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Licensed to represent taxpayers before the IRS.



2009 Rule Changes

Keep These in Mind While You Gather Records

Some of the rules you knew for 2008 are different for 2009. Most of the following items are new.

- **Homebuyers Credit.** A new law went into effect on November 6, 2009, to extend the First-Time Homebuyers Credit until April 30, 2010 and the eligibility requirements have been expanded. If you are a first-time homebuyer, you could receive 10% of the cost of the home, (maximum of \$8,000) as a direct tax rebate. The income limits for people who purchase a home after November 6, has been increased. The full credit will be available to taxpayers with modified adjusted gross income (MAGI) up to \$125,000, or \$225,000 for joint filers. Those with a higher MAGI are eligible for a reduced credit. For homes purchased prior to Nov. 7 the existing MAGI limits apply. The new law also provides a "long-time resident" credit of up to \$6500 to buyers who do not qualify as a "first-time homebuyer". I can go over the eligibility requirements with you.
- **Sales Tax on New Cars** If you bought a new car (not a used car) after February 16, 2009, there is a valuable deduction for any sales or excise tax you paid. You get it even if you don't normally itemize your deductions. I will want to see a copy of the sales contract.

- **Government Retirees Tax credit**

If you collect any government pension for work that was exempt from social security you may qualify for a \$250 tax credit. This can include school districts, libraries, law enforcement—any government work at all. You can lose the credit if you collect social security or if you are still working. If you do not normally file a tax return or no longer need to file a tax return I can help you collect the \$250 but you MUST file a 2009 tax return.

- **Home Energy Credits**

There are two types of credits here. Energy-saving improvements to your main home can cut your taxes in 2009 and 2010. This credit applies to your main home only. You can get 30% of the first \$5000 you spend in 2009-2010 for installing new insulation, doors, windows, skylights, certain furnaces, heat pumps and air conditioners. The IRS says you can rely on the manufacturer's statement that a given device qualifies. I recommend you keep the brochure or print out the information from their website. Bigger credits apply if you generate energy. Solar systems, fuel cell equipment, wind and geothermal devices give a 30% credit. This credit will apply for any property that you reside in, including a vacation home and available through 2016. With both credits you may count costs of materials, plus the installation costs.

- **College Education**

The rules for 2009 and 2010 are more liberal than ever. The costs must be segregated into different categories. First, Tuition and fees for college classes. Schools will send out a 1098-T in January showing the tuitions paid. It is normally sent to the student's address, but the credit belongs on the return claiming the personal exemption for the student. Second, costs for books, course materials, and class supplies. This is new for 2009 and 2010. The credit can be up to \$2500 full rebate of the first \$2000 spent, plus 25% of the next \$2000. It phases out for higher incomes, but income limits are higher than in the past. If you set up a "529 College Savings Plan" to pay for your child's education, you must show that withdrawals were spent on education or you can face a tax. For 2009, you are allowed to add room and board and costs for the student's computer, software and on-line fees.

- **Over 70 1/2 IRA Rules** Two special rules if you have mandatory distributions from your IRA. Both are set to expire this year, but may be extended. First, you are not required to take a distribution. This was intended to help compensate for the dramatic losses in the financial markets. Second, if you have your IRA custodian send a check to a charity, the amount can be excluded from your income. You do not have to itemize deductions, so you will get the full value of the gift.

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- **No Itemized Deductions** For 2009, there are two deductions you can claim if you can't itemize. Sales tax paid on a new car purchased after Feb. 16, 2009 and up to \$500 of real estate taxes on any property you own. Please ask me if either of these apply to you.
- **Foreclosures** If you lost a property this year, please provide as much information as you can. You may have income from the cancellation of the mortgage. You may receive a 1099-A or 1099-C. I must see these forms. I will need to know the history of the loans for the property. Did you have more than one mortgage? Was it your primary residence, etc. These situations can be complicated so please bring as much information as possible.
- **Hybrid car credits** This credit is drying up. Credits for Honda and Toyota are no longer available. If you purchased a hybrid vehicle in 2009 bring in the sales contract and we can discuss what credit may be available to you.
- **Mortgage Insurance** This is the last year for this deduction. The mortgage interest statement you receive from your lender (Form 1098) should show any mortgage insurance that you have paid.

