THE TAX MAN

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TAX NEWS & TIPS

YEAR-END 2010

Tax Time Is Coming!

This has been a year of change and uncertainty. But, one thing's certain – taxes will be upon us soon! I'm writing just before the elections. Congress will meet briefly, and may give new laws. Wait and see. For now, I have news on last-minute law changes along with suggestions on how to trim your tax bill. You still have a little time for savings before 2010 ends. Use it wisely!

No Firm Answers For 2010 Or 2011

Hard to believe. Several helpful rules expired with 2009. Congress insists they'll extend most of them. Yet, little was done by the time they adjourned to hit the campaign trail. We might see some changes after the elections. This uncertainty makes tax planning a risky proposition.

For now, I want to help you get ready for your 2010 tax returns. I'll list areas to help you save on taxes under current law. Then I'll mention some items which might be revived in time to help you.

2010 Tax Savers

☑ **College Education.** There are different tax benefits for various situations. Undergraduate study has one set of rules, graduate programs another, and work-related classes yet another. I'll see to it you get the most benefit allowed if you can provide complete information. Please give details on the school, the student, level of study, and costs for the courses. I'll need to know how costs were paid, and whether there was any form of grant or aid. Also, look for costs of books, course materials and supplies. If use of a computer is required, look for on-line fees and special software. For job-related courses. I even need to know about driving to classes.

☑ **Have Employees?** 2010 has three complex benefits for small employers. They cover new hires, retained employees, and any employer who pays for at least half of health insurance. Figures for total payroll won't be enough. I need to have complete information and history for all employees, and any health plan you may have.

☑ **New Home?** If you bought this year, there might be a special tax credit. Rather than give all details, I ask you to call me early. If your facts seem to make the credit available, I'll have a long list of extra details you'll need to gather for tax time. This one can be big – as much as $8,000 in your pocket!

☑ **Home Energy Credits.** A pair of credits are at work.

Conserving Energy. 2010 is the last year. Your insulation, doors, windows, skylights, certain furnaces, air conditioners and water heaters can help. Not for rentals or vacation homes, or to heat a pool or spa. The first $5,000 spent in 2009 and 2010 combined reduces your tax by 30% of what you spent. Spend $2,000 – save $600 on taxes, for a net cost of $1,400. Keep manufacturer's flyer saying your items qualify for Federal tax credits. Costs over $5,000 for the two years are ignored.

Generating Energy. Bigger benefits if you install solar heating or generating equipment. 30% of your cost as a tax reduction. No limit on costs. Works for any home you use personally, even a vacation property. Rentals don't qualify. This one won't expire until after 2016.

☑ **Other Changes.** Check the items below to know whether you are affected by any new rules.

- **Mileage Deductions** are worth 50¢ for each business mile. Don't miss any!
- **Separated Parents**. If you claim a child who lives with ex-spouse, you need a signed waiver from ex-spouse. Call me for a copy of the waiver.
- **Businesses.** Consider placing new equipment in service prior to Dec. 31. Liberal rules on depreciation were extended.

Gone For Good?

☒ **Extend?** These expired after 2009, but might be back if Congress acts. Wait and see.

- **Teacher Expenses** on up to $250 of classroom materials.
- **Mortgage Insurance** costs are no longer deductible.
- **Charity From Your IRA.** Direct gifts from the trustee were removed from income. Gone after 2009.
- **Unemployment Income**. The first $2,400 was tax-free in 2009. All taxable this year.
- **Standard Deduction**. We added property tax and sales tax on new cars. No more.

This Issue

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On Tap For 2011

If Congress does not act, several of the "Bush tax cuts" are set to run out on December 31, 2010. If this happens, many ordinary families could see $1,000 - $5,000 of extra taxes for 2011. I'd like to help you anticipate your 2011 tax bill. Right now, this is impossible.

Important scheduled changes:

10% Tax Bracket to become 15%. Single filers lose about $420, couples $835.

Child Credits. Each child under age 17 knocks $1,000 off your tax bill. Set to become $500.

Capital Gain Rates are now 0% for low or moderate incomes, and 15% for higher incomes. These are set to become 10% and 20%.

