

CLIENT LINE

Curtis H. Finch, CPA, PC 770-998-6665 curtis@lowtaxcpa.com

February 2010

6 Costly Tax Myths

Myth 1: Students are exempt

There's no special tax status afforded to students. They are subject to tax on all their income, regardless of how many credits they're taking.

Students do get special tax credits, the **Lifetime Learning Credit** and the new **American Opportunity Credit**, which has replaced the Hope Credit for 2009 and 2010. In addition, distributions from a **Section 529 plan** are tax-free. But their income is subject to tax, just like everyone else's.

Many students who work over the summer check the box "exempt" on their W-4's. If they had no taxable income the previous year and don't expect to have any the current year, that's OK. But let's say a student earned more than \$5,700 in 2010. And let's say she is claimed as a dependent on her parents' return. She could owe tax and penalties of more than \$1,000!

Myth 2: My child is working, so I can't claim him as my dependent

As long as you provide more than half that child's support, (and meet other qualifications such as citizenship and relationship), the child qualifies as your dependent.

Myth 3: I'm over age 55, so I can sell my house tax-free

It used to be that if you were older than 55, you could exclude as much as \$125,000 in gains from taxes, but only once. Now the rules are even better.

Under current law, age no longer matters. If the property sold was your principal residence for at least two out of the last five years, you can exclude from tax as much as \$250,000 in gain (and \$500,000 in gain on a joint return).

Myth 4: I had to buy my first house to be a first-time homebuyer

You don't have to be a first-time homeowner to get the first-time homebuyer credit of up to \$8,000. You qualify if neither you nor your spouse had an interest in a principal residence for the three years prior to closing on the new house (which had to happen before September 2010).

Alternatively, you may qualify for a credit up to \$6,500 if you owned and used a home as a principal residence for at least five consecutive years out of the eight year period ending on the date of the purchase of the new home. Both qualify as "first-time homebuyers."



Myth 5: I can deduct my sales taxes

Starting in 2004 and renewed through the 2010 tax year, you can deduct either your personal sales taxes or your state income taxes from your federal income return, but not both. In those states with an income tax, you're far more likely to pay more in income tax than sales tax, so the sales tax deduction remains a rare sighting. But if you live in one of the seven states without its own income tax -- Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming -- congratulations. You get a nice deduction.

Myth 6: I'm married, so I have to file a joint return

Again, not true. If you're married, you can always file "married filing separately." That normally results in you having to pay more in taxes. But in some situations, it can be to your advantage.

For example, if one spouse has substantial medical or miscellaneous deductions, those deductions are subject to the 7.5% and 2% floors, respectively. If I had \$10,000 in income and my spouse had \$90,000 in income, and we filed jointly, the first \$7,500 in medical expenses and the first \$2,000 in miscellaneous expenses aren't allowed.

But if I filed as "married filing separately," the disallowance would apply only to the first \$750 in medical expenses and the first \$200 in miscellaneous itemized expenses. The potential availability of \$8,550 (\$7,500 plus \$2,000, less the sum of \$750 and \$200) in additional deductions could offset the bracket and other limitations of filing separately. (Why income tax preparation is so challenging)

You can qualify as an "abandoned spouse" if your spouse didn't live with you for the last six months of the year and you have a child living with you who qualifies as your dependent. If so, you can file as head of household rather than jointly or married filing separately.

4 Steps To Painless Tax Filing

1. Get started

Your first step is to break the inertia and get moving on the information. The sooner we receive it, the more time you will have to review your returns prior to filing.

2. Accumulate the data

By now you should have all forms in hand. Make sure you've got W-2s and any statements from your brokers and banks. You'll receive 1099 forms for any interest, dividends and sales of stock.

Your mortgage company sent you a Form 1098 for any interest and real-estate taxes paid.

