

CHANGES IN TAX LAWS AND SPECIAL TAX ISSUES THAT MAY AFFECT YOU

Recent changes in federal tax laws will impact many federal tax returns prepared in 2010 ... in one way or another.

FILING REQUIREMENTS

For most taxpayers, if your 2009 gross income (does not include social security payments) is under the following levels, you do not have to file a federal tax return (unless you have self-employment income):

	<u>Under 65</u>	<u>Over 65</u>
Single:	\$ 9,350	\$ 10,750
Married, Filing Joint, and Both Are:	18,700	20,900

NEW SPECIAL DEDUCTION FOR PROPERTY TAXES

In tax year 2009 taxpayers who do not itemize deductions will be able to separately deduct real estate property taxes (a) up to \$500 for a single filer and (b) up to \$1,000 for a married filing joint return. This deduction is in addition to the standard deduction.

NEW DEDUCTION FOR SALES TAX ON NEW AUTOS (ONLY FOR 2009)

For 2009 only, a special deduction is allowed for the sales tax on vehicles purchased between February 17 and December 31, 2009. New vehicles with a gross vehicle weight up to 8,500 pounds, as well as motorcycles and motor homes, (with a purchase price of \$49,500 or less) are eligible for the sales tax deduction. This deduction is available to taxpayers who do not itemize as well as to those that do itemize. The deduction does phase out for higher income taxpayers.

FIRST-TIME (AND ALMOST FIRST-TIME) HOMEBUYERS CREDIT

The up to \$8,000 first-time homebuyer tax credit (that is in effect for all of 2009) has been extended through April 30, 2010. Written contracts for purchases of homes entered into after November 30, 2009, and before May 1, 2010, must close on or before July 1, 2010. The credit is 10% of the purchase price, up to \$80,000.

Recent legislation also creates for homes purchased after November 6, 2009, and before May 1, 2010, a new \$6,500 credit for taxpayers who have owned and used the same residence as their principal residence for 5 consecutive years out of the 8-year period ending on the date of purchase of a subsequent home.

For homes purchased after November 6, 2009, the credits phase out for higher income taxpayers. To claim the credit, you must provide a fully signed settlement statement used to complete the home purchase.

EXPANDED CREDIT FOR EDUCATIONAL EXPENSES

Recent legislation increases the Hope Credit (renamed American Opportunity Credit) to a maximum of \$2,500 a year for qualified higher education expenses, and the credit can be used for expenses incurred in up to four years of study. Further, for the Hope Credit “course materials”, including books, are now included with tuition and fees as “qualified” expenses.

DOUBLED EDUCATION CREDITS IN MIDWEST DISASTER COUNTIES

In tax year 2009 the Hope Credit and the Lifetime Learning Credit are doubled for students attending an educational institution located in a Midwestern county which received a FEMA disaster declaration in 2008. The States affected are Iowa, Arkansas, Illinois, Indiana, Kansas, Michigan, Minnesota, Missouri, Nebraska, and Wisconsin. This affects colleges and universities in 85 of Iowa’s 99 counties. If a student attended college in one of the listed states, it will be essential to know the county in which the college is located to determine if the doubled credit will be available. In these counties, for 2009, the term “qualified expenses” has been expanded to include room and board and books.

IOWA EARLY CHILDHOOD DEVELOPMENT TAX CREDIT

On Iowa income tax returns, a credit of 25% of the first \$1,000 of “early childhood expenses” **for each eligible dependent ages 3,4, or 5** is available to parents whose Iowa net income is less than \$45,000. Eligible expenses include preschool services; books that improve child development; and child development and educational activities. If this credit is claimed, the taxpayer may not claim the Iowa child and dependent care credit - the taxpayer would claim the higher of the two credits.

CHARITABLE CONTRIBUTION RULES

Deductions for charitable contributions of \$250 or more (each) are not allowed unless you have a written statement acknowledging the contribution from the charitable organization. **Additionally, all contributions, regardless of amount, must be substantiated by a bank record (cancelled check) or a written communication from the charitable organization.**

OPTIONAL STATE SALES TAX AS ITEMIZED DEDUCTION

The ability to deduct state and local general sales taxes instead of state and local income taxes as an itemized deduction continues for 2009. You cannot deduct both. While this deduction will mainly benefit taxpayers with a state sales tax but no income tax (Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming) . . . it may give a larger deduction to any taxpayer who paid more in sales taxes than income taxes. For example, a person may have bought a new car before February 17, 2009, boosting the sales tax total. Other examples are a boat, home (including mobile or prefabricated), or home building materials.

LOWER FEDERAL CAPITAL GAINS TAX RATES

Capital gain tax rates (for property held more than 12 months) remain at a maximum of 15% (down from 20%) for taxpayers in higher income brackets, and 5% for taxpayers in the 10% or 15% tax brackets. **NOTE:** For sale transactions between January 1, 2009, and December 31, 2010, if a taxpayer is in the 10% or 15% (including the capital gain) tax rate bracket, the federal capital gains tax rate will be zero.

