial parent to take the exemption for that child. If the custodial parent refused or was unable to sign that form, the IRS allowed the non-custodial parent to attach a copy of the divorce decree that clearly indicated the non-custodial parent was allowed the exemption.

Effective with the 2009 filing, the IRS will no longer accept anything except the signed 8332. If the custodial parent will not sign the form, the only recourse for the non-custodial parent is to take the custodial

parent to court for non-compliance with the divorce decree. If our records indicate you may need the signed Form 8332 for your return, we have enclosed a blank one in this packet. It is your responsibility to obtain the signature of the non-custodial parent and return the signed form with your other paperwork. If you send us all your other paperwork without this form, we will assume you will NOT be claiming the exemption for the child(ren) for 2009 and will prepare your return accordingly. If we did not send you the form and you need one, you can either download one at www.irs.gov or contact this office to have us send you one.



Checklist

Here is a recap of the items to include in your tax paperwork. This is NOT an all inclusive list, but simply a guideline to assist you in gathering your paperwork

- ____ Completed questionnaire (front and back)
- ____ All W-2's and 1099's including 1099INT, 1099DIV, 1099B, 1099MISC, and 1099R
- ____ Real estate tax bills paid in 2009 if not included in your monthly mortgage payment
- ____ All 1098's and K-1's received
- ____ 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

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.

Cancelled Debt

This has been a trying year economically for many of us. If you have had to deal with bankruptcy, foreclosure, or cancelled debt you may be in for an unpleasant surprise when you get your tax paperwork in January. You may receive a 1099C from your lender for cancellation of debt. Sometimes, but not always, the amount listed on the 1099C is taxable income to you. Basically, the IRS position here is that you got something for nothing. Let's say your credit card company agreed to reduce your outstanding debt from \$10,000 to

\$7,000. In essence, you received \$3,000 from the credit card company. No one would think this was a gift from the credit card company, so it is considered taxable income to you and would need to be reported on your tax return. However, in certain circumstances this amount will be considered non-taxable income and will not be used when determining your tax liability for the year. If you receive a 1099C, please contact this office immediately so we can discuss what options may be available to avoid the taxation.

Bad Debt

Let's take a look at the reverse side of the above article. You lent money to someone and they have defaulted on the loan. You believe you should be able to take this bad debt as a write off on your tax return.

However, before this item can be listed on your tax return, a number of questions need to be addressed. For example, was this a personal loan (i.e. did you lend your sister some money)? Was there a formal loan

agreement? Did you take steps to collect this loan? Can you document those steps? If you run your own business, was this money you were owed by one of your customers? If so, do you report income on the cash or accrual basis?

If this situation applies to you, please provide us with all the pertinent details so we can discuss and determine how best to handle this bad debt.



CARS & Taxes

The Cash for Clunkers Program was in the news a lot in 2009. If you were one of the many people who did take advantage of that program, the benefit you received is not taxable income to you. In essence, the "rebate" you received under the program was the trade in value of your old car. If you did not take advantage of that program, your chance has gone as the program has ended.

However, there are other tax issues relating to cars that are still in existence. The biggest one for most of us is the sales tax deduction for new car purchases. What this means to you is that you can deduct the sales tax paid on a NEW car, light truck, motor home, or motorcycle purchased between 2/17/09 and 12/31/09. If the purchase price of the vehicle is over \$49,500, your deduction is limited to the tax that would have been charged on \$49,500 only. There are also some income limitations. For example, if your adjusted gross income is greater than \$260,000 for married filing jointly and \$135,000 for all other filers, no deduction is allowed. To take this deduction, you add the sales tax amount to your standard deduction if you are not itemizing. If you have enough other itemized deductions to complete Schedule A, the sales tax will be included on that form and will increase your itemized deductions total.

There are also some credits available for electric and electric plug-in vehicles. If you think this applies to you, or you are interested in finding out more details on these credits, go to <http://www.irs.gov/businesses/article/0,,id=214841,00.html>



Energy Credits

Energy credits have returned. After a one year hiatus, energy credits have been reinstated and expanded for 2009 and 2010. Even if you have not done any energy improvements to your house in 2009, you may want to read this complete article in case you want to do some advance planning for 2010.

These credits can reduce your tax by as much as \$1,500 over the two years. The credit is 30% of the cost of qualified energy improvements made to your principal residence. Please note that the credit can only be taken on improvements made to your existing home. New construction and improvements made to rental property do not qualify.

Some of the items that qualify are insulation, windows and doors, central air conditioning, heat pump, metal and asphalt roofs, and water heaters.

The main consideration here is whether the improvement qualifies. For example, not all windows and doors will meet the requirements. You must obtain a signed statement or certification from the manufacture which confirms that the item qualifies for the credit. Some manufactures provide these certifications on their websites or your installer may provide it to you with your invoice.

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*Specializing in personal
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TAX TIDBITS

Real Estate Tax Payment Timing—In order to take advantage of the increased standard deduction for real estate taxes available in 2009, you must actually pay some real estate taxes during the year. If you normally “bunch” your deductions and are scheduled to pay your real estate taxes in 2010, you may want to pay at least \$1,000 if married and \$500 if single in 2009 to get the benefit of this increase.

Reduced Paycheck—Don’t be surprised if your first paycheck in 2010 is smaller than your last paycheck in 2009. The reduction to the withholding tables because of the Making Work Pay Credit has been eliminated and the IRS has released new withholding tables to be used starting 1/1/2010.

IRA RMD’s Are Back —The provision allowing people over 70 1/2 to skip their required minimum distribution (RMD) from their IRA in 2009 does NOT carry over to 2010. Please be sure to check with your IRA sponsor (or sponsors if you have IRA’s in multiple locations) to determine how much you must withdraw in 2010. There are steep penalties (50% of the amount that should have been withdrawn) if you fail to take this RMD. This also applies to inherited IRA’s if you are a non-spouse beneficiary.

Giving to Charities—We are all bombarded with requests from charities to help out. But which charities are the best ones? Which charities actually use the largest amount for the charity and not for administrative expenses? You can find out this information and more at www.guidestar.org

E-Mail Alert —Be very wary of any e-mail that says it is from the IRS. This is a scam because the IRS NEVER initiates communication with taxpayers or requests personal information via an e-mail. Please report any suspicious e-mails to phishing@irs.gov

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

energystar.gov/index.cfm?c=tax_credits.tx_index — Information on the energy credits

dsireusa.org/ — A comprehensive source on various renewable energy and energy efficiency incentives and programs

rothira.com — Detailed information on technical and planning information on Roth IRA’s

ssa.gov — Are you nearing retirement age? Then this site will have a wealth of information for you.

fixya.com — Advice on fixing problems with cars, computers, whatever

gaspricewatch.com/new/default_V3.asp — Check out gas prices in your neighborhood

NOTE—We cannot be held responsible for the accuracy or reliability of any information found on these sites.

