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Client Information…..December, 2008

There have been substantial changes made in tax laws in the recent past. Some principal ones affecting our clients are outlined below:

Social Security Tax

The maximum earnings subject to Social Security tax will rise from $102,000 for 208 to $105,800 for 2009.

Mileage Rates

The business mileage rate has increased form 50.5 to 58.5 cents per mile for July 1, 2008, through December 31, 2008. The rate beginning January 1, 2009 drops to 55 cents per mile.

The mileage rate for medical purposes increased from 29 to 27 cents per mile for the last half of 2008 and drops to 24 cents per mile for 2009.

The mileage rate for charitable purposes has not changed. It remains at 14 cents per mile.

Tax Credit for First-Time Homebuyers

There is a nonrefundable tax credit of up to $7,500 for first time homebuyers for purchases made in the U.S. after April 8, 2008, and before July 1, 2009. (A first time homebuyer is one who had no present ownership in a principal residence in the U.S. during the three year period before the purchase of the home to which the credit applies) The credit is phased out for higher incomes.

Here is the catch: The credit is actually an interest free loan from the government, since it has to be repaid ratable over the next 15 years with not interest charge.

Property Tax Deduction for Those Who Do Not Itemize

For 2008 only, those who take the standard deduction instead of itemizing deductions may claim an additional standard deduction for state and local property taxes paid. This additional deduction is limited to $1,000 on a joint return and $500 for all others.

Partnership and Fiduciary (trust/estate) returns

The due date for these returns has not changed. However, the extensions for 208 returns will be for only five months, not six months (as they had been previously).

Solar Credit Extended

The 30% tax credit for residential solar installations was extended for eight years, and the $2,000 cap was eliminated effective December 31, 2008.

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LLC for Rental Property Owners

If you have not already established your rental property as an LLC (Limited Liability Company), you should confer with your attorney as to whether or not you should do so. The advantage of an LLC is that it carries the liability protection that a corporation does, without the hassle and expense of incorporation. While the process is fairly simple and you can probably handle the details yourself, it would be wise to consult with your attorney regarding the ramifications for your particular situation.

Contacting the IRS

The IRS web site www.irs.gov is the official IRS website and the place to go for IRS publications and forms. You can also check on the status of your refund here by clicking on the "Where's My Refund?" link. Phoning the IRS is usually frustrating and a waste of time, so the web site is a good place to start. Please remember that any communication you receive from the IRS should be forwarded to us prior to responding so that we can tell you the best way to respond or respond for you.

Moving? Be sure to tell us.

Be sure to notify our office of any change of address. We can send you any appropriate forms to sign and mail to the IRS and Department of Revenue. Every once in a while, some poor soul winds up having a lien placed on his or her bank account by the tax authorities because correspondence went to the wrong address. Then it takes a lot of time and money to unravel the mess.

A Bank Account for your business

Are you starting a new business or forming and LLC, corporation, or partnership? By all means, open a new bank account in the name and tax identification number of the venture. When IRS audits a business, the fact that there is no separate business account weights against the taxpayer and can result in the loss of the tax benefits sought via the LLC, corporation, or what-have-you.

Bank News

The FDIC has raised its insurance on bank accounts to $250,000 per depositor. For two-party joint accounts, that translates into $500,000 per account per bank. Credit union accounts are similarly insured. According to the November 14, 2008, Wall Street Journal, banks are competing for accounts, so it will pay to shop around for the best interest rates.

Charitable Contributions

All cash contributions require at least a bank record or a receipt from the charity. Cash contributions may no longer include the small "petty cash" amounts given to bell ringers or put into a collection plate in a house of worship.

There must be a canceld check or receipt for cash or check contributions of less than $250. For all contributions of $250 or more, there must be a receipt; a canceled check will not suffice.

For non-cash contributions (things) any single item valued at more than $5,000 requires a qualified appraisal. Contributions of vehicles worth more than $500 must be documented by a form 1098-C from the charitable organization that received it.

The Salvation Army has a free web site to help. Go to http://salvationarmyusa.org. Click Donate, then click Donate again, then Receipts, then Valuation Guide.

Payment Policy

Please be prepared to pay for your tax return when you pick it up. Although most of our clients have always paid their bills on time, the number who didn't got to be too large for a small business like this.
If you would like free draft information regarding your return to review before we finalize it, simply tell us, and we will cheerfully accommodate you.

Extensions

People who furnish "homework" after March 25th can expect to be placed on extension, and it will be their responsibility to meet the federal requirement to have paid 90% of their tax with their extensions. Additionally, due to the electronic filing requirements, any clients who do not provide us with signed electronic filing authorizations by April 10 will have their returns put on extension.

Organizers/Stimulus payments/Appointments

We will be sending out organizers to assist you in getting information together necessary to prepare your income tax returns. Please use them to help be certain you get all the appropriate information together. Also, be sure to provide information on the amount of the stimulus payment you received during the year.

Call to set your tax appointment as early as possible.

We are still looking for new clients

We thank you for the many nice referrals that you have sent to us over the past years.

Nothing remains the same forever. As part of life's cycle, many older clients have passed on. We are planning on increasing the amount of time available for new clients over the next year. This has opened up more capacity for income tax clients.

So please keep us in mind if any of your friends, relatives or colleagues express a need for professional tax assistance. Good referrals are always appreciated.

We are also expanding our business advisory and process improvement services. We are available on a year round basis for income tax, estate planning, business planning, process improvement, and personal financial planning consulting.