Dividend Income is now taxed at the same rates as capital gain. In 2011 it will be "ordinary" income. Normal rates apply, starting at 15%.

Couples lose big. Their 25% bracket starts at $67,900 of taxable income. It's set to drop by more than $10,000 in 2011. Cost – over $1,000! Couples using the standard deduction subtract $11,400 of income before figuring tax. It's likely to drop to $9,500. That's an extra $285 in taxes.

Alternative Minimum Tax is a complex monster. Today only 4%-5% of us face it. Unless it's repaired, nearly 30% of us will pay extra tax.

On Top Of the expired provisions mentioned on the previous page, many of us could face serious tax increases. Will it really happen? As of Election Day, it's the LAW!

Expect Higher Withholding In 2011

Withholding taxes will change for 2011. As of early November, figures are still uncertain. Two law changes are at work here. One is certain, the other might still change. IRS says they'll delay issuing new tables until mid-December. Employers expect a mad rush to be ready for January payrolls.

1) $400/$800 Credit Expires. In 2009 and 2010 workers got a special tax reduction as a part of the "Economic Stimulus" package. Single workers got $400, couples got $800. Rather than waiting to file your taxes, Congress told IRS to adjust withholding tables to make the money available quickly. Most single filers got their $400 this way. Couples had a little planning problem, as they got $600 via withholding. If both worked, they got a little too much, if only one worked, they claimed the extra on their tax return.

This "Making Work Pay" credit expires this year, so IRS must adjust the withholding tables. Single folks will see $400 more withholding in 2011, married persons will see $600 additional.

Retirees – Extra Problem. Retirees didn't get a credit – only workers. But, their withholding uses the tables. Some custodians cut withholding, some didn't. It started in Mid-2009. Do you know what you did? Watch your January check carefully. We may need to adjust your withholding.

2) "Bush Tax Cuts" – Will They Expire? Tax rates are set to go up in 2011. The 10% bracket will become a 15% bracket. Congress keeps saying they expect to extend the old rates for at least a year. No action yet. If the law is not changed, you can expect another increase in withholding. Most single workers will see a $418 increase for 2011. Most married workers will see $837 in additional withholding.

Both Changes! – Look Out! If both measures are reflected in the new tables, you can expect a noticeable drop in take-home pay. Single workers earning up to about $40,000 can expect a little more than $800 additional withholding. That's about $65 monthly! Married workers earning up to about $65,000 would see withholding go up by $1437 for the year, or a full $120 monthly! Married workers earning over $65,000 will see even bigger increases to reflect the lower starting point of their 25% tax bracket.

Watch January's Checks! Please pay careful attention to changes in your first couple of paychecks.

Maybe I Can Help – Maybe I Can't! I always try to help you foresee changes in your taxes. This will be a difficult year. If we see late law changes, they'll come at my busiest time of the year. Extending a familiar rule is one thing. I've applied the rule and understand its impact on you. When we see completely new laws, it often takes weeks to learn how the rules work. During my busy "tax season" I simply don't have the extra time. We could be forced to simply "pick up the pieces" later on.

Looking For Work?

With unemployment at such high levels, many of you may be looking for work. There might be valuable deductions from a job search. It's not always true, for there are a couple of steps involved:

1) Itemize. You need to be able to itemize your deductions. If you don't have enough other deductions, your job search won't help.

2) Same "trade or business". You must be seeking employment within a field where you have a job history. A career change, or finding a new line of work, won't count.

Keep A Log. You need to track phone numbers, dates, and potential employers while you look for work. Keep a complete written record of the process. Pay attention to any costs, contacts, driving, and approximate times spent on your pursuit. I'll help you get all possible tax benefits.

Direct Costs. Watch for fees to an employment agency, cost of resumes, copying, postage, telephone, travel or driving for interviews.

Indirect Costs. Depending on the extent of your activity, we might make a good case for part of your on-line fees, special computer software, excess telephone costs, meals with a friend who provided a useful tip. The secret is in how well your log describes your activity.

Got The Job? If your efforts were successful, look for costs of starting work. Special tools, setting up the desk or work space. Keep records!

