



# Jodee Paape & Associates, LLC

Tax Season Newsletter

January , 2009

## WHAT A YEAR!

Who could have imagined all the things that happened in 2008? Since last year at this time, there have been at least eight pieces of federal legislation that affect individual income taxes. We'll highlight some of the more important changes elsewhere in this newsletter.

The economy & the elections were the big stories. Both of these issues will affect taxes now and in the future. We expect to see major changes in tax law and a major stimulus package that will probably be tied to taxes.

Check out our website for up to date information as changes develop throughout the year.

## FEES

Enclosed is our 2009 Fee Schedule. In light of the economic situation, we have not increased our fees from last year. We will, however, strictly enforce our policy to charge more if your information is not organized.

Please note that a simple return for your dependent is \$50. We encourage you to have your dependent's returns prepared by us in order to ensure accuracy and maximize tax savings. Many times dependents file their own returns in a way that may not be advantageous to the family as a whole.

## BURIED IN EMAILS

Jodee's Inbox became the black hole during 2008. If you sent an email that did not get a response, we apologize. We added spam filters. That helped, but it was so good that sometimes legitimate email went into the spam catcher. Unfortunately, we decided the only way to effectively deal with the situation was to start fresh. Only clients and other select colleagues will be given the new email. Please use this new email when trying to contact Jodee:

[Jodee.Paape@jodeepaape.com](mailto:Jodee.Paape@jodeepaape.com)

## TAX SEASON PROCEDURES

When you are ready to file your tax return, please complete your organizer and return it to us along with your tax documents. You may call for an appointment with Jodee or Lynne. If you already have an appointment, enclosed is a notice indicating your appointment time.

If you don't think you need an appointment, you can mail or drop off your documents. If you have any questions relating to your return, note them on a separate sheet of paper. We will call you when we begin preparing your return. If you would like an appointment to discuss your tax situation, please call as soon as possible. **It is very important that you include all original tax documents along with your organizer!**

## ARE YOU A NEW CLIENT?

If you are a new client, please be sure to make an appointment. There is no additional charge for an interview and it helps us to learn more about your tax situation. You also need to bring us a copy of your 2007 tax return (including W-2's and other documents).

## SCHEDULING

Our hours January 26 through April 15:

- ✓ Monday thru Friday, 8:00 a.m. to 6:00 p.m.
- ✓ Saturday from 9:00 a.m. to 2:00 p.m.
- ✓ Evenings and Sunday by appointment only

## CONTACT US

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If you need directions, please give us a call or check the website ([www.jodeepaape.com](http://www.jodeepaape.com))

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[lbates@jodeepaape.com](mailto:lbates@jodeepaape.com)

## ELECTRONIC FILING

**As required by the State of Minnesota, we are once again filing all eligible returns ELECTRONICALLY.** A \$5 fee will be charged by the State of Minnesota for any eligible return that is not filed electronically. You may still request that we not electronically file your tax return, however if you do so and your return could have been filed electronically, we will charge you an additional \$25 as well as the State of Minnesota fee of \$5. Attach a signed statement to your organizer indicating you do not want to file your return electronic ally. Please remember, you are not charged a separate or additional fee for electronic filing, and all tax files are submitted to the IRS and State of Minnesota in a secure encrypted format. This year we will also file your property tax refund electronic ally.

## RESOURCES AVAILABLE

### Non-Cash Contribution Valuation

The familiar "It's Deductible" books are no longer available. We discovered a similar resource called "Money for Your Used Clothing". You may order the book directly from the publisher at [www.MFYUC.com](http://www.MFYUC.com) or 1-866-417-7678. If you'd like us to value your contribution, we will calculate your deduction from your itemized list for a charge of \$50 per hour.

### Mileage Log Book

We have small log books suitable for use in your vehicle to help you keep track of your mileage, parking and other business expenses. These are complimentary to our clients.

