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RE: Tax Planning for 2009 Tax Returns

Dear Taxpayer:

2009 should be called the year of the rebound. For most of us 2009 was a year to regroup, take a hard look at our lives and finances.

We're coming out of a 30 year economic down cycle that has created stressful challenges and excellent opportunities for those of us who have survived losing our livelihood or life savings over the last year. There have been more changes than usual in the Internal Revenue's tax codes over the last 4 years because of storms and the failing economy.

You have heard time and time again of the stimulus laws and how it would affect taxpayers for 2009 and 2010. There were also changes at the state level in reaction first to the State's revenue surplus due to Hurricane's Katrina and Rita, and the collapse of the oil prices from which the state bases it's economy.

This year's tax letter focuses on those things that affect most of us.

Federal taxpayer's in 2009 should find several things that should provide opportunities to minimize their taxes. Below are some things that will be in effect for 2009 filers.

American Recovery & Reinvestment Act (2009 Stimulus Rebate)

- 1. Payroll tax credit** is worth \$400 for singles (\$75,000 phase out to \$95,000), and \$800 for married couples (\$150,000 - \$190,00 phase out). Employer will give through payroll check. The self employed credit will be calculated on your 2009 tax return.
- 2. When buying new vehicles** consider hybrids that offer tax credits of \$420 on the Chevy Silverado and \$2,350 on Nissan Altima. Sales tax on vehicles will be deductible even if you do not itemize your deductions.
- 3. Relief for the unemployed.** The first \$2,400 of unemployment benefits in 2009 will be

For the Write Opinion"

tax free. Remember to bring form 1099G with you for your appointment.

4. **Home energy tax credits** of 30% or up to a \$1,500 maximum. Insulation, exterior windows, air conditioning and heating systems, doors, skylights, etc are examples of ways to exercise this credit.
5. **First time home buyer's \$8,000 credit on homes purchased by December 1, 2009** is one of the best tax breaks available if you qualify. Income for couples can not exceed \$170,000 and \$95,000 if you are single. You can also amend your 2008 return to claim the credit. To claim the credit you must not have had a main home during the 3 year period ending on the date of purchase. Many Hurricane Katrina victims would qualify for this credit. There are other restrictions so please investigate.
6. **Additional child credits.** More taxpayers will be eligible for as much as \$3,000 in additional child credits. Couples with income of less than \$110,000 and \$75,000 for single filers. The minimum income to receive these benefits was decreased to \$3,000 from \$12,500.
7. **College Tax Credit.** The college credit has been modified to include books and other expenses and the amount of the credit increased to \$2,500. The income limits are \$80,000 - \$160,000. Parents with children working their way through college can still carry children under 24 years of age.
8. **Earned Income Credit.** A temporary increase in the earned income tax credit for taxpayers with three or more qualifying children has been changed. The maximum EIC credit is \$5,657. These changes apply to 2009 and 2010 tax returns. The credit begins to phase out at \$21,420 for married taxpayers filing a joint return with children and phases out at \$40,463 for one child, \$45,295 for two children and \$48,279 for three or more children. Also, if more than one taxpayer is eligible to claim a child for EIC, where the child lived will determine who will get the exemption. You must provide the correct social security number to receive EIC for a child.

Louisiana taxpayer's will again benefit from the repeal of the Stelly tax and other tax breaks granted in 2009. There is however efforts to limit the tax cuts because of perceivable deficits in the states budget for the next 2 years.

Some of the things that will be available in 2009 for Louisiana filer's are:

1. Up to \$5,000 per child deduction for private school tuition, books and supplies required by schools. The maximum credit dollar amount of \$300.
2. Louisiana citizens' insurance tax credit is available to people who paid the assessment in addition to their homeowner's insurance.
3. School Readiness Tax credit allows tax breaks to families, child care providers and child care directors and staff and businesses that support care facilities to participate in the Quality Start Child Care Rating System which goes from 2 stars to 5 stars and the credit ranging from \$750 - \$1,500 for families and from \$1,500 - \$3,000 for directors, staff and facilities.

These are only some of the changes that will impact your 2009 taxes.

Planning, however, is the long term plan for minimizing your taxes. Basic tax planning strategy should include some of the following:

