



# Jodee Paape & Associates, LLC

Tax Season Newsletter

January , 2010

## HAPPY NEW YEAR!

As we start my 20<sup>th</sup> year in business, we have many new things to share with you. As I wrote in our Thanksgiving newsletter, we have a new staff member and new office configuration. Please check out the Thanksgiving newsletter on our website for details. I'd like to expand on some of the other "new" items:

## NEW TECHNOLOGY – SECURE PORTALS

We have the ability to set up a secure portal for you to access your tax returns and other documents. Basically anything you would normally receive from us on paper can be available on the portal. We also can use the portal to exchange files – for example, a Quickbooks backup or an Excel file. The portals that were available last year have been deleted due to a change in format by our provider. If you'd like us to set up a portal for you, please indicate this on your organizer (bottom of the Questions section). This portal is available through the same type of technology used for internet banking. It is very secure and hosted by our software provider, Thomson Reuters. The data (and a backup) is housed in two underground bunkers in Eagan that are built to withstand any number of disasters. We'll provide instructions for the initial access to your portal. You can change your password when you log in for the first time. There is no charge for your portal – you'll be helping us all by going green!

## NEW SERVICES – FINANCIAL ADVISING

Enclosed with this mailing is a letter introducing our new financial services firm, JP Advisors, LLC. Please contact Jodee for help with your financial services needs. Check the website for additional links to financial services information. We're also planning some client seminars after tax season – be sure to get on our mailing list if you are interested in an invitation.

## NEW FEES

Enclosed is our new fee schedule. You will notice that we've increased our fees. We did so after careful evaluation of our fee structure and comparison to other CPA firms as well as many of the other tax preparation options. We firmly believe we offer unmatched service and capabilities. If you have been a client in the past, you will receive a "courtesy discount" of at least 50% of the difference between the old fee structure and the new one. Please direct any questions you might have concerning fees to Jodee or Lynne.

## 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 2008 tax return (including W-2's and other documents).

## SCHEDULING

Our hours January 25 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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## 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.

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 to request an appointment with Jodee, Lynne or Deb. If you already have an appointment, a notice indicating your appointment time was mailed separately.

**\*\* It is very important that you include all tax documents along with your organizer! \*\***

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 pay your preparation fee and pick up your copy of the tax return (if you've requested a papercopy), your original source documents you provided to us and the electronic filing authorization. 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 19 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 12 if we need to extend your return.

## SERVICES WE PROVIDE

**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.

**Consent to Use of Tax Return Information** – We need to have your consent to use the information on your tax return for purposes other than preparation and filing of your tax return. Be assured we will NEVER authorize the use of your information by any third party unless you've given us specific consent (see above). We do, however, want to keep you informed regarding tax law changes, remind you to pay your estimates, invite you to seminars, etc. In order to legally contact you we need your consent. We appreciate your cooperation.

## **TAX NEWS**

### **The American Recovery & Reinvestment Act of 2009**

#### **Making Work Pay Credit**

This tax credit meant more take home pay during 2009 for many of you. In 2009 and 2010 a refundable tax credit of up to \$400 for working individuals and up to \$800 for married taxpayers filing jointly is available. The tax credit is calculated at a rate of 6.2% of earned income and phases out for taxpayers with modified adjusted gross income in excess of \$75,000 (\$150,000 for married couples filing jointly). If you receive a paycheck, this credit was reflected in reduced withholding beginning in early spring 2009. We'll actually compute the credit when we prepare your 2009 tax return. Ideally, the credit will be offset by the increased take home pay you received during the year and your refund (or balance due) will be similar to past years. If you are self-employed, the credit will reduce your tax liability. Those of you who also received the Economic Recovery Payment of \$250 per person issued in May, 2009 will have to subtract that payment from any Making Work Pay credit you are eligible for. The Economic Recovery Payment was made to recipients of Social Security, SSI, Railroad Retirement, Veterans Benefits and certain government retirees.

#### **Sales Tax Deduction for Vehicle Purchases**

The new law 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 December 31, 2009. This deduction is available whether or not a taxpayer itemizes deductions on Schedule A. 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.

#### **Unemployment Benefits**

Up to \$2,400 in unemployment benefits is tax free in 2009.

