Peterson Tax Letter

6603 Queen Avenue South, Ste T, Richfield, MN 55423 612-866-2530 November 2009

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Finding Lost Refunds

IRS has $123.5 million dollars in undeliverable refunds. Mailing address errors caused nearly 108,000 refund checks to be returned to the IRS by the U.S. Postal Service. If your refund is missing, all you have to do is update your address once. The IRS will then send out all checks due. You can generally update your address with the Where's My Refund tool on IRS.gov. The tool will provide the status of your refund and in some cases provide instructions on how to resolve delivery problems.

Surprise Balance Due Possible

You Could Be Surprised With an Unexpected Balance Due on Your 2009 Tax Return. Under the new *Making Work Pay Credit*, lower withholding tables were implemented by employers on April 1st. Those tables could result in your having too little income tax withheld, causing you to owe taxes next year. This is especially possible if:

- You are an employee with two concurrent jobs
- You and your spouse both work or
- You can be claimed as a dependent on someone else's tax return (since you are not eligible for this credit)

If one or more of these categories fits your situation, it may be wise to ask your employer for a new W-4 form and use the worksheets to determine if you are having enough withheld.

Making Home Affordable is a new a plan to help stabilize the housing market and help up to 9 million Americans reduce their monthly mortgage payments to more affordable levels. The Home Affordable Refinance Program gives homeowners with loans owned or guaranteed by Fannie Mae or Freddie Mac an opportunity to refinance into more affordable monthly payments, thus keeping millions of Americans in their homes by preventing avoidable foreclosures. The website www.MakingHomeAffordable.gov provides homeowners with detailed information about these programs along with self-assessment tools and calculators to assist borrowers in determining whether they might be eligible for a modification or a refinance under this program.

Standard Mileage Rates

- 55 cents a mile for business miles
- 24 cents a mile for medical reasons
- 24 cents a mile for a deductible move
- 14 cents a mile for charitable reasons

Contact Us

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2009 Credit and Deduction Changes

Qualified Transportation Fringe Benefits Beginning January 1, 2009, the monthly exclusion for **commuter highway vehicle transportation** and **transit passes** increased to $120 and the monthly exclusion for qualified parking increased to $230. Beginning March 1, 2009, the monthly exclusion for commuter highway vehicle transportation and transit passes increased to $230.

Beginning January 1, 2009, you may be reimbursed for reasonable expenses of **qualified bicycle commuting.** Reasonable expenses include the purchase of a bicycle and bicycle improvements, repair, and storage. The exclusion for a calendar year is $20 multiplied by the number of qualified bicycle commuting months during that year. A qualified bicycle commuting month is any month you use the bicycle regularly for a substantial portion of the travel between your residence and place of employment and you do not receive any of the other qualified transportation fringe benefits. You are not entitled to this exclusion if the reimbursement for bicycle commuting is made under a compensation reduction agreement.

Deduction for Credit or Debit Card Convenience Fees If you pay your income tax (including estimated tax payments) by credit or debit card, you can deduct the convenience fee you are charged by the card processor to pay using your credit or debit card. The deduction is claimed for the year in which the fee was charged to your card as a miscellaneous itemized deduction and is subject to the 2% of adjusted gross income floor.

ARRA 2009 permits taxpayers to take a deduction for state and local sales and excise taxes paid on the purchase of new cars, light trucks, motor homes and motorcycles. The deduction is available on new vehicles purchased from Feb. 17, 2009, through Dec. 31, 2009. The deduction is limited to the taxes and fees paid on up to $49,500 of the purchase price of an eligible vehicle. The deduction is reduced for joint filers with modified adjusted gross incomes (MAGI) between $250,000 and $260,000 and other taxpayers with MAGI between $125,000 and $135,000. Taxpayers with higher incomes do not qualify. The new deduction can be used to increase the amount of your standard deduction or you can take it as an itemized deduction (if you are not electing to take the state and local general sales tax deduction).

Standard Deduction Increased The standard deduction for people who do not itemize their deductions on Schedule A (Form 1040) is, in most cases, higher for 2009 than it was for 2008. In addition to the annual increase due to inflation adjustments and the increase allowed for the deduction for certain real estate taxes and a net disaster loss, your 2009 standard deduction is increased by any state or local sales tax imposed on the purchase of a qualified motor vehicle in 2009 after February 16.

HomeBuyers

Up to $8,000 Credit for First Time Homebuyers

Up to $6,500 Credit for Current Homeowners

First Time Homebuyer Credit Extended and Liberalized The credit is available to taxpayers who buy or enter into a written, binding contract to buy a principal residence before **May 1, 2010,** and close on the purchase before **July 1, 2010**.

As with earlier versions of the credit, a qualifying 2010 purchase may be claimed on the taxpayer's 2010 return or on an original or amended 2009 return.

New eligibility requirements plus income and purchase limitations have been added, as well as special provisions for taxpayers in the military.

Also added is a **NEW, Special Rule for Current Homeowners**. Taxpayers who are considered "long-time residents" of the same principal residence are now eligible to claim a credit equal to 10% of the purchase price, up to a maximum of $6,500 ($3,250 MFS) for purchase of a subsequent principal residence. A long-time resident is one who has owned a home and used it as a principal residence for any 5 consecutive years during the 8-year period prior to purchase of the subsequent principal residence.

