

ANSPACH FINANCIAL GROUP

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YEAR-END NEWSLETTER

NOVEMBER, 2009

Get Organized Now for 2010 Tax Season

As the year draws to an end, we are busily preparing for the upcoming tax season. We're upgrading equipment, hiring additional staff, and embracing new technology that will allow us to serve our clients more efficiently and effectively. This is also a good time for you start getting your tax information organized so that you can get into our office early and put this annual tax filing chore behind you. Here's a reminder checklist of the information you may need to pull together.

- Prepare a folder to gather the official tax documents as they arrive in the mail. We'll be sending you a 2009 tax organizer that includes a listing of all the items reported on your 2008 income tax returns. You can use this as a checklist to help determine any forms you may be missing as well as other figures and information we'll need to complete the tax returns.
- Many of the online financial services companies such as Ameritrade and E*Trade do mail 1099 tax reporting documents, so you'll need to access your account and print these out. Be sure to print out the statement of realized gains and losses for securities sold in 2009.
- We'll need cost basis information for securities sold in any of your investment accounts. If a statement of "realized gains and losses" is not included with the 1099 form issued by the investment company, contact your investment advisor and ask for this information.
- Please provide a copy of settlement statements for any purchases, sales or refinanced real estate.
- If you are self-employed or a landlord and are required to issue Forms 1099-MISC to certain landlords and service providers, now is the time to make sure you have the necessary reporting information. You can download Form W-9 from our Website which you can use to obtain the required information. See the article on **Page 3** for more information regarding the issuance of Forms 1099-MISC.
- For those who use their personal vehicles to conduct business, substantial record-keeping is required in order to receive a tax deduction. The auto worksheet on the tax organizer provides a detailed list of the information to report on each auto used for business during the year. Critical information includes not only the number of business miles driven, but also the total number of miles put on the vehicle during the calendar year. You'll also need to provide information about any vehicles you use for business that were purchased, leased or sold during the year.
- Sort out your charitable contribution receipts into two piles: one for receipts of money contributed, and the other for receipts for "non-cash" donated goods. A cancelled check can serve as a receipt for a small contribution, but an actual letter of acknowledgement from a charity is required for gifts over \$250. There's a special reporting requirement for donated items if the total valuation exceeds \$500, and we'll need a copy of each of these receipts in order to report all the information properly. For your convenience, we have posted a worksheet to track charitable contributions and a valuation guide for donated property on our Website under the *Useful Forms and Tools Section*: www.anspachfinancialgroup.com/forms.htm.

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Special points of interest:

- A new use tax registration requirement confuses many business owners.
- More taxpayers will benefit from expanded tax benefits for higher education expenses.
- Many year-end planning opportunities are still available.

New Tax Breaks Available for Education Expenses

The American Recovery and Reinvestment Act, enacted earlier this year, includes two key changes designed to help parents and students to pay for college expenses:

The **American Opportunity Credit** modifies the existing **Hope Credit** for tax years 2009 and 2010, making it available to a broader range of taxpayers. Income guidelines have been expanded, and required course materials have been added to the list of qualified expenses. It also applies to the first four years of post-secondary education, where the Hope Credit was available only for the first two years. Many of those eligible will qualify for the maximum annual credit of \$2,500 per student, and even those who have no tax liability to offset the credit are eligible to receive a tax refund of up to \$1,000.

Qualifying income levels for the credit are “modified adjusted gross income” of \$80,000 for single filers and \$160,000 for joint filers. A partial credit is available to single filers and joint filers with “modified AGI” levels of \$90,000 and \$170,000 respectively.

The second major change is an expansion of the “qualified” expenses that can be paid for with prepaid tuition programs and tax-free college savings plans, such as **529 plans**. New to the list is computer equipment and technology, including Internet access and related services to be used by the student while enrolled at an eligible educational institution. Note that expenses for computer technology are still not considered “qualified” expenses for the American opportunity credit, Hope Credit, lifetime learning credit or tuition and fees deduction.

The **Lifetime Learning Credit** is still available for any person who takes college classes. Unlike the Hope Credit or American opportunity credit, you do not need to be a full-time student. The maximum annual credit is \$2,000, and there is no limit to the number of years it can be claimed. However, the credit phases out for those whose modified AGI exceeds \$50,000 (single filers) and \$120,000 (joint filers).