## **Education Benefits**

Under the ARRA, more parents and students will qualify over the next two years for a new tax credit – the American Opportunity Credit. This new credit modifies the Hope Credit for tax years 2009 and 2010, making the Hope Credit available to a broader range of taxpayers. The new credit is partially refundable. It also adds required course materials to the list of qualifying expenses and allows the credit to be claimed for four post-secondary education years instead of two. The maximum annual credit is \$2,500. The full credit is available to individuals whose modified adjusted gross income is \$80,000 or less, or \$160,000 or less for married couples filing a joint return. The credit is phased out for taxpayers with incomes above these levels. Depending on your situation, we need a variety of information to determine which credit (or deduction) you may be eligible for. At a minimum, we need the Form 1098T issued by the educational institution AND a copy of your fee statement for 2009. We also need to know how much was spent in 2009 on **course-related** books, supplies and equipment and whether or not those items were purchased directly from the institution. Finally, we do need to be aware of any felony drug convictions on the student's record.

#### **Residential Energy Property Credit**

This nonrefundable energy tax credit is available to those who make certain energy efficient improvements to their primary existing home. The new law increases the credit rate to 30% of the cost of all qualifying improvements and raises the maximum credit limit to \$1,500 for improvements placed in service in 2009 and 2010. The credit applies to improvements such as adding insulation, energy efficient exterior windows and energy efficient heating and air conditioning systems. The standards in the new law are higher than the standards for the credit that was available in prior years. It will be very important to include information on exactly what was purchased. On a positive note, installation charges are now eligible for the credit.

#### **Required Minimum Distributions are Back**

In 2009, Required Minimum Distributions from retirement plans were waived. Individuals age 70 ½ will be required to take their minimum distributions once again in 2010.

## **Credits for Homebuyers**

A first time homebuyer is allowed a refundable tax credit equal to the lesser of \$8,000 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) for homes purchased before November 7, 2009. The AGI limits after November 6, 2009 are \$125,000 - \$145,000 (\$225,000 - \$245,000 if Married Filing Jointly). The home must be purchased between 1/1/09 and 4/30/10. The closing must take place by 6/30/10. A first time homebuyer is defined as someone who has not owned a primary residence during the three years prior to the date of purchase. There are limitations as well as to who the seller is, purchase price of the home and age of the buyer.

There is also a new "long-time resident" credit of up to \$6,500 to others who do not qualify as "first-time homebuyers". To qualify for this credit, a buyer must have owned and used the same home as a principal or primary residence for at least five consecutive years of the eight-year period ending on the date of purchase of a new home as a primary residence.

## **Roth Conversions**

Beginning in 2010, the rules surrounding conversions of traditional IRA money to a Roth IRA are changing. In prior years, only those with modified AGI of \$100,000 or less could convert. Those limits have been removed, meaning most investors will be eligible to convert their traditional IRAs to a Roth. As an added incentive, if you convert in 2010, the tax required to be paid on the converted funds will not be due until you file your 2011 and 2012 returns.

Just because you can convert does not necessarily mean you should. Each situation is unique and must be evaluated based on many criteria. Some of those criteria might be:

- How many years until retirement
- What income tax bracket you will be in when retired
- Do you have the funds to pay the tax (sources other than your IRA)
- Your desire to leave an income tax free Roth to your heirs

We have several calculators available to help you make the choice. Please ask us about your particular situation.

## **Standard Mileage Rates for 2009 & 2010**

	<b><u>2009</u></b>	<b><u>2010</u></b>	
Business	55 ¢	50 ¢	per mile
Charitable	14 ¢	14 ¢	per mile
Medical	24 ¢	24 ¢	per mile
Moving	24 ¢	24 ¢	per mile

## **Minnesota Highlights**

Once again, Minnesota has declined to adopt all of the federal changes to tax law. Some of the more significant provisions of the new laws that are not deductible on your Minnesota returns are:

- \$2,400 of unemployment compensation
- Sales and excise tax on purchase of a motor vehicle
- Portion of your real estate taxes even if you don't itemize deductions
- Educator expenses
- Tuition and fees deduction
- Bonus depreciation

There are some new credits and/or deductions available to Minnesota residents this year:

- New participants in company Section 125 health insurance plan
- Military subtraction for in-state training pay
- Motor fuels tax credit for low income taxpayers
- Credit for past military service

The other big news for Minnesota and Wisconsin residents is that the reciprocity agreement ended January 1, 2010. Basically this means that if you live in one state, but work in the other, you'll have to file two tax returns and possibly pay tax to both states. You always pay tax on all your income to your resident state but you may be allowed a credit on that return for any tax paid to a non-resident state. In general, you owe tax to a non-resident state when you work in that state, own or sell property in that state, or invest in a business that operates in that state. Please contact us to discuss your status and what your next steps should be regarding withholding and possible estimate payments.