### Our Website

Check out our user-friendly website at [www.jodeepaape.com](http://www.jodeepaape.com). There are many useful tips and tools available. You can check the status of your federal and/or state refund. We also have various interesting links to other sites you may want to check out. You will find a link to a map of our location on our website. We also have our organizer and all of our forms available along with our current newsletter that may be printed for your convenience. Due to the volume of new laws this year, we have special interest articles available on the website and will have some printouts at the office.

## MORE PROCEDURES

When we have finished your return, we will mail you a summary of the results and a two year comparison to last year's tax return. If you have questions about the results, please call or email us. As soon as possible after you receive this notification, you should come to the office to pick up your copy of the tax return and your original source documents you provided to us. We also need the electronic filing authorization signed. If you are married, *both* spouses need to sign the form but only one of you needs to come pick it up. The completed form can be faxed or mailed back to us. We will **NOT** file your return until the form has been signed and returned to us.



## FILING DEADLINE

We need enough time to do a professional job on your return – that is what you are paying us for. We have developed a process that results in a quality, thoroughly reviewed tax return. In order to maintain this standard for ALL returns, we sometimes have to extend selected tax returns. The extension is automatic and allows an additional six months before the return has to be filed (October 15). This is NOT an extension of time to pay, however. If you owe, you must pay by April 15 in order to avoid penalties and interest.

Information received after March 20 may require that an extension be filed for your return. There will be an extra charge to calculate your extension. We will notify you by April 11 if we need to extend your return.

Extensions do NOT increase your risk of being audited. In fact, some practitioners believe an extension actually decreases your audit risk.

## Services We Provide

*Financial Planning* – She finally did it! In November, Jodee completed the coursework and successfully passed the exam to become a Personal Financial Specialist (PFS). The PFS, unlike other certification programs, is awarded only to CPAs. In addition, the CPA must belong to the American Institute of Certified Public Accountants (AICPA) and adhere to their rigorous requirements. Accordingly, this credential represents the highest professional standards of any financial planning credential and sets the PFS holder apart from other financial planners. There are less than 4,500 PFS holders in the country. When you receive your completed tax return, you will also receive more information about how we plan to implement financial planning into our practice. Please share your ideas with us.

*Notary Public* – We do have a notary available for our clients. Please call first to be sure Mary Anne is available when you need something notarized. Remember we need to follow the rules – please do not ask us to notarize something unless the individual signing is able to sign in our office.

*Basis Calculation* – It is very important to understand the cost basis of your investments held outside of retirement accounts. In order to make good tax planning decisions and certainly in order to calculate your tax correctly once an asset is sold, you need to know what your “tax basis” in the asset is. This is normally what you paid for the stock, plus any dividends reinvested. If you inherited the stock, the basis may be different. We will help you calculate the basis of your taxable stock holdings. We charge \$100 per hour for this service.

*Third Party Disclosures* – The issue of disclosure of personal and confidential taxpayer information is a growing concern. Effective January 1, 2009 the IRS has imposed new requirements for us to obtain written authorization from you, the taxpayer, before we can disclose any information to a third party. That authorization must be specific for each instance that disclosure is made. In plain English, the new rules mean we must obtain a signed authorization from you (both of you if you are married) **before** we can discuss your situation with a broker, banker, lawyer, real estate professional, financial advisor, etc. The language must be very specific and the penalties are severe if we don't follow the rules. We have a sample disclosure on our website that you can print out and fill in, or you can ask us to prepare one for your specific situation.

## TAX NEWS

### Alternative Minimum Tax

The Alternative Minimum Tax (AMT) was designed in the 1960's to prevent the very rich from using deductions, credits and other shelters to avoid paying taxes. Basically, each tax return is calculated in two different ways, using two sets of rules. The tax calculations are compared and you pay the higher of the two tax liabilities.

Historically, the AMT exemption amount has not been indexed so more and more taxpayers find themselves paying AMT. It is clear that AMT is complex and affecting more and more tax returns. It is difficult to even determine if you will be subject to AMT. If you have questions about this area of the tax law, please contact us. We'd be glad to discuss it with you.

