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Dear Friends and Colleagues of BTB,

As the end of the year approaches, here is some information for year-end tax planning. Note that this is by no means a complete list, and each situation may call for different solutions. Also see our summary letter posted on our web site listed above.

Individual/Joint Filers:

1. You may contribute to your **IRA or Roth IRA** for 2009 as long as you do it by April 15, 2010. If your income is too high to make a contribution to your IRA or Roth IRA, you may contribute to a non-deductible IRA. Your contribution may be as much as \$5,000 plus an additional \$1,000 if you're over 50 years of age. If you participate in a retirement plan at work, the amount of your deductible IRAs is limited and phaseouts apply to contributions to Roth IRAs, also.
2. **Saver's Credit** – if you contribute to your retirement plan at work (e.g. 401(k) or 403(b), 457, SEP IRA, SIMPLE) or a traditional IRA and your income is lower than the income thresholds (less than \$27,750 to less than \$55,500 depending upon your filing status), you qualify for the Saver's Credit. You must be at least 18 years of age, not a full-time student, not claimed as a dependent on someone else's tax return, and is good on contributions of up to \$2,000.00 per taxpayer. Depending on your income, the tax credit is from 10% of your contribution to as high as 50% of your contribution. Even if you don't qualify for the credit, be sure you're saving for retirement.
3. Contributions to **retirement plans** in 2010 remain at 2009 levels. For **401(k)s, 403(b)s, 457s**, and other retirement plans, you may contribute up to \$16,500 in salary deferrals, plus an additional \$5,500 if you're over 50 years of age. For **SIMPLE IRAs**, you may contribute up to \$11,500 plus \$2,500 if you're over 50 years of age.
4. The **sales tax deduction** was extended through December 31, 2009 and adjusted for qualified purchases after February 16. As such there are some complexities to this particular area. If you purchased a vehicle or boat make sure to bring that information with you when you come to see us. This doesn't apply to sales tax paid on business items because those taxes are already deductible to you.
5. The lower **15% tax rates** on long-term capital gains (held over 1 year plus 1 day) and qualified dividends have been extended through 2010. Starting in 2008 and through 2010, the capital gains rate for some investors drops to zero. The zero-percent rate for 2008 through 2010 is limited to taxpayers in the 10% to 15% income tax brackets. If you are

lucky enough to still have long-term gains, talk with your financial adviser about taking those gains in 2009 as opposed to a later year.

6. **Kiddie tax** applies to dependents under the age of 19, but it also includes dependents under the age of 24 who are full-time students. Income up to \$950 is tax-free. The next \$950 is taxed at 15%, and income above that amount is taxed at your tax rate.
7. The **gift tax** limit increased in 2009 to \$13,000 from \$12,000 in 2008.
8. Don't forget that **non-cash charitable deductions** require documentation. You cannot simply say "3 bags of clothing." Not only do you need a receipt from the charity, but a list of what you contributed is required. If you need a non-cash charitable contribution worksheet to arrive at the deductible amount try www.goodwill.org and follow the site through their donations section.
9. **Cash charitable contributions** require a receipt from the charity. This means that if you attend church on Sunday and put \$10.00 in the collection plate, you cannot take a deduction without a receipt from your church. If you pay by check, your canceled check is your receipt unless the total of your contributions is \$250 or more. If the total is over \$249, you also need a receipt from the charity. Because of recent tax court cases, the best practice is to obtain a receipt for every donation.
10. **Charitable travel** – you can still deduct local charitable mileage at 14 cents per mile, but you cannot deduct charitable travel unless there is "no significant element of personal pleasure." If you travel for a charity (a chorus, symphony, fraternal organization, etc.), you cannot deduct your expenses unless you can prove that all or most of that trip was directly related to the charitable work.
11. **Use Tax** – this is an area that is under more scrutiny. If you made a purchase on the Internet and did not pay sales tax, you are required to pay sales tax to your state when you file your tax return. Let me know if this is the case with you.
12. **Home equity interest** and **refinancing your current mortgage** – unless you substantially improve your home with funds from a home equity loan, your mortgage interest deduction may be limited. Don't forget home equity debt is limited to \$100,000 to be able to deduct the interest. Any interest paid on loans that exceed \$100,000 is considered personal interest and is not deductible. If you refinance, I'm going to attempt to keep track of what was reinvested in your home and is deductible and what was used for other purposes and may be subject to the alternative minimum tax. Again, this is an area in which the IRS is paying particular attention.
13. The **tuition and fees deduction** of up to \$4,000 was extended through 2009. The **Hope and Lifetime Learning Credits** are also still in place under current law.
14. The teacher's **educator expenses deduction** of \$250 was extended through 2009.
15. Through 2009, if you're over age 70 1/2 and you take your minimum required IRA distribution of no more than \$100,000 to contribute to a **charity**, you can exclude that amount from your income and the distribution counts toward your minimum required IRA distribution.
16. The law now allows people to deduct up to \$500 in **real estate tax** (\$1,000 on a joint return) even if you don't itemize your deductions.