The IRS has the job of policing tax laws and are required to check (audit) some returns claiming new benefits. Some people who do not qualify will try to take advantage of the new laws, and the IRS will be looking carefully for them. For your

Issuing Form 1099

If you paid \$600 or more to anyone for services you may need to issue a 1099. This applies to business expenses only. You do not need to send a 1099 to a corporation or for personal expenses. Check your records for repairs, painters, consultants, builders, etc. It is a good idea to have the person fill out a W-9 at the time that you hire them. This will avoid having to track them down for their information. You will need their name, address and tax I.D number (EIN or social security number).

You must issue the 1099 to the other party by February 1. Copies and a 1096 form are due to the IRS by March 1. There are penalties for not sending them.

A property manager who runs your rental should send you a 1099 reporting the rents collected. Ask if they have issues 1099's for all the service people including themselves. The law is not clear so play it safe. If not, *you* should do it. You can order the forms from the IRS website www.irs.gov or contact them by phone 1-888-829-3676. Most office

Withholding Changes

The "Making Work Pay" program that was introduced in 2009 gives special tax credits to most workers. Instead of sending stimulus checks again the IRS was instructed to adjust the withholding tables. This meant you would see a slight increase in your take home pay. The problem is,

the reduction in withholding might mean you did not pay in enough tax and you will have to pay the difference at tax time. This is especially true for people with multiple jobs, families with two incomes and people with civilian pensions. I can help figure out if you will have enough withheld for 2010. I will need to know what status you filed and the number of allowances you claimed on your W-4.

Traditional IRA To Roth Conversion

There are some new rules regarding a traditional IRA to Roth conversion. If you are interested in doing such a conversion please let me know. Most cases are complex and I may ask you to wait until after the tax season is done before I can answer any questions you may have. I will need the history on all your IRA accounts and the balances as of Dec. 31.

Prepare Early

I anticipate that this year will be a special year due to all the tax law changes. Review your records carefully so you don't miss any deductions. Did you have any unusual medical costs, legal fees or un-reimbursed expenses for your job? Did you refinance your home? Did you make estimated tax payments? Did you sell stocks/mutual funds? I will need the purchase price and the sale price. Do you have your childcare provider's information (name, address and tax id)?

PRIVACY POLICY

We do not disclose any non-public personal information about existing or former clients to anyone, except as instructed to do so in writing by such clients, or required by law. We restrict access to non-public information to those professionals (Internal Revenue Service) and we maintain physical, electronic and procedural safeguards to guard your non-public information.

Qualified Medical Expense Checklist

- Abortion
- Acupuncture
- Alcoholism- Inpatient treatment at a therapeutic center for alcohol addiction (includes meals and lodging provided by the center)
- Ambulance
- Artificial Limbs and Artificial Teeth
- Birth Control Pills
- Braille Books and Magazines to the extent the cost exceeds a regular printed edition
- Breast reconstruction after a mastectomy (Rev. Rul. 2003-57)
- Car- special hand controls, etc. for disabled individuals
- Chiropractor
- Christian Science Practitioner
- Contact Lens- Including equipment and materials such as saline and enzyme cleaner
- Crutches (Rev. Rul. 2003-58)
- Dentists & Dental Treatment
- Drug addiction- inpatient treatment at a therapeutic center (includes meals and lodging)
- Drugs-Prescription
- Elastic hosiery
- Equipment, supplies and diagnostic devices even if not prescribed (Rev. Rul. 2003-58)
- Eyeglasses- includes examination fees
- Fertility enhancement - in vitro and surgery (PLR 200318017)
- Guide dog or other animal- includes care expenses of the animal
- Health club—if treatment is prescribed and the physician issued a statement that the treatment is necessary to alleviate a physical or mental defect or illness of the individual receiving the treatment.
- Hearing aids (including batteries)
- Home care
- Hospital services
- Insurance premiums- hospitalization, surgical fees, x-rays, etc. including prescription drugs, replacement of lost or damaged contact lenses membership in “free choice” medical services, Medicare or qualified long-term care.
- Laboratory fees
- Laser eye surgery
- Lead-Based Paint Removal—to prevent a child who has or who has had lead poisoning from eating the paint
- Learning Disability—tuition fees for a special school for a child with sever learning disabilities caused by mental or physical impairments, including nervous systems disorders. Doctors must recommend child attend.
- Legal Fees- necessary to authorize treatment for mental illness.
- Lodging while away from home - \$50 per night for each person. Includes a person accompanying an ill person- both parties will be allowed to deduct up to \$50 per night. Lodging not provided in a hospital or similar institution must meet all of the following:

