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CLIENT NEWSLETTER

WINTER 2009-2010

Happy New Year!

The tumultuous year 2009 is over, as is the decade of the 2000s which Time Magazine called "The Decade from Hell" on the cover of its 12/7/09 issue. As usual, Congress enacted some new tax laws at the end of the year. In addition, many changes enacted years ago take effect in 2010 and 2011. Here's a brief summary of the new laws, followed by the 2009/2010 amounts for those items that adjust every year.

Conversion from Regular IRA to Roth IRA

You are probably starting to read a lot about this. This is because beginning in 2010 *anyone* can convert their IRA or 401(k) into a Roth IRA. (Until 12/31/09 only those with incomes under $100,000 would convert.) What's the difference? With a Regular IRA you get a *tax deduction* when you make deposits (contributions), and all withdrawals (distributions) are *fully taxable*. You are required to being taking distributions when you reach age 70½. With a Roth IRA, contributions are *not deductible* and distributions are *completely tax free*.

The rules are actually a great deal more complex, and there are lots of "gotchas". The question that many are asking is "Should I convert my IRA, 401(k), etc. to a Roth?" The answer is a resounding "Maybe" primarily because (1) You pay full tax on the conversion; (2) Tax rates in the future cannot be predicted, although most agree that they are likely to increase; (3) You must make long-term assumptions as to the rate of return on investments; (4) You cannot make any withdrawals from a Roth IRA during its first 5 years without paying a penalty. There's an excellent article in the 11/29/09 *Arizona Republic*. Go to www.azcentral.com, click "Search" near the right edge, type "roth ira" (including the quotation marks) into the *Search for* box, then in *Date Range* enter Nov 29, 2009 in *From* and *To*.

The answer to this question is different for each person. Be sure to talk to us as part of your decision making process. In some cases, annuities can offer similar benefits, and should be considered. Go to www.azcentral.com and search for "Baby Boom Generation would be wise to consider annuities" dated 11/18/09, and "Separating fact from myth for investing in an annuity" dated 12/2/09 for interesting articles.

First-Time Homebuyer Credit (it doesn't have to be the first time!)

This credit appeared first in 2008 as an interest-free loan ($7500 maximum) from the government; that is, you took the credit on your 2008 or 2009 tax return, but had to pay it back in 15 annual installments as additions to your tax. This credit expired on 12/31/08. The new First-Time Homebuyer Credit ("FTHC") is effective for purchases on or after 1/1/09. It was originally set to expire on 11/30/09 but was extended to 4/30/10 for binding contracts in effect as of that date, providing the closing occurs by 6/30/10. The credit is 10% of the purchase price, with a maximum of $8,000. For purchases made on or after 11/7/09 no credit is allowed if the purchase price exceeds $800,000. The credit phases out for high income taxpayers.

To qualify as a "First-Time Homebuyer" you must not have had any ownership interest in your principal residence for 3 years prior to the purchase to which the FTHC applies. So if you haven't owned your home for 3 years (you rented, lived with others, etc.) you are "First-Time".

Long-Time Homebuyer Credit

If you have lived in the home that you own for any 5 consecutive years during the 8 years ending when a new home is purchased, you qualify. This credit is essentially the same as the FTHC, except that the maximum credit is $6,500.

Residential Energy Efficient Property ("REEP") Credit

The REEP credit is 30% of the cost of *Qualified* Solar Electric, Solar Water Heating, Fuel Cell, Small Wind Energy, and Geothermal Heat Pump property. Several important changes have occurred: (1) The credit has been extended through 12/31/16; (2) There is no maximum on the amount of credit (except for fuel cell property); (3) Unused credit can be carried forward to future years; (4) The credit can be used against the Alternative Minimum Tax. There are complex requirements involved, so make sure you check with us before you commit to a large expenditure.

Electronic Filing and Electronic Tax Paying

Beginning 1/1/2011, all individual, trust, and estate income tax returns prepared by a professional or commercial preparer will be *required to be filed electronically*. In addition, the IRS expects to being using its new Modernized E-Filing service ("MEF") on 2/17/10. Hopefully this will make e-filing more efficient, and will enable us to attach scanned documents to returns.

The IRS has also expanded its Electronic Federal Tax Payment Service ("EFTPS"). Most taxpayers can now elect to pay all of their taxes electronically by signing up for EFTPS. (As in the past several years, you can still pay electronically by declaring so on your tax return.)

Tough Enforcement of Rules for Substantiation and Documentation

Please remember that the IRS *strictly enforces* the rule that deductions be evidenced by receipts, cancelled checks, credit card or bank statement entries, and log books. This is especially true for business travel and entertainment deductions, business use percentage of autos and other assets, and charitable contributions.

The rules on **Charitable Contributions** are especially tough and directed by Congress, not the IRS. All contributions of money must be evidenced by a bank record, such as a checking account, debit card, or credit card statement entry, or a written receipt from the charity. The bank record or receipt must show the name of the charity and the date and amount of the contribution. This applies to all contributions of money, from *one cent* up! The effect of this provision is to make contributions of paper money non-deductible for all practical purposes. Use checks, debit, and credit cards only. Contributions to any one organization that total $250 or more for the year (money and/or property) *must be evidenced by a receipt. Cancelled checks are not sufficient.*

If you donate a motor vehicle to a charity, the charity must give you a Form 1098-C which reports the deductible amount of the gift. The rules are complex, but you can be quite sure that the value you get by researching on the internet is much too high.

Inflation adjustments appear on the next page.

Our best to all for the New Year. And watch for many more tax changes in 2010.

Please feel free to call or write if you have any questions.

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Dan and Eric

2009-2010 Inflation and Other Adjustments:

	2009	2010
Auto mileage rate for business *(decrease)*	55.0 cents per mile	50.0 cents per mile
Auto mileage rate for medical & moving expenses *(decrease)*	24.0 cents per mile	16.5 cents per mile
Auto mileage rate for charity *(no change)*	14 cents per mile	14 cents per mile
Maximum IRA & Roth IRA contribution (*no change)*	$5,000 plus extra $1000 if over age 50	$5,000 plus extra $1,000 if over age 50
Maximum SEP contribution (*no change)*	Lesser of $49,000 or 25% of compensation	Lesser of $49,000 or 25% of compensation
Maximum 401(k),403(b),457 Plan contribution limit *(no change)*	$16,500 plus extra $5,500 if over age 50	$16,500 plus extra $5,500 if over age 50
Maximum wages taxable for Social Security (*no change)*	$106,800	$106,800
Annual Gift Tax Exclusion (per person receiving gifts) *(no change)*	$13,000 ($26,000 if married)	$13,000 ($26,000 if married)
Estate Tax Exemption	$3,500,000	Estate Tax Repealed for one year (2010).
Personal & Dependent Exemption *(no change)*	$3,650	$3,650
Standard Deduction (*increase for Head of Household only)*	Married: $11,400; Single: $5,700; Head of Household: $8,350	Married: $11,400; Single: $5,700; Head of Household: $8,400
Additional Standard Deduction for Age 65 or Blind *(no change)*	Married: $1,100 per spouse Unmarried: $1,400	Married: $1,100 per spouse Unmarried: $1,400
Alternative Minimum Tax Exemption *(no change)*	Married: $69,950; Single or Head of Household: $46,200; Married filing Separately: $34.975	Married: $69,950; Single or Head of Household: $46,200; Married filing Separately: $34,975