

# ANSPACH FINANCIAL GROUP

GARY ANSPACH, EA • SUSAN HARPER, EA • JACKIE THOMSON, EA, CFP®

SUMMER NEWSLETTER

JUNE, 2009

## Highlights of the Recovery Act Tax Provisions

Signed into law on February 17, 2009, the American Recovery and Reinvestment Tax Act of 2009 contains provisions that will impact most taxpayers:

◇ The **Making Work Pay Credit** is available for employees and retirees to take on their 2009 and 2010 tax returns. The maximum annual credit is \$400 (\$800 for joint returns), but it begins to phase out for taxpayers with adjusted gross incomes above \$75,000 (\$150,000 for joint filers). Since the tax withholding tables were revised to accelerate the credit through a \$400 reduction in payroll withholding, those higher earners who don't qualify for the credit may owe more federal tax than anticipated when they file their returns. Those with multiple employers or multiple retirement income sources may be particularly exposed to under-withholding, and they should consider revising their withholding instructions by submitting new forms W-4.

◇ An **Economic Recovery Payment to Recipients of Social Security, SSI, Railroad Retirement and Veterans Disability Benefits** provides for a \$250 annual payment in 2009 and 2010 to any of these recipients who qualified for benefits during November, 2008, December, 2008 or in January, 2009. Certain government retirees or state pensioners will also receive this \$250 credit. Payments under this provision will reduce any allowable Making Work Pay Credit.

◇ The **New American Opportunity Tax Credit** modifies the Hope college credit for the next two years. A maximum \$2,500 credit is available for qualified tuition and related expenses for a student in their first four years of a post-secondary education in a degree or certificate program. The definition of qualified tuition and related expenses has been expanded, and the income limitations have been increased. Married couples filing jointly who have modified adjusted gross income of up to \$160,000 (\$80,000 for single parents) can claim the full credit for 2009 and 2010. Up to \$1,000 of the credit may be refundable to those whose taxes aren't high enough to utilize the credit offset.

◇ A **New Temporary Deduction for Sales and Excise Taxes on Car Purchases** will be available on 2009 income tax returns for taxpayers who purchase a qualified motor vehicle between February 17 and December 31, 2009. Both Schedule A itemizers and non-itemizers may take this deduction. A qualified vehicle is a passenger automobile, light truck or motorcycle with a gross vehicle rating of 8,500 pounds or less, and can include motor homes. The taxpayer must be the original user of the vehicle, only taxes on the first \$49,500 of the purchase price qualify, and the deduction phases out for taxpayers with modified adjusted gross income of \$125,000 (\$250,000 for joint returns).

◇ The **First-Time Homebuyer Credit** has been enhanced for those who purchase a home this year before December 1, 2009. While the \$7,500 tax credit for certain 2008 home purchases must be repaid over 15 years, this year's credit for \$8,000 has no repayment requirement unless the home ceases to be the taxpayer's main residence within three years after purchase. The credit is refundable, and it phases out at income levels

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### Special points of interest:

- Many new tax credits and deductions designed to stimulate the economy will help taxpayers in 2009 and 2010.
- Self-employment offers new opportunities but has it's own set of rules for tax reporting.
- More tax reforms are anticipated next year as part of the Obama administration's platform.

## California's Budget Compromise

The California tax increases that resulted from the lengthy budget negotiation include:

A one cent sales tax increase through June 30, 2012

An increase of the vehicle license fees from .65 percent to 1.15 percent through June 20, 2011 (possibly through June 30, 2013)

An increase in the income tax brackets for 2009 and 2010

Acceleration of estimated tax payments earlier in the year

The New California Homebuyer Tax Credit is very different from the federal First-Time Homebuyer Credit. The California credit applies to certified new or previously unoccupied single-family homes purchased and used as the principal residence of the taxpayer for at least one year. The credit is available for homes purchased between March 1, 2009 and March 1, 2010, and it's 5% of the purchase price, not to exceed \$10,000. The allowable credit is divided among the three years beginning with the year of purchase. In contrast to the federal credit, you aren't required to be a first-time homebuyer, and there is no income limitation. The total amount allocated to this credit is \$100 million. Availability of the credit expires once the \$100 million is assigned (approximately 10,000 homes).

## New to Self-Employment?

During this current economic crisis, some have turned to self-employment as a means to generate income, and perhaps to do something they enjoy. Many who have lost jobs are finding it difficult to find another and are looking for alternatives. Opportunity in self-employment has expanded as companies are reluctant to hire new employees, but are willing to contract with consultants for similar services.

If you are considering self-employment or have already begun working as an independent contractor, we strongly recommend that you consult with us about the tax ramifications of your new situation. Deductions may be available to you for business use of your auto, equipment purchases, and certain office related expenses. You also may qualify for a home office deduction. There are additional business expenses that you may be able to deduct if you meet the criteria and adhere to the special record-keeping requirements.

Many newly self-employed are surprised to learn that they will owe "self-employment tax" as well as income tax on their business earnings. The Social Security and Medicare tax is greater than the amount you paid as an employee, and we can help you determine how much you should set aside for your total tax liability.

## Highlights of the Recovery Act Tax Provisions

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above \$75,000 (\$150,000 for joint filers).