1. **Accelerating 2010 expenses to December of 2009** – Pay January mortgage and property tax, medical bills, etc.
2. **Income Splitting** – Spreading taxable income among family members is excellent for family businesses. Children under 19 years of age can earn about \$5,850 without being taxed.
3. **Tax Free Investments** – Municipal bonds and other tax-free investment.
4. **Certain Real Estate Investments** – Tax Free Exchange and other real estate investments such as 1031 Tax Free Exchanges.
5. **Tax Sheltered Investments** – There are all sorts of tax shelters such as 401K's, IRA's, farming, oil projects, etc. Be careful, some are illegal. Your goal should be to maximize your contributions to your retirement plan. You can contribute up to \$16,500 plus \$3,000 catch up if you are over 50 years old to a company 401K plan and up to \$6,000 to a traditional IRA. Single filer's with income up to \$63,000 and joint filer's with income of \$85,000 - \$105,000 can contribute to both 401K and traditional IRA's. Over the last 10 years ROTH IRA's have been an alternative to Traditional IRA's. ROTHs offer the appeal of no taxes on the investment income if no earnings are withdrawn for at least 5 years. For income up to \$114,000 single and \$166,000 joint filer's can take advantage of ROTH IRA's. If you usually receive large refunds, you may want to change your withholding to allow contributions to your 401K or IRA.
6. **Charitable contributions.** Give unwanted household items and clothes, computers, toys, furniture to non-profit organizations.
7. **Those considering refinancing your home should consider consolidating all debts under your mortgage.** All mortgage interest is deductible and other forms of interest are not.
8. **Capital Gains/ Losses are also important to any good tax planning strategy.** With the stock market becoming more unstable getting rid of loser stocks or mutual funds would help up to **\$3,000** in Capital Losses. The higher your tax bracket the more tax savings you benefit from.
9. **Social Security Recipients.** 85% of your benefits could be subject to tax. The tax applies only after other income plus 50% of Social Security benefits exceeds **\$25,000-\$34,000** for single taxpayers and **\$32,000-\$44,000** for married taxpayers.
 - Social security retirees under 65 can earn up to **\$14,160** in 2009 without losing part of their benefits. Above that amount they lose one dollar of benefits for every two dollars earned. Retirees age 65, starting with the month you reach full retirement you will get your benefits with **NO** limit on your earnings. Social Security Tax limit for 2009 is \$106,800. The Medicare tax is taxed on all income.

REMEMBER THE KEY TO MINIMIZING YOUR TAXES IS MAKING THE ADJUSTMENTS BASED ON THE TAX LAWS AND YOUR CIRCUMSTANCES.

Military service in combat zone has tax benefits to military personnel. Make sure you take advantage if applicable.

1. **Student Loan Interest.** The interest is deductible if paid in the first five years. Income must be less than **\$160,000** for joint filers and **\$70,000** for single filers. The limit for the tax year 2009 is **\$2,500**.

2. **Tax Free Savings Bonds.** Bonds are another fairly new approach to save for college. Interest escapes taxes when used to pay for college. Income cannot exceed **\$124,700** for joint filers and **\$78,100** for others.
3. **Educational IRA.** **\$2,000** can be saved for each child in 2009 and be sheltered from taxes. Income cannot exceed \$220,000 for Married Filing Joint taxpayers and \$110,000 for Single taxpayers.
4. **The Federal 529 Education Plan as well as the State of LA START Program** has tax advantages.

Divorced or Separated with Children. It is better to have a written understanding of who will claim the dependent child otherwise the custodial parent will get deductions. For 2009 the multiple support agreement (IRS form 8332) must be attached to return.

With the popularity of gambling, here are some tips in documenting gambling winnings & losses. In general the following information should be kept: A. Name of gambling establishment, B. Address or locations of gambling establishment, C. Amount won or loss.

Many of you have business-related expenses with local and out of town work. The Federal per diem rates in which the IRS used for out of town expenses varies from city to city, San Francisco is **\$237** for meal and lodging per day, New Orleans is **\$152** and St Paul is **\$152**. Other deductible expenses include entertainment, laundry, phone, transportation, and work expenses in general. You must keep a log of the dates and purpose and proof of hotel expenses.

Real Estate continues to be a good hedge against taxes but be careful because the economy is unstable and property values could be on a decline. Rental Properties can provide some relief against taxes but you must actively participate in the management of the properties to get tax advantages. Depreciation and deductions for repairs and upkeep helps for up to **\$25,000** in losses and losses over **\$25,000** if you put 50% of the time into properties and income is under **\$150,000**. You can also defer gain on investment property through Section 1031 of the IRS code for Like Kind Property Exchange.

Income Splitting. Most know that our children are our biggest investment. Some of us have investment accounts for our children and others employ children in our businesses.

Here are a few tips on getting the most out of your investment efforts in your children.

- A. **Make investments in the name of children.** The first **\$950** of interest is tax free. Children can also earn **\$5,850** tax free money while working in your business. Your child must be under nineteen (19) years of age. Be careful, after \$1,800 in investment income children are taxed at parent's rate.
- B. **If you own a business, consider hiring your children.** If your tax rate is higher than 10%, then paying your children will allow additional income to be taxed at 10%. In addition your company will be able to get a deduction for wages paid. Children under 18 employed by parents are not subject to Social Security or Medicare taxes or Federal Unemployment Taxes. If a family forms an S Corporation, Partnership, or Limited Liability Company (LLC) its income will be taxed to its owners in proportion to their ownership interest. Give children over 13 years of age interest in these businesses, shifting income into a lower income bracket.

- C. **Child Care** expenses for children 13 and younger will be deductible up to **\$3,000** per child and up to **\$6,000** per family with more than one child.

Selling your home? You could be eligible to exclude up to **\$550,000** of gain for MFJ filers. The taxpayer(s) must own and use the property as a principle residence for 2 years during the 5 year period prior to the sale.

These are just a few of the changes that may affect your 2009 personal income tax liability. Remember that every year there are hundreds of changes to the tax code, so every consideration should be investigated annually.