17. Extended through 2016, the **Residential Energy Credit** amounts to 30% of the cost for solar energy electric generating improvements, solar water heating improvements, and qualified fuel cell property. Although not allowed in 2008, beginning January 1, 2009 the credit is reinstated for the installation of energy efficient improvements (insulation, furnaces, windows, etc.).
18. **1st Time Homeowner Credit** – New for 2009 is the increased credit amount to \$8,000 for qualified first time home purchases and \$6,500 for qualified replacement home purchases. Unlike the 2008 first time homeowner credit, the new credit does not need to be repaid. The credit has also been extended for homes under agreement before May 1, 2010 and closed before July 1, 2010. While this is certainly a good deal in most circumstances, there are potential drawbacks for not maintaining the home as your principle residence for at least three years (15 years under the 2008 credit).
19. **Roth Conversions** – if you **converted** any retirement funds to your **Roth IRA** in 2009, you have six months to move those funds back to your retirement account to avoid paying income taxes. This strategy is especially good if the value of those funds is worth less today than they were when you made the transfer to your Roth.
20. **Flexible Spending Accounts (FSAs), Cafeteria Plans, Section 125 Plans** – if your company offers a plan, the enrollment period is often times toward the end of the year. Remember that whatever amount you elect to contribute to your plan comes out of your wages tax-free. You pay no income tax, social security tax, or Medicare tax on the amount you contribute for your projected medical expenses (including over the counter drugs) and/or dependent care expenses (not including overnight camps). The key to how much you elect to contribute either for dependent care or medical expenses is to not contribute more than you will spend in a calendar year plus 2 months 15 days. Should you not spend what you contributed, you forfeit that amount for that calendar year.

Business related filers:

1. **Office in Home** – if you have an office in home, your office must be used *exclusively* for your business and *regularly* for your business (almost no personal use is allowed). Also, the 1st trip of the day from your qualified home office is not deductible unless you qualify under special rules. It is considered part of your *commute*. The trips after that 1st stop of the day are deductible business miles if the stop is business related.
2. **Telephone expense** – if you have a business that you operate in your home, you must have a separate business telephone line to deduct your telephone. If you have a personal phone from which you make business calls, you may deduct only the business long-distance amount as telephone expense.
3. **"Listed Property Deductions"** – this is a category that includes cell phones, home computers, auto expenses, etc. The IRS looks at each expense separately and measures the time you use these items and the business purpose of each before you may deduct it (the ratio of personal versus business use). For example, if I have a cell phone, but the only time I use it is when I travel to keep in touch with family and return client calls, and this cell phone is in use for a small percentage of the year for business, it is unlikely that I qualify to deduct any of my cell phone expense. Home computers are a problem, also. How much of the time do you spend on your computer that is personal use as opposed to business use?

4. **Travel and Meal & Entertainment Expense** – in addition to a receipt, make sure you keep a log noting the name of the client, the purpose of the meeting, the cost, and how many people attended. Your credit card statement is not considered substantiation.
5. **Business travel expense** – keep a log of your business mileage. Without a mileage log, no deduction is allowed. Again, keep track of the name of the client and business purpose of the meeting. The standard rate is 55 cents per mile as of January 1, 2009.
6. **Forms 1099-MISC** – if you paid more than \$600 to a business or individual for services rendered, you are required to issue Form 1099-MISC no later than January 31, 2010 (actually, February 1, 2010, since January 31 falls on a Sunday this year). If you do not issue the forms and you are audited, your deduction may be disallowed.
7. **Business Inventory** – the IRS recently placed an increased emphasis on actual **physical inventory** on hand on December 31st of each year. Please make sure to physically count your inventory, retain the records, and provide us with the accurate total **cost** of inventory on hand on December 31st.
8. **Corporate records** – I also want to remind you to make sure that your corporate minutes must be maintained on an annual basis. We do not maintain these forms for you. They are maintained by the officers of the corporation. Of course only S and C corporations are required to maintain minutes. LLC's have no such requirement.
9. The **Section 179 deduction** is \$133,000 in 2009. Including California (\$25,000), some states do not conform to these larger limits.
10. **Sales tax audits** continue to increase. In general, you must pay sales tax on any item(s) you purchase that is not re-sold (e.g. office supplies, equipment, online and out of state purchases, etc.). You need to charge sales tax on any items you sell (not labor if separately stated on the invoice) except for those customers for whom you have a valid exemption certificate on file.

For these topics or others about which you have questions, feel free to contact us any time at all. Your questions are important to us.

Sincerely,

Your BTB Staff