Although not as beneficial as a credit against income taxes, some taxpayers may benefit from two education expense deductions:

The **Tuition and Fees Deduction** provides for a deduction from gross income of up to \$4,000 in tuition expenses. The income limitations for the deduction are currently more restrictive than for the above-referenced tax credits, but it does have the potential to reduce AGI to eligibility levels for additional need-based aid or federal means-tested benefit programs during the next year.

A **Student Loan Interest Deduction** to a maximum \$2,500 is available to those whose modified AGI doesn't exceed \$75,000 for single filers and \$150,000 for joint filers. This represents an increase from 2008 levels.

Tax Planning Tip

Although more Americans will be able to receive a tax benefit for education expenses in 2009 and 2010, the eligibility guidelines for the many tax-favored treatments remain varied, and it can be confusing to determine which one will offer the most benefit for each family. It's our job to determine which tax treatment will benefit each of our clients, but you may be able to expand the options available to you by taking actions now to reduce your taxable income for 2009 and/or 2010. Since all of the education tax breaks are limited by various levels of income, any increase in retirement plan contributions or other pre-tax contributions for benefits offered under an employer's qualified benefit plan can help to reduce AGI and thus increase your options.

California Use Tax Registration

All California businesses that have more than \$100,000 in gross receipts are required to register with the Board of Equalization (BOE) and electronically file an annual sales and use tax return, even if there are no transactions to report and no tax due. Hundreds of thousands of service business that have never reported or owed sales or use tax will now be registered and required to file an annual return. We have to wonder what they are thinking. If California ever enacts legislation that requires sales tax on services, a significant portion of the registration will already be done.

Many businesses have been notified of this requirement by the BOE and provided with a simple method for registration. Some may need to contact the BOE directly. For more information, visit www.boe.ca.gov.

Changes at Our Firm

Welcome Adam Ladwig

Anspach Financial Group is proud to announce the addition of Adam Ladwig to our staff as an Associate. Prior to joining the firm Adam had worked as a Senior Auditor at Miller Cooper & Co., a mid-sized public accounting firm in Chicago. Adam holds a BA in History from the University of Illinois at Chicago and completed his Accounting and Business education at Northwestern University. Adam is currently sitting for the CPA exam in California and expects to be licensed in the coming year.

Going Green!

As we have mentioned in previous newsletters, our firm is dedicated to operating in a green fashion and we have begun the process to become certified as a Marin Green Business. As part of our commitment we are implementing practices such as purchasing environmentally friendly business supplies and offering services such as secure electronic delivery of tax documents and other communications. We'll be setting up a secure online portal for the delivery and receipt of confidential financial documents to offer you the opportunity to participate in our ongoing efforts to operate as a clean green business.

Government Focus on Sole Proprietors

The Government Accountability Office (GAO) recently issued a report (October 13) which focused on the issue of sole proprietors who understate income and/or overstate expenses to generate losses or reduce taxable income. According to the GAO about 5.4 million (25%) of all sole proprietors reported losses in 2006 totaling \$40 billion. Estimates in previous reports indicate that 70% of sole proprietor tax returns reporting losses failed to meet the compliance guidelines.

The looming federal budget deficit will likely put pressure on the IRS to increase enforcement efforts in areas with the greatest potential to generate additional revenue. We should expect to see an increase in audit activity of sole proprietors overall, but especially of those reporting losses for business activities.

Do You Need to Issue Forms 1099?

If you have a business, work as an independent contractor, or own rental real estate you may be required to issue Forms 1099-MISC.

- If, as a business owner or independent contractor, you pay an individual or non-corporate entity (e.g. a partnership or LLC) more than \$600 during the calendar year for *services or rents*, you are required to issue them a Form 1099-MISC. Professional fees paid for legal, accounting, and tax services are also reportable.
- Landlords may also have the same reporting requirements since rental real estate is considered a business activity for this purpose. If you pay for repairs, maintenance, or improvements it is possible that you will be required to issue Forms 1099-MISC to the service contractors.

The 2009 1099-MISC forms are due to the recipients by February 1, 2010, and the tax filing date for these forms is February 28, 2010. If you would like us to prepare these for you, please let us know as early as possible. If you wait until your tax meeting to address this issue, you