

IRS finesse: Filing taxes in 2010

By Stephen Wilson

Sandy Harms sits behind a large walnut-stained desk. On top of that desk is a four-inch binder filled with 800 pages of tax tips. Not tax law, not tax code, just tax highlights to help her understand the changes for 2009 so she can maximize her clients' returns.

Twenty blocks across town, Rick Morris also prepares for the busy season. Both Sandy and Rick have been in the tax preparation business for ten years. At Sandy's Tax Service, the focus is home-based businesses, a market she knows well after operating a day care out of her home for two decades. Rick at Strategic Tax Solutions, on the other hand, specializes in small- to medium-sized businesses across all sectors.

Village Family Magazine: In 2008, Americans received a \$600 stimulus check. In 2009, the stimulus payment was different. Can you explain it?

Rick Morris: Yes, in 2009 the stimulus payment was not in the form of a check. Many Americans are receiving the benefit of that credit in each of their paychecks

through reduced federal tax withholding. The credit is called Making Work Pay.

Sandy Harms: The government hopes people will spend that extra money from their paychecks instead of saving it, which is what most people did when they received the \$600 check in 2008. The credit maxes out at \$400 for singles and \$800 for Married Filing Jointly.

VFM: What are the standard deductions for 2009?

SH: If filing as single, the standard deduction is \$5,700. Married Filing Jointly is double the single deduction, \$11,400, so no more marriage penalty. If filing Head of Household, which means you provided a home for a dependent for over half the year, the deduction is \$8,350. If you itemize your return, that means you made sizable charitable contributions and/or paid enough property tax, mortgage interest, state taxes and/or employee expenses to exceed the standard deduction. Most people use the standard deduction.

VFM: How will 2009 affect parents

with dependents?

SH: In several ways. The child tax credit is \$1,000 per child under 17 and is partially refundable. For example, let's say you have three children and have \$2,000 in tax liability, which is what you owe. With \$3,000 in child tax credit, you would reduce your tax liability to zero, and could possibly receive the remainder or a portion of that last \$1,000 as a refund.

In addition to the standard exemption and the child tax credit, parents can earn a child-care credit. If you spent up to \$3,000 in day care for your first or second child, you can claim 20 percent of that amount to help reduce your tax liability.

There is also an adoption credit for parents who welcomed a child into their home.

VFM: The economy this year has continued to struggle. How will those unemployed, underemployed or laid-off be affected?

RM: If unemployed, there is a difference this year. In the past, all unemployment was taxable, but this year, the first \$2,400 is not taxable. Any



unemployment benefits in excess of that will be subject to income tax.

SH: Another common tax credit is earned income. It works like a bell curve. As your income goes up, the credit goes up. The credit peaks around \$10,000 to \$15,000 and phases out around \$40,000. The income limits this year have been raised, and there is a higher rate for a third child.

VFM: How will 2009 affect new home and car buyers?

SH: If you bought a new car or truck, there is a deduction on total sales tax paid. You don't have to itemize your return to be eligible, but you do need the invoice from the new vehicle.

The first time homebuyer tax credit, which has been extended until April 30 is capped at \$8,000. This credit is for people who bought a house and have not owned a house for the past three years. They can earn 10 percent on a purchase up to \$80,000.

VFM: How about other homeowners, is there anything for them?

SH: A new aspect to the homebuyer credit is for those people who were in their personal residence for five of the past eight years and sold that home and bought another house. That credit, which is up to \$6,500, began in November and will continue through April.

RM: Many homeowners may benefit from the Residential Energy Credits available for improvements to a taxpayer's primary residence. The amount of the credit varies based on the improvement. The improvements include items like insulation, exterior windows, exterior doors, hot water heaters, solar energy, wind energy and geothermal energy sources.

VFM: What about homes affected by the flood of 2009?

SH: If you spent money to protect your property and didn't get flooded, there are no deductions. If you did spend money and lost your home in the flood, expenses over and above what insurance and FEMA covered might be considered a casualty loss. If you spent money and got flooded, but only had a big mess on your hands, you may be eligible for some deduction if your home lost fair market value. However, most people repaired their homes and did not lose market value. No matter how you were affected by the flood, to receive a deduction you had to file with insurance and/or FEMA. A casualty loss can be claimed as a reduction in taxable income for those who are not able to itemize deductions.

VFM: Any good news for college students?

SH: Yes, there are two tax credits, and one of them changed quite a bit. The American Opportunity Credit replaced the Hope Credit. The new credit is \$2,500 per half-time enrolled student for the first four years of college and covers tuition, fees and books. The former credit only covered two years and didn't include books.

The second credit, called Lifetime Learning, has no enrollment or age restrictions; it covers all members of the family for any post-secondary class they take. You earn 20 percent of tuition up to \$10,000.

VFM: What tips do you have for small business owners or the self-employed?

SH: If you want to protect yourself from an audit, open a

Continued on Page 14

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Continued from Page 13

business checking account, deposit all income into that account and pay for expenses through that account. Keep records of all ordinary and necessary expenses for the year, keep receipts and record mileage.

RM: I have three very important tips. I would recommend that business owners use accounting software, such as QuickBooks, if they do not outsource their accounting. I would recommend that they consult with an accountant about the benefits of incorporating their business.

Finally, I would recommend that they find the right accountant. An accountant should serve as a business consultant and be there for more than just tax preparation.

VFM: Many places advertise instant refunds. Is that a good idea?

SH: There are pros and cons. You get your refund faster and can pay for the tax preparation fees from the return. On the other side, the fees for an instant refund loan vary greatly, and those loans usually come in at a high rate. With e-filing and direct deposit, most returns take about 10 days, which can be worth the wait.

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While some folks can't wait for their money, other people don't want to

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The IRS, seen by some as the enemy, is the most reliable resource for online tax information. They have the forms and instructions, a withholding calculator and detailed information for parents, students, military personnel, farmers...you name it. You can check the status of your refund there as well.

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If you have some cash to spare, check out a resource tax preparers use: The Tax Book. They have good tools for accurate answers.

— Visit www.irs.gov for more information.

pay in and skip out on filing a return. If you wonder what happens to such evaders, be warned! The IRS will file a return for you, but they calculate the maximum tax. So if you missed a year and get a "friendly" letter, Sandy says you should respond. "Don't get scared and hope it will go away," she says. "Contact a tax preparer and reply." Sure you will pay penalties and interest, but if you set up some kind of payment schedule, you won't have your wages garnished or spend time in jail.

When Stephen Wilson filed his first tax return, minimum wage was \$3.35. His primary W-2 now comes from working in marketing at MeritCare.

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