3. Get the numbers in categories

Prepare totals for the income and deduction categories. You'll need that final "number" and I suggest clients use the "envelope" system. Create an envelope or file folder for each of the income/deduction categories. There will be an envelope for medical expenses, charitable contributions, job expenses etc. Find all the receipts, all the checks, all the invoices and put them in the appropriate envelope. Then prepare the totals on a piece of paper and bring it to us with your tax documents

If you live in a state without an income tax, don't forget to look for itemized sales taxes. These states are: Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington and Wyoming.

4. Call our office

Call our office *now* for an appointment if you want your taxes prepared in February. If you need some more time, we will be accepting appointments for non-extended (April 15th) 1040s through Friday March 25th.

CLIENT TIPS.....

FILING TAXES USING TURBO TAX OR ON THE WEB?

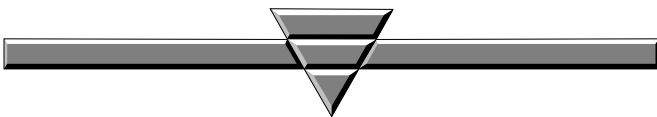
There are many programs today, that allow you to file your taxes either for free, or for a minimal charge from \$19.95 to \$59.95. These programs offer a filing solution for the client that has either just a W-2, or a 1040 with interest and/or dividend income.

Our strategy as your tax preparing professional is not just to prepare your income tax return, but to make sure you are paying as little tax as possible. We make inquiries and analyze your individual situation at tax filing time. Despite the claims, this is not something that can be "programmed" into a software package and takes years of experience in dealing with federal and state tax laws.

Over 90% of the self-prepared returns I review, have overpaid their taxes (as many of you are first hand aware). On average, the overpayment is usually about 3 to 5 times the cost of what we would have charged to prepare the return. This is because the general public is not familiar with the ins and outs of the Internal Revenue Code, which takes years of experience to try to begin to understand. And the laws change each year, which is why we are required to pay for and attend 80 hours of continuing education bi-annually to maintain my license as a Certified Public Accountant.

IRS internal statistics that show that self prepared returns are more likely to be audited than those prepared by a professional. If someone has to pay us to represent them before the IRS after having filed their own return, have they really saved any money?

And if they have a question or need tax and financial advice, or worse yet, receive a notice from a taxing authority regarding their return during the year, are they going to get help from the Web or by calling their software support line? Just like every other service business, they are getting what they pay for when they file their taxes without the advice of a professionally trained tax professional.



YOUR WINTER/SPRING TAX CALENDAR

March 1st	W-2 and 1099 transmittals due
March 15th	Calendar year corporate income tax returns or extensions due
April 18th	Individual income tax returns or extensions due. First Quarter 2011 estimated taxes due.
May 2nd	Second quarter payroll tax returns due

Federal Rates & Limits 2011.....

Social Security (OASDI) Wage Base.....	\$106,800
Medicare (HI) Wage Base.....	No Limit
Social Security (OASDI) Percentage.....	4.2%/6.2%
Medicare (HI) Percentage.....	1.45%
Mileage Rates	
Business.....	51¢/mile
Medical.....	19¢/mile
Moving.....	19¢/mile
Charitable.....	14¢/mile

Maximum Elective Deferral to 401(k) and 403(b).....	\$16,500
Maximum Elective Deferral to SIMPLE IRA Plans.....	\$11,500
Maximum Annual Contribution to Defined Contribution Plans.....	\$49,000
Maximum Annual Contribution to Keogh or SEP-IRA...The lesser of 25% of W-2 or \$49,000	
Maximum Annual Compensation Taken into Account for Contributions.....	\$245,000
Threshold Amount for Definition of Highly Compensated Employees.....	\$110,000
Threshold Amount for Definition of Key Employee in Top-Heavy Plans.....	\$160,000

Catch-Up Contribution Limits –

Individuals who will be at least age 50 by the end of the year can make catch-up contributions.

401(k) Plans.....	\$5,500
SIMPLEPlans.....	\$2,500

REFERRAL CERTIFICATES

We are celebrating our 17th year in business in 2011 and appreciate your referrals. We will be rewarding each referring client with a \$100 American Express Gift Card for each new referral in 2011.