FOR THOSE OF YOU IN BUSINESS FOR YOURSELF OR INCORPORATED THERE ARE MORE CHANGES, OPPORTUNITIES, LOOPHOLES, AND PITFALLS TO CONSIDER. SOME INCLUDE:

1. **The type of business structure could have a big impact on your personal, employment and other business taxes.** You should compare annually how your business is structured with other forms of business structures. The three most common forms of business structures are **Sole Proprietorship, Limited and Unlimited Partnerships and Limited and Unlimited Corporations.** Some of the decisions include whether to incorporate or stay as a sole proprietor and whether to contract work or hire employees. S Corporations and LLC's are the 2 most discussed business forms because it is treated like sole proprietors with the employment taxes attached.
2. **You may be responsible for paying estimated taxes on the profits from your business if you are self-employed.** Based on some assumptions, you should forecast your expected business situation, both revenues and expenses. This will give you some idea of what taxes, if any would be owed. A change in business structure could eliminate any estimated taxes. 90% of what you expect to owe must be paid by January 15, 2010.
3. **Commercial Fisherman** can avoid estimated tax payments and penalties if you derive 2/3 of your total income from fishing and file by March 31, 2010. Farmers can elect to average their income over the last 3 years. Farmers can also file their returns by March 31, 2010 if 2/3 of their income is from farming.
4. Self employed people can create retirement plans through their business and lower taxes in the process. **Simplified Employee Pensions (SEP) and IRA's** allow you to invest up to 15% of Net Profits per year.
5. **Health insurance for self-employed taxpayers** is fully deductible in 2009. This is an excellent way to subsidize your health insurance cost.
6. **The standard mileage rate for business travel** is .55 for 2009. You still have the option of taking the actual expenses of operating your vehicle plus depreciation or the standard allowance. You can own or lease the car for the standard allowance. The rate for relocation mileage is .24.
7. **Home office deductions** will be allowed if the office is the principle place of business. If the taxpayer used that office to conduct administrative or management activities and there is no fixed location of business. The area used must be used solely for business.
8. **Foreign tax Exclusion** for 2009 is \$91,400.

Almost all expenses related to business activities are deductible, so please try to account for all your expenses. A record keeping system that allows you to retain records for at least 4 years should be adopted for your records.

Remember that early filing is good cash management, and it also ensures a speedy return of your refund. We are again offering a \$20.00 discount off any return received by February 6, 2010!!!

If after evaluating your 2009 income tax position, you feel we can assist you in planning, please feel free to contact me for an appointment before the end of the year. This would be an excellent first step in starting your 2010 tax planning. Remember it is never too early to start your plan.

We are very excited to be moving into a brand new location, 3220 General DeGaulle Dr., Suite 200, New Orleans, LA 70114 on August 1, 2009. Our website and phone numbers will remain the same. We want to extend an invitation to our open house on Friday, August 14, 2009 from 10:00 am – 7 pm. Join us anytime from 10 – 7 for a tour of the building and meet the other businesses in the building. Refreshments will be served.

August 2010 will mark 30 years of Service to the Community in which we serve and we want to thank God and you for any success we are having.

Warmest regards,

Ernest D. Kelly

THIS IS SOME OF THE INFORMATION AND FORMS WE WILL NEED FOR YOU TO BRNG TO YOUR APPOINTMENT.

1. Income earned in 2009 (W-2's, 1099R's, 1099 Misc., stock sales in 2009, capital gains, unemployment benefits, interest earned and self-employed income).
2. Property tax on home _____ Property tax on other property _____
3. Medical expenses paid: Health insurance premiums _____ Prescriptions _____
Co-payments _____ Dentist _____ Hospital bills paid in 2009 _____
Medical equipment _____ Medical miles traveled _____
4. Interest paid on mortgages only. Mortgage on home _____ Second Mortgage of Home _____
Equity line of credit _____
5. Contributions paid to churches or charity. Church _____ Cash to other organizations _____
Non-cash donations _____
(if over \$500 we will need, date item purchased _____, date donated _____
to whom donated _____, Items that were donated _____

6. Casualty losses and thefts. (Insurance & police reports are good verification) must exceed 10% of AGI
7. Vehicles purchased in 2009. Sales tax paid. _____
8. Type of energy improvement on home and amount paid _____
9. Work related expenses. Miles driven to and from work _____ Meals while working out of town _____, work clothes _____ Hotel or apartment fees including utilities while working away from home _____ Laundry _____, Work related tools _____
Phone _____ Any license fees associated with work _____
10. Gains or losses and sale of real estate or other capital assets, such as stocks or bonds.
11. Income and expenses related to rental property. Income _____ Maintenance _____
repairs _____ utilities _____, insurance _____, Other _____
must list each property separately.
12. Contributions to IRA, Keogh, and SEP accounts and other retirement plans.
13. Business use of home expenses, electricity, gas, phone, water, square footage of home and square footage of room used for office.
14. Settlement sheet for home purchased in 2009.
15. Job Search expenses. (Mileage, production and distribution of resume, phone, and the cost of attending interviews and transportation expenses)
16. If working out of the country, the dates you were out of the country and the country you worked in must be kept.