DIVIDEND INCOME STILL TAXED AT CAPITAL GAIN RATES

The top federal tax for “qualified stock dividends” received by an individual at any time during 2009 is reduced to 15% -- and the rate is reduced to 5% for those persons whose incomes fall in 10% or 15% rate brackets. The Forms 1099 taxpayers will receive will indicate the total amount of “qualified” dividends received.

NEW FARM MACHINERY – 5 YEAR DEPRECIATION

New farm machinery placed in service in 2009 must be depreciated over five years (rather than seven years). However, under current Iowa law, the new machinery must be depreciated over seven years, which requires the maintenance of separate federal and state depreciation schedules.

§ 179 DEDUCTION – FAST DEPRECIATION WRITE-OFF

The maximum dollar amount that may be deducted under §179 has been increased to \$250,000 for qualifying property placed in service in 2009. In 2010 the amount will be \$134,000, and under current law the maximum deduction will return to \$25,000 in 2011. As before, the deduction is limited to the aggregate taxable income of the taxpayer actively engaged in a trade or business. Please note, however, under current Iowa law the maximum §179 deduction that can be taken on a 2009 Iowa return is \$133,000.

RESIDENTIAL ENERGY CREDITS

A principal residence energy credit of up to \$1,500 applies to new expenditures on the taxpayer’s principal residence (not vacation homes) placed in service between January 1, 2009, and December 31, 2010. The credit rate is 30% of the cost of new qualified energy efficiency improvements, such as: exterior windows, exterior doors, metal roofs coated with heat-reduction pigments, asphalt roofs with cooling granules, and insulation materials or systems (including vapor retarder or seal) designed to reduce heat loss or gain.

The credit also is available for qualified residential energy property, such as electric heat pumps, electric heat pump water heaters, and central air conditioners; natural gas, propane, and/or oil water heaters or furnaces, biomass fuel stoves, and hot water boilers; and advanced main air circulating fans.

You must have the manufacturer’s certification or the Energy Star label to confirm that the expenditure qualifies for the credit.

The "High Tech" Residential Energy Credit applies during tax years 2009 through 2016 for qualified solar hot water property, geothermal heat pumps, and wind energy property. The credit rate is 30% on the full cost of the improvements (including labor costs for preparation, assembly, and original installation). There is no cap on the amount of a credit that can be taken for these "High Tech" improvements.

IRA DEDUCTIONS

Each taxpayer can contribute up to \$5,000 to either a traditional or Roth IRA for 2009 subject in some cases to the amount of your adjusted gross income. If you are age 50 or older you can make an additional \$1,000 “catch-up” contribution to traditional or Roth IRAs for a total of \$6,000. You have until April 15, 2010, to make these contributions.

SAVER'S TAX CREDIT

The "saver's credit" may benefit single taxpayers with adjusted gross incomes of \$27,750 or less, and married taxpayers (filing jointly) with adjusted gross incomes of \$55,500 or less.

If you make IRA contributions or elective deferrals to 401(k) or other qualified plans (such as a Keogh or SEP plan), you may qualify for a tax credit that reduces federal income tax of up to \$2,000 for married taxpayers and up to \$1,000 for single taxpayers.

HEALTH AND LONG-TERM CARE INSURANCE DEDUCTIBILITY

Please make sure you provide us with complete information concerning the total amount paid in 2009 for health insurance premiums for each member of your family. A **portion** of the premiums paid for long-term care insurance may be deductible on federal returns (as an itemized deduction) as health insurance premiums. The portion of long-term care premiums that is deductible depends on the age of each member of the family as of December 31, 2009 [ranging from \$320 to \$1190 up to age 60; \$3,180 for ages 61-70; and \$3,980 if over age 70]. Thus, long-term care premiums must be allocated between husband and wife on the tax worksheet.

For self-employed persons, 100% of the total of health insurance and eligible long-term care premiums is fully deductible on the federal returns without itemizing.

The total of your health insurance premiums and all eligible long-term care insurance premiums is also **100% deductible for all individuals** in computing net income on your Iowa return, without itemizing. Thus, it is very important that you provide us with information on your insurance premiums, even if you do not itemize deductions.

MISCELLANEOUS NOTES OF TAX INTEREST

1. On Iowa returns a partial exclusion from income is provided for the receipt of pensions, annuities, self-employed retirement plans (such as Keogh), deferred compensation, IRA distributions, and other retirement benefits (excluding social security) by taxpayers 55 or older. If your tax status is married filing jointly, the exclusion is up to \$12,000. For all other tax filing statuses the exclusion is up to \$6,000.
2. **Spousal IRA.** Deductible IRA contributions of up to \$5,000 can be made for each spouse (**including a spouse not employed outside the home**) if the combined compensation of both spouses is at least equal to the total contributed amount, and certain other rules are met.
3. The business rate for automobile mileage in 2009 was 55 cents per mile. The rate will be 50 cents for 2010.
4. If you claim the credit for child care for children under 13 you must provide the name, address, and social security number or E.I.N. for each child care provider.
5. The maximum amount of employment-related expenses for child care that qualify for the credit for child care is \$3,000 for one child, and \$6,000 for two or more children.
6. Single persons with earned income of less than \$35,463 with one dependent child (\$40,295 if you have two or more children), may be entitled to the federal earned income credit. The

credit also is available to those 25 years old or older, without children, who earned less than \$13,440. Higher amounts apply to those married filing jointly. The Iowa earned income credit (7% of the federal credit) now is a refundable credit.