◇ There is a **Partial Exclusion of Unemployment Compensation** payments from taxable income in 2009 for up to \$2,400 in benefits received.

◇ The **Subsidy for COBRA Continuation Coverage** is available to workers who were involuntarily terminated between September 1, 2008 and December 31, 2009. Eligible recipients are only required to pay 35% of the COBRA premiums for up to 9 months of coverage for the period beginning on or after February 17, 2009. The remaining 65% subsidy is reimbursed to the coverage provider through a tax credit.

◇ Expanded energy credits, an increase in the earned income credit, expanded eligibility for the additional child tax credit, and a broadening of eligible expenses under a Section 529 Plan are among other numerous provisions of the Recovery Act. The summaries presented in this article are not intended to be complete explanations or to cover all contingencies under the law. We're happy to discuss exactly how the Recovery Act provisions may apply to your particular situation.

## Obama and Tax Reform

Reliable sources predict President Obama will seek tax reform next year. His proposals are not expected to include a major overhaul of the tax code, a flat tax or a national sales tax. He will propose strengthening tax enforcement and closing tax loopholes. Some of the anticipated suggestions for increasing tax revenues include the following:

- ◇ Self-employment tax on S Corp distributions
- ◇ More stringent worker classification rules
- ◇ Elimination of the domestic production deduction
- ◇ Reduction of accelerated depreciation methods
- ◇ Reduction of foreign income benefits
- ◇ Elimination of special deductions/credits for oil drilling and output
- ◇ Rise in tax rates for individuals with annual income levels over \$250,000

He may also propose permanent AMT reform and simplification or unification of various tax benefits.

## If IRS Contacts You

If the IRS, California Franchise Tax Board, or any tax agency contacts you, be sure to let us know immediately before you respond with any information. If the contact is by telephone, take the caller's information and politely advise that you will consult your tax advisor and respond within an agreed-upon time frame.

If the contact is by mail, please send us a copy immediately, whether it is an audit request or a discrepancy notice. Although notices from federal and state agencies are generated throughout the year, most seem to appear between Spring and Fall. We are familiar with almost all notices and are able to quickly interpret them for you and recommend how to respond in a timely manner.

Remember that neither IRS nor FTB contacts taxpayers by email. Don't fall victim to an internet scam under the guise of a tax authority. Forward any such emails to us so we can direct them to the appropriate investigative department.

## Tax Season in Review

### Better Record-keeping Needed

We noticed that many of our clients don't fully understand the record-keeping requirements for certain tax return items. Inadequate substantiation of deductions for business use of an automobile and for non-cash charitable contributions appears to be the most problematic.

IRS requires written records that back up vehicle expenses and business mileage for any auto deduction. While the maintenance of an auto log is ideal, we recommend at the least that you keep a calendar of your business activities to help you calculate and substantiate your business mileage.

Non-cash contributions require documentation of the items contributed and their fair market value (FMV). FMV is what the charity can charge and reasonably expect to receive when they resell the item. It's the same amount that you could realistically expect someone to pay you for a garage sale item. IRS requires that you maintain a receipt from the charity on which you have listed each item donated with its corresponding estimated thrift shop resale value. Only those items that are in good or better condition are considered to have resale value. It's also not a bad idea to take a photo of the collection of items that are being donated.

### We Appreciate Your Referrals

Thank you for your referrals to our firm this past tax season. We truly appreciate your confidence in us. Since we don't advertise our services, we depend upon your "word of mouth" recommendations to grow our business. We strive to continue to provide the best high quality services at a reasonable cost.

As you may have discovered, Gary's calendar fills up very early in the short period that comprise our "tax season". Even though he may not have been able to meet with all the potential clients that were referred to him prior to April 15th, he is now available to meet with new and potential clients for the remainder of the year. This is the best time for new clients to schedule a meeting that will allow us to get to know their tax situation and to maximize any tax planning strategies for the upcoming year.

Thank you again for your patronage and referrals.

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818 Fifth Avenue, Suite 100  
San Rafael, CA 94901  
Phone: 415-457-5780  
Fax: 415-457-5925  
www.anspachfinancialgroup.com

*At Anspach Financial Group, we are committed to providing valuable and personalized services to each of our clients. We strive to solve complex tax and related issues by combining technical expertise with creative planning and problem solving. The experience, professional credentials and personal attention of our partners provide our clients with superior services at reasonable cost.*

## **Calendar**

### **Tax Due Dates**

June 15	Second quarter estimated tax payments due
July 31	Due date for second quarter payroll tax returns Due date for second quarter and annual sales tax returns
September 15	Final filing due date for calendar year corporation and partnership returns on extension Third quarter estimated tax payments due
October 15	Final due date for individual and fiduciary returns on extension

### **Anspach Financial Group Calendar \***

August 31	Deadline for providing all required information for the preparation of 2008 calendar year corporation and partnership returns to insure completion by the September 15th due date
September 30	Deadline for providing all required information for the preparation of 2008 individual and fiduciary returns to insure completion by the October 15th extended due date.

\*These deadlines are based on the large number of tax returns that we have on extension. It is important, not only that we have sufficient time to prepare accurate returns, but also that you have time to review the completed returns before the final filing date. Please make arrangements to get your 2008 tax information to us as soon as you possibly can.