- Lodging is primarily and essentially for medical care and not lavish or extravagant;
- Medical Care is provided by a doctor in a licensed hospital or equivalent; and
- No significant element of personal pleasure, recreation or vacation in the travel.
- Meals—only for inpatient care
- Medical Conferences – admission to or transportation to a medical conference if it concerns the chronic illness of you, spouse, or dependent. Must spend a majority of your time at the conference attending sessions. Does not include meals or lodging.
- Medicines – prescribed medicines and drugs (requires a prescription) and insulin
- Medical Services—for legal medical services provided by physicians, surgeons, specialists, or other medical practitioners
- Mentally Retarded—the cost of keeping a mentally retarded person in a special home, not the home of a relative, on the recommendation of a psychiatrist to help the person adjust
- Nursing Home—cost of medical care in a nursing home, including the cost of meals and lodging in the home if the main reason for being there is to get medical care. If the reason for being there is personal, deduct only the portion for nursing and medical care
- Nursing Services need not be performed by a nurse as long as the services are of a kind generally performed by a nurse (giving medications, changing dressings, bathing, etc.)
- Operations—legal operation that are necessary (not cosmetic surgery)
- Optometrist
- Oxygen—for oxygen and oxygen equipment to relieve breathing problems caused by a medical condition
- Psychiatric Care—includes the cost of supporting a mentally ill dependent at a specially equipped medical center; does not include psychoanalysis you must get as part of your training to be a psychoanalyst
- Schools and Education, Special—payments to a special impaired or physically disable person I f the main reason for using the school is its resources for relieving the disability. Includes the cost of teaching Braille to the visually impaired, teaching lip reading to the hearing impaired and giving remedial language training to correct a condition caused by a birth defect. You cannot include the cost of sending a problem child to a special school for benefits the child may get from the course study and the disciplinary methods.
- Sterilization—costs of a legal sterilization
- Stop-smoking Program—You cannot include drugs that do not require a prescription such as nicotine patch or gum (Rev. Rul. 99-28)
- Telephone—the cost and repair of special telephone equipment that lets a hearing-impaired person communicate over a regular telephone.
- Television—the cost of equipment that displays the audio part of a television program for the hearing-impaired.
- Therapy
- Transplants—surgical, laboratory, and transportation expenses for a donor or possible donor of an organ
- Transportation Costs—primarily for and essential to medical care, includes bus, taxi, train, plane, ambulance, parking fees, tolls, and automobile expenses at the greater of out-of-pocket expenses for gas and oil or mileage rate for the current tax year.
- Trips—transportation to another city if the trip is primarily for and essential to receiving medical services. Does not include vacations even if recommended by a doctor.
- Weight-Loss Programs—undertaken at a physician’s direction to treat an existing disease (such as heart disease or obesity). Not deductible if it is to improve your general health and well-being (Rev. Rul. 2002-19 and rev. Rul. 79-151)
- Wheelchair—used mainly for the relief of sickness or disability and not just to provide transportation to and from work.
- X-Rays