Moving? Perhaps you even had to relocate. If so, the costs of moving over 50 miles can be deducted. Any costs to relocate your family, pets, vehicles, and possessions count. Movers, packing, shipping, truck rental, storage, and any other direct costs of the move must be tracked.

I hope you find a great job, but let's keep your taxes as low as possible.

January – Time To Get Ready!

Preparing your tax information is quick and easy if you spend a few minutes weekly. Start collecting the records and keep them in a special place. Review them each week.

Most tax records show up in your January mail. IRS gets a copy, too, so don't miss any of these!

W-2s. Read them carefully. Contact employer if there is a problem, or if one is missing after January. If you can't find employer, you'll need to collect your pay stubs.

1099s. You should get a 1099-INT or 1099-DIV for each account which pays interest or dividends. Even tax-exempt interest is reported.

Other 1099s. Real estate sales yield a 1099-S. Stock sales – 1099 B. Pensions - 1099-R. Foreclosures & debt consolidation – look for 1099-A and/or 1099-C. There are others. Look for "Important Tax Information Enclosed" on the envelope.

Form 1098 is for mortgage interest if paid to a bank. For private loans, find the payment book or a statement from lender. 1098-T shows college tuitions. They are sent to the *student* – tell your youngster to watch for this form – you'll need it!

Other Income. Look for reports of state tax refunds, unemployment income, prizes, gaming wins, or rent you collect. Read each of these carefully.

Your Records. Check your records carefully for income and deductions. Look back on the year. A calendar or check register will help your memory. I'd prefer you have receipts for all expenses, but if you recall paying a deductible expense, claim it. Contributions are different – you *must* have receipts, or your deduction is denied.

Start now. Don't wait until the day before you give the figures to me. Make a list of items you're missing. Write down any questions you might have for me.

Take a few minutes each week to review your information. Short reviews help you remember items you might miss. Your subconscious mind will dig up things you forgot. It's your money at stake here – it's up to you to protect it!

Need To Send 1099s?

You may need to send Form 1099 to someone else. There are two cases:

- Business/Rental. You must report payments for services.
- "Nominee" amounts. If you are named as receiving income, but part or all of the income really belongs to someone else, you are a nominee.

You must send Form 1099 to the other party by January 31. IRS wants their copy by February 28. You pay a penalty for not sending them!

Business/Rental. If you paid $600 or more to anyone during 2010 you may need to issue the form. Look at "business" expenses only. Expenses in your personal life are not reported. Nor are payments to a corporation.

Some bills show both labor and materials. If *any* part of the payment is for service, report the *total* amount on Form 1099-MISC. Paying for merchandise alone doesn't count. Rent you pay to an agent instead of a landlord is also excepted. Look for repairs, painters, consultants, builders and the like.

You need name, address, and Tax I.D. Number for these people. Call them or send Form W-9 to request the information. If someone uses their own name, they should give you their Social Security Number (like 555-55-5555). If they give a business name, you should see an Employer I.D. Number (like 55-5555555).

Nominees. If you get a payment in your name, then pay $10 or more to another, you must file the form. You file the same 1099 as you received, but file as a "middle man". Usually its Form 1099-INT or 1099-DIV.

Getting the Forms. I can help, or IRS can send you forms. If you need my help, please call early! Call IRS at 1-800-829-3676 for forms. You can *see* them at www.irs.gov. – but will need the official paper forms for filing. Use the proper Form 1099 and Form 1096 as a cover sheet.

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This publication has been sent to you by your tax advisor for informational purposes only. The opinions are generalizations and may not apply to all taxpayers.

Got it All?

Here's a list of items frequently missed. Check it against your list.

☑ **Refinances.** I need to see the settlement statement. Maybe it's best to bring all the paperwork.

☑ **Child Care Expenses**. I need full name, address, telephone and I.D. number of care providers.

☑ **Estimated Tax Payments**. Find date and amount for payments. Look near April 15, June 15, and Sept. 15 of 2010, and January 15 of 2011. A January 2010 payment was used on your 2009 return.

☑ **Sales of Property**. The most important thing is the settlement statement. Bring all the paperwork.