### Minnesota AMT

Minnesota has their own version of the alternative minimum tax. In addition to the adjustments used to calculate Federal AMT, MN does not allow any mortgage interest or gambling losses to be deducted. The flat rate for MN AMT is 6.4%. The Minnesota Society of CPA's has been actively lobbying the Minnesota Legislature to modify our AMT rules to at least match the federal rules. Some changes were made in 2006, but we have a ways to go.

### Temporary AMT Relief – Again!

Right before the election Congress did provide some relief. For this year only they provided a temporary indexing of the AMT exemption amount. This is only a “patch” on the AMT system, one which will need to be addressed by Congress again in 2009 and beyond.

### Standard Mileage Rates for 2008 & 2009

We have two rates for 2008 – see below

	<u>2008</u>		<u>2009</u>	
	<u>1/1 – 6/30</u>	<u>7/1-12/31</u>		
Business	50.5 ¢	58.5 ¢	55 ¢	per mile
Charitable	14 ¢	14 ¢	14 ¢	per mile
Medical	19 ¢	27 ¢	24 ¢	per mile
Moving	19 ¢	27 ¢	24 ¢	per mile

## **Minnesota Troubles – Again!**

Last year (and the year before that) we told you we were waiting for the MN Legislature to react to what Congress changed in the tax code. They did pass legislation early in 2008 to “conform” to SOME of the federal changes for 2007. Unfortunately, we have had eight federal tax bills since that legislation. With the looming state deficit, we don’t have any idea whether or not the state will adopt any of the federal changes. Once again, there is an extensive list of possible adjustments to your Minnesota return. If it appears your return is impacted by this situation, we will notify you and discuss your options with you.

## **Stimulus Rebate**

Last year’s stimulus was really an advance payment of a rebate to be calculated on your 2008 tax return. We will need to know what you received in 2008 for your advanced rebate. Your advance payment was based on your 2007 tax return. If you received more than we calculate based on your 2008 information, you do NOT have to refund the excess. If, however, you did not receive as much as we calculate using your 2008 information, you WILL receive the additional rebate with your 2008 refund or it will be used to reduce your balance due. The rebate is not taxable on either your federal or Minnesota returns. Other state treatments vary.

## **Mortgage Insurance Premiums**

For 2008 you may deduct mortgage insurance premiums you paid during the year if they were related to taking out a new mortgage loan after 2006 to either finance or refinance the purchase of your home. The amount you can deduct is reduced by 10% for every \$1,000 (\$500 if your filing status is married filing separately) by which your adjusted gross income exceeds \$100,000 (\$50,000 if your filing status is married filing separately).

## **New Home Buyer’s Credit**

A first time homebuyer is allowed a refundable tax credit equal to the lesser of \$7,500 or 10% of the home’s purchase price. The credit phases out between AGI of \$75,000 - \$95,000 (\$150,000 - \$170,000 if MFJ). It must be repaid ratably over 15 years with no interest or immediately if the home ceases to be a personal residence. The home must be purchased between 4/9/08 and 6/30/09.

## **Personal Energy Property Credit**

The up-to-\$500 lifetime credit allowed to individuals for installing energy efficient property (windows, insulation, heat pumps, etc) to their principal residences is suspended for 2008. The credit is reinstated for 2009.

## **Capital Gains Rate for Certain Taxpayers**

The maximum tax rate on qualified dividends and net capital gain for taxpayers in the 10% or 15% ordinary income tax brackets is reduced to 0% for 2008 – 2010. Those taxpayers in a higher bracket are still subject to the maximum 15% rate.

## **Deduction for Real Property Taxes**

A taxpayer’s standard deduction amount is increased by the lesser of (1) the amount of state and local real property taxes paid during the year that would be allowed as an itemized deduction or (2) \$500 (\$1,000 if MFJ).