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Income Limit on Itemized Deductions Increased If your AGI is above a certain amount, you may lose part of your itemized deductions. In 2009, this amount is increased to $166,800 ($83,400 if married filing separately).

Personal Exemptions The amount you can deduct for each exemption has increased to $3,650 for 2009. You lose part of the benefit of your exemptions if your AGI is above a certain amount. The amount at which the phase-out begins depends on your filing status. For 2009, the phase-out begins at:

- $125,100 for married persons filing separately,
- $166,800 for single individuals,
- $208,500 for heads of households, and
- $250,200 for married persons filing jointly or qualifying widow(er)s.

For 2009, each exemption cannot be reduced to less than $2,433.

Wage Threshold for Household Employees The social security and Medicare wage threshold for household employees is $1,700 for 2009. This means that if you pay a household employee cash wages of less than $1,700 in 2009, you do not have to report and pay social security and Medicare taxes on that employee's 2009 wages.

Social Security and Medicare Taxes The maximum amount of wages subject to the social security tax for 2009 is $106,800. There is no limit on the amount of wages subject to the Medicare tax.

The streamlined Form 4506T-EZ, Short Form Request for Individual Tax Return Transcript will make it easier for taxpayers to order transcripts, which will be especially helpful for current and prospective homeowners who need the information to obtain a **new or refinanced mortgage**. Taxpayers can request that transcripts be mailed to a third party, such as a financial institution. There is no charge for transcripts. It is important to complete all fields—especially the years requested—and to sign and date the form before mailing or faxing it to the IRS. It takes about 10 days to process the request.

2009 Required RMDs Waived Required minimum distributions (RMDs) from retirement plans that hold each participant's benefit in an individual account (including IRA accounts, 401(k) plans, 403(b) plans, and certain 457(b) plans) were waived for 2009. This means that most participants and beneficiaries otherwise required to take minimum distributions by December 31st from these types of accounts do not have to withdraw any amount in 2009. If they do make a withdrawal in 2009 (that is not an RMD for 2008), they may be able to roll it over into other eligible retirement plans. They must still include in gross income any previously **untaxed portion** of 2009 withdrawals not rolled over.

The *Current Homeowner* provision is effective with homes purchased **after November 6, 2009**. All other new rules (new phase-out range, purchase price cap, last date available for the credit) apply as well. There is no requirement that the taxpayer sell the first residence-it can be sold, converted to rental property, given as a gift, etc. as long as the taxpayer occupies the subsequent home as a principal residence.

The following provisions have been added to prevent erroneous claims for the FTHC. They are generally effective for homes purchased after Nov. 6, 2009.

- A taxpayer (or spouse) must be at least 18 years of age on the date of purchase
- A taxpayer who is claimed as a dependent on another taxpayer's return is not eligible for the credit
- Taxpayers must attach a properly executed settlement statement (such as a HUD statement) to the tax return
- Homes purchased from a party related to the taxpayer or taxpayer's spouse are not a qualifying purchase.

The new legislation increases IRS authority to deny the credit. Currently, due to increased IRS scrutiny on returns claiming the credit, the refunds on both original and amended returns are taking longer than normal. To support claims already filed, the IRS may request additional documentation such as copies of the HUD statement, or proof that the property is claimant's primary residence.

Coming Next Month:

2009 Education Benefits

2009 Health Plan Benefits

Sale of Home Tax Changes

Tips for Year-End Charitable Donations

Reciprocity with Wisconsin Ended

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The 2009 RMD waiver includes individuals eligible to postpone taking their 2009 RMD until April 1, 2010 (generally, retired employees and IRA owners who attain age $70^1/_2$ in 2009). Required RMDs for 2010 have not been waived.

If a beneficiary is receiving distributions over a 5-year period, he or she can now waive the distribution for 2009, effectively taking distributions over a 6-year rather than a 5-year period.

If you are age 70 1/2 or older, own IRAs (or Roth IRAs), and are thinking of making a **charitable gift**, consider arranging for the gift to be made directly by the IRA trustee. Such a transfer, if made before year-end, can achieve important tax savings.

Taxpayers who take energy saving steps this year may get bigger tax savings next year. *The Nonbusiness Energy Property Credit*, a tax credit for making energy efficient improvements to homes has been increased as part of the American Recovery and Reinvestment Act of 2009. Here are seven things the IRS wants you to know about the credit:

1. The new law increases the credit rate to 30 percent of the cost of all qualifying improvements and raises the maximum credit limit to $1,500 claimed for 2009 and 2010 combined.
2. The credit applies to improvements such as adding insulation, energy-efficient exterior windows and energy-efficient heating and air conditioning systems.
3. To qualify as "energy efficient" for purposes of this tax credit, products generally must meet higher standards than the standards for the credit that was available in 2007.
4. Manufacturers must certify that their products meet new standards and they must provide a written statement to the taxpayer such as with the packaging of the product or in a printable format on the manufacturers' Website.
5. Qualifying improvements must be placed into service after December 31, 2008, and before January 1, 2011.
6. The improvements must be made to the taxpayer's principal residence located in the United States.
7. To claim the credit, attach Form 5695, Residential Energy Credits to either the 2009 or 2010 tax return. Taxpayers must claim the credit on the tax return for the year that the improvements are made.