7. **The Alternative Motor Vehicle Credit** will be allowed for new clean-fuel vehicles placed in service on or after January 1, 2006, and purchased on or before December 31, 2010. A segment of the credit will be on a sliding scale based on fuel economy and will range from \$400 to \$2,400. A conservation segment of the credit from \$250 to \$1,000 will also be available. The qualified hybrid vehicle must be certified for the credit. If you have purchased such a vehicle, you will need to provide detailed information on its purchase to us.

When an automotive manufacturer sells more than 60,000 hybrid and lean-burn vehicles after 2005, a phase-out of the credit begins with the second quarter after the 60,000 vehicle limit is reached.

TUITION, TEXTBOOK AND ACTIVITY FEE CREDIT FOR IOWA TAXPAYERS

Taxpayers who have one or more dependent children attending grades K through 12 in an Iowa public or private accredited school may claim a **twenty-five (25%) percent tax credit** on the Iowa return **for the first \$1,000 paid for tuition, textbooks and activity fees for each dependent**. **The definition of textbooks has been expanded to include books and materials for extracurricular activities as follows:**

The cost of **the following items are eligible** for the credit: activity fees; booster club dues; cleats for football, baseball, soccer, track, and golf shoes; costumes for a play; special clothing for a concert; rental of musical instruments for school or band or for lessons at a school; sheet music used in a school; cost of basic materials for shop class or mechanics class; and band, hockey and football uniforms.

The cost of **the following items are not eligible** for the credit: basketball shoes; purchase of musical instruments; clothing for a play or concert that is suitable for everyday wear; travel expenses for trips; cost of music lessons outside of school; and expenditures for wood or materials for making furniture or repair of personal vehicles.

DOMESTIC HOUSEHOLD EMPLOYEES

If you employed domestic employees in 2009 (e.g. cleaning persons, health aides, persons providing child care in your own home, etc.) and paid wages totaling \$1,700 or more, you are required to pay employment taxes on these wages -- and the payment is made with your individual federal income tax return. You should bring in all information regarding domestic employees (e.g. name, address, social security number, gross wages, etc.) with your regular income tax information. Please note that Forms W-2 will need to be prepared and filed by January 31 for these employees regardless of the amount of wages paid.

1099 AND WAGE REPORTS DUE FEBRUARY 1

If you are required to issue Forms 1099 or W-2 in connection with your business or farm operation, please remember that these documents must be sent to the person paid on or before February 1, 2010. If your tax appointment is after this date, please bring all necessary information to the office before January 29 so the proper reports can be prepared and filed by the due date. Failure to

comply with these information report-filing requirements can result in a penalty of \$100 for each report not filed.

As in the past, if you have paid wages for agricultural labor during the year in the amount of less than \$150, you do not have to pay social security tax on the wages. However, if all of your agricultural wages total \$2,500 or more, you must pay social security taxes on all employees ... whether a particular employee earned \$25, or \$125, or \$1,000.

Agricultural wages, which are subject to social security taxes, also are subject to federal and state income tax withholding. You should contact the office if you have any questions.

COST BASIS FOR STOCK OR MUTUAL FUNDS SOLD

To correctly compute the capital gain on the sale of any stock or mutual fund, you must provide us with cost basis information. This is the original cost plus any brokerage fees. If there have been dividend reinvestments, we need information on all dividends reinvested each year you held the stock or fund.

BROKERS HAVE UNTIL FEBRUARY 16 TO SEND 1099 FORMS

Remember, brokers now have until February 16, 2010, to mail Forms 1099 to you (rather than January 31).

IOWA LAW HAS NOT BEEN COUPLED WITH CERTAIN FEDERAL LAW

As of this writing, the Iowa Legislature has not changed Iowa law to provide for the educator's \$250 deduction, itemized deduction for state sales/use tax paid, tuition and fees deduction (rather than credit) and depreciation changes. These tax benefits that will appear on the federal return, will not be taken on the Iowa return.

2009 FEDERAL INCOME TAX BRACKETS

<u>Married Filing Jointly</u>		<u>Single</u>	
Taxable Income	Tax Rate	Taxable Income	Tax Rate
\$ 0 to \$ 16,700	10%	\$ 0 to \$ 8,350	10%
\$ 16,701 to \$ 67,900	15%	\$ 8,351 to \$ 33,950	15%
\$ 67,901 to \$137,050	25%	\$ 33,951 to \$ 82,250	25%
\$137,051 to \$208,850	28%	\$ 82,251 to \$171,550	28%
\$208,851 to \$372,950	33%	\$171,551 to \$372,950	33%
\$372,951 and over	35%	\$372,951 and over	35%

To ensure compliance with requirements imposed by the Internal Revenue Service, we inform you that any tax advice contained in this communication was not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.