☑ **Student Loans**. Form 1098-E reports interest. I need this plus information about the type of loan.

☑ **College Tuition**. Form 1098-T lists college tuition paid. I need the form and full details on the courses, and who took them.

☑ **Sales of Stock.** Form 1099-B shows sale price. I need data on the original purchase. Broker may give this. If not, find the "buy" slip.

☑ **Business Records.** Please separate purchases of major equipment from other supplies.

☑ **Employer Reimbursements**. If your employer reimburses any of your expenses we need records to ensure we claim only the excess.

☑ **Partnership Information.** Schedule K-1 from partnerships and LLCs always seem to arrive late. Don't worry. Let's do the rest of your return, and be ready to go when the K-1 arrives.

☑ **Social Security Benefits.** Find the Form 1099-SSA. We need to declare the *gross* amount you were paid, not your net monthly benefit.

☑ **Special Accounts.** Do you contribute to an IRA, Roth IRA, or Health Savings Account? These and others can cut your taxes.

☑ **Complex Transactions.** Please call early if you have an unusual or difficult transaction. Foreclosures, sales or exchanges of real estate, casualties, and such can take a lot of extra work. We may need to schedule a special meeting, and I may need additional time. Please – help me to help you.

Tips For You

Social Security – No Increase. Benefits won't increase for 2011. The earnings base for those paying into Social Security also won't change. It stays at $106,800.

Medicare B Premiums. New figures weren't known in November. If your benefit doesn't increase, your premium can't either. Those who reached retirement age in 2009 or earlier got no increase in 2010, so their premium stayed at $96.40, even though the "new" premium was $110.50. Those reaching the age in 2010 paid the new amount, and won't pay more in 2011. If premiums go up for 2011, only those reaching retirement age in 2011 will pay the "new" premium rate.

Medicare B Surcharge. If you have high income, you pay higher premiums. Gross Income from your 2009 tax return is used, plus any tax-exempt interest. Single filers with income over $85,000 ($170,000 for couples) pay more. You face both the current premium and a surcharge. In 2010, the wealthiest paid as much as $353.60 in monthly premiums.

Brokers To Track Stock Basis. You may have heard a new law will force brokers to report your gain or loss to IRS. At present, they report only your sales – calculating gain or loss requires knowing about your purchase. Brokers commonly tell you this information. However, they can do this only if the stock was purchased within the account. Items transferred from another broker or account cannot be reported, since the broker lacks the information.

The new law starts in 2011. Plus, it is only for purchases made in 2011 and later. Until all earlier assets are sold, it's still your job to track costs.

Kiddie Tax. For 2010, your son or daughter under age 24 may need to pay tax at *your* tax rates. Youngsters with investment income over $1,900 are affected. Some exceptions apply, but please be safe rather than sorry. Warn the youngster *not* to file a tax return until you and I check this out.

Foreclosures. If this happened to you during 2010, we have a tough job on our hands. This is true even if you used a "short sale" or signed the property back to the lender. I'll need detailed information on the actual events, the balance of all loans, as well as your borrowing history for the property. You may very well be taxed on the amount of any part of the loans forgiven by the lender. Please call me right away.

Roth IRA Conversions. Did you move money from an IRA or other retirement account into a Roth IRA this year? I need all details. Not just what was transferred, but complete balances and histories of *all* your retirement accounts. You might have some nontaxable amounts, but without this information I'll have to treat the entire conversion as taxable.

Happy New Year!

Over the years you have come to seem more like members of my family.

As 2010 draws to a close I offer the same wishes as for family and dearest friends.

May 2011 bring peace, contentment, and prosperity to both you and your loved ones.

Happy 2011!

Your Tax Calendar

Dec 31	A check mailed today counts for 2010. Last chance for deductions!
	State estimated tax paid today is deductible on 2010 Federal return.
Jan 17	4th quarter estimated tax payments due.
Jan 31	Employers – Quarterly payroll & FUTA due.
	W-2's and 1099's due to recipients.
Feb 28	W-2's and 1099's due to IRS.
April 15	2010 tax returns due.
	Last day for 2010 IRA or Roth contributions.

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RETURN SERVICE REQUESTED