

GILLAM & ZETZL, INC.

Certified Public Accountants

January 2010

Enclosed please find your organizer for the 2009 filing season. The organizer will assist you in gathering your tax information by showing you what was reported on your 2008 return. Below we have highlighted some year-end tax changes and reminders, if you should have any questions, please don't hesitate to call us.

2010 will very likely be a tumultuous year for changes in the tax code. All indicators seem to be predicting rising tax rates including on capital gain transactions. We will be monitoring any potential changes carefully and encourage you to contact us throughout the year if you have questions.

Important Tax Law Items - Individual

- The standard mileage rate for business use of a vehicle was 55.0 cents-per-mile for 2009. Beginning January 1, 2010 the rate will decrease to 50.0 cents-per-mile.
- A deduction will be available on 2009 tax returns for sales taxes on certain new vehicles purchased, whether the taxpayer itemizes or takes the standard deduction. The purchase must occur after February 16, 2009 and before January 1, 2010. This new incentive is referred to as an "above-the-line" deduction. Eligible vehicles include cars, light trucks (gross vehicle weight less than 8,500 pounds), motorcycles and motor homes (no weight restrictions). The deduction is calculated on the lesser of the purchase price or \$49,500.
- The \$8,000 (maximum) First Time Homebuyer credit which was set to expire on November 30, 2009 was extended to April 30, 2010. A first time homebuyer is generally defined as someone who has not owned a home in the three years prior to the purchase. In addition to the first time homebuyer credit, there is also a new Long Time Homebuyer credit. The long time credit applies to homebuyers purchasing a residence after November 6, 2009 and before April 30, 2010. A long time homebuyer is someone who used a prior home as their residence for 5 consecutive years during the previous 8 years. The maximum credit is \$6,500. There are numerous rules regarding these credits. If you bought, or are considering buying a home, during the periods indicated above, please call our office to discuss your possible eligibility for these credits.
- For residential (non-rentals) properties maximum alternative energy credit caps have been removed for solar hot water heaters, wind turbines and geothermal heat pumps. The alternative energy credit for 2009 equals 30% of the cost of these systems without limitation. In addition, certain improvements qualify for a credit including windows, insulation, exterior doors and certain roofing materials. These improvement credits are capped at \$1,500 per home for 2009 and 2010. This means the combined total credit for both years cannot exceed \$1,500. The credit is based on 30% of the qualifying costs of the windows. These credits are "non-refundable," which means they can offset taxes down to zero, but any amount beyond that will not be refunded and is essentially lost. Keep in mind that Indiana still has an insulation deduction available for certain energy efficient doors and windows, as well as the addition of insulation. To qualify for the federal credit the improvements must meet certain technical standards. Typically the vendor you work with will be able to assist you in making sure your purchases qualify. However, if you need assistance from us, please don't hesitate to call.
- A new "American Opportunity" credit replaces the "Hope" credit, and is much more lucrative. The new credit applies for the first four years of post-secondary education at a qualified institution. The credit increases to \$2,500 (from \$1,800) per student. When computing the credit allowable amounts include tuition, fees, books and course materials (previously books and course materials did not count), but not room and board costs. The student must be full-time for at least half the year. The credit begins to phase out when income exceeds \$80,000 if single or \$160,000 if married. For students that attended a college in a federally declared disaster area in 2008 or 2009, where they would have been eligible for a \$3,600 credit, the larger amount will still be available for you.
- Historically distributions from 529 were tax-free when used for tuition, room and board, fees and books. The definition has been expanded for 2009 to include computers and related software. Also keep in mind that Indiana "College Choice" plans are eligible for a credit of 20% of the contribution up to a maximum credit amount of \$1,000.
- A new federal provision allows the first \$2,400 of unemployment benefits received to be tax exempt.
- Upon reaching age 70½ taxpayers must begin taking "required minimum distributions" from retirement accounts. The intent of the rule is to prohibit a taxpayer from indefinitely deferring taxes on retirement savings. For 2009 the required minimum distribution rule has been suspended for retirement plans including

§401(k) plans, §403(b) plans, certain §457(b) plans and IRA's in an effort to help you avoid having to liquidate investments in a down market.

- Beginning in 2010 traditional IRA accounts can be converted to Roth type accounts regardless of your income level. The key advantages of a Roth account are that qualifying distributions (including the earnings build up) are tax exempt and there are no required minimum distribution rules. In order to convert to a Roth account you must pay the tax on the conversion amount on the conversion date. This can be a significant hurdle, but for 2010 conversions the IRS is allowing the income to be spread evenly over a two year period of 2011 and 2012. Every situation is unique, so ask us if conversion makes sense for you.

Business Deductions and Law Changes

The IRS has drastically stepped up their audit division in the last few years. We urge you to develop a mindset that you may be asked to produce your documentation when organizing your records this year end. That said, we thought it might be helpful to again review some of the basics. Please take a moment to review these items and please don't hesitate to contact us regarding specific questions about your business.

- In an effort to stimulate the economy, the Code §179 expensing election for equipment was maintained at \$250,000 for 2009. The Indiana limit, however, remains at \$25,000. In addition, various "bonus" depreciation deductions may be available. We will discuss the various options with you to maximize your benefit.
- All business expenses must be ordinary and necessary to be deductible. In addition, deductions reported on an income tax return must be verifiable. To corroborate an amount a taxpayer must have a receipt that indicates the vendor, amount, date and a description of the item or service purchased. Merely having a credit card statement (including American Express) that details the charges is not enough. You must have receipts. The backup documents must be maintained for as long as the statute of limitations remains in effect. **We recommend keeping the information for a minimum of six years.**
- Business meals with clients, customers or employees may be deductible only if the meal is (1) directly related to the active conduct of your business and (2) a substantial and bona fide business discussion takes place. Proof that these requirements were met must be documented on the receipt or in a separate journal. Meals where only business owners and their families are present are only deductible when traveling away from home. "Away from home" means requiring an overnight stay.
- Reimbursements to employees for business deductions must fall under an "accountable plan." This means that employees must provide receipts to their employer for the expenses. Reimbursing an employee without substantiating the expense will require treating the amounts as wages, subject to all the related payroll tax burdens.
- The personal portion of automobiles provided to employees must be included in their compensation unless they reimburse the employer for the personal usage. **Contemporaneous logs of automobile usage are required to validate the deduction.** The log should include dates, customers/vendors visited and the business purpose for each trip as well as the total miles driven on the vehicle during the year.
- The IRS will be looking to validate year-end inventories for this filing season. Therefore, if you have not done so before, we highly encourage you to **take a physical count of your inventory** items as of December 31, 2009. Reporting "about the same as last year" may well be a red flag to the IRS.

Other

In an effort to protect taxpayer personal information the IRS is now requiring that we obtain a written consent signed by our clients in order to release any information to a third party. We are happy to accommodate your request to release copies of tax returns, financial statements or other documents to banks, insurance companies and others, but keep in mind that we will need the consent form before processing your request.

As in past years, we are pre-scheduling appointments for this tax season. If the pre-scheduled appointment does not work for you, rescheduling is no problem, just give us a call. Thank you for the opportunity to be of service to you!

Happy New Year from everyone at Gillam & Zetzl, Inc.