## **Due Date for 1099’s**

In an effort to minimize the “corrected 1099” problem, the IRS has extended the due date for 1099s for interest, dividends and capital gains. Instead of requiring a mailing date no later than January 31, the forms must now be mailed by February 15. There still may be corrected 1099s issued, but hopefully not quite as many.

## **Certain Tax Provisions Extended**

*Educator’s Expense* – The up to \$250 above the line deduction for expenses paid by teachers is extended for 2008 and 2009.

*IRA’s as Charitable Distributions* – The rule allowing tax free treatment of IRA distributions donated directly to charity by those over 70 ½ is extended for 2008 and 2009.

*State and Local Sales Tax Deduction* – The provision allowing individuals to deduct state and local sales taxes in lieu of state and local income taxes is extended for 2008 and 2009.

*Tuition and Fees Deduction* – The tuition and fees deduction for qualified higher education expenses is extended for 2008 and 2009.

## **Midwestern Disaster Area Victims Tax Relief**

If you live (or go to school) in an area declared a federal disaster due to the Midwest floods, storms and tornadoes you may be eligible for several tax breaks.

Even if you think you were not affected, you may be eligible so please let us know if any of the following apply to you:

- Attended college in an affected area
- Housed someone who was displaced by an eligible disaster
- Volunteered to help in a disaster area
- Lived in an affected area

## **Foreclosure and Debt Forgiveness**

Unfortunately some of you will be impacted by foreclosure or other debt forgiveness in these tough economic times. There have been many provisions in the 2008 tax legislation dealing with this area. Please call us to discuss how this legislation might impact you. This is definitely the time to consult with a tax specialist – please do not rely on other professionals, your neighbors, co-workers, etc to give you tax advice. Mistakes can be particularly costly. Each situation is unique and calls for specific advice in response to your scenario.

## **Foreign Bank Accounts**

Did you have money in a foreign bank account at any time during 2008? If so, you may be required to fill out an additional form required by the Treasury Department. You may be surprised to learn that all internet gambling accounts are foreign accounts so if you participated in online gaming, you had a foreign bank account. Be sure to let us know if this applies to you – the penalties are a fine up to \$500,000 and up to 5 years in jail. The IRS has informed the tax practitioner community that they are very serious about enforcing this law and imposing the penalties.

## **Tuition and Fees for Higher Education**

If you have expenses for higher education, please bring us your Form 1098T provided by the school AND a printout of your financial activity for the calendar year. The IRS does not require uniformity in preparing the 1098T so we need to compare it to what was actually paid.

## **Minnesota takes on the IRS – and WINS!**

Ten years ago mutual insurance companies began the process of demutualization – reorganizing from a mutual insurance company into a shareholder owned entity. In a mutual insurance company the policyholders are the owners. This resulted in policyholders receiving stock in exchange for their voting rights as a policyholder. If you received stock as a result of a demutualization, you may be impacted by a 2008 Tax Court decision. Thanks to a CPA from Bemidji, this long battle was finally decided in the taxpayers' favor.

Many people elected to take cash instead of stock when the demutualization took place. If you received cash instead of stock, it was likely reported as a long term capital gain on a tax return filed more than three years ago. If, however, you sold your stock within the last 3 years, we can file an amended return to correct the tax treatment of that sale. Please notify us if you think this applies to you – we have no good way of searching our records to find everyone involved so we are relying on you to notify us.

The IRS has not agreed to abide by the court decision, however we are able to file what is known as a protective claim for refund in order to extend the statute of limitations until they decide whether or not to appeal the ruling.

If you still hold the stock received in the demutualization, you do not need to do anything at this time.

## **Check the website for these articles & more:**

- Ø Roth Conversion Opportunity in 2010
- Ø Mortgage Interest Deductibility
- Ø Kiddie Tax
- Ø Vacation Homes – Renting, converting, selling
- Ø Direct Selling Industry Audit Initiative
- Ø Health Savings Accounts
- Ø Home Office Deduction
- Ø Employee business expenses
- Ø Charitable Deductions
- Ø Debt discharge & foreclosure
- Ø Household employees (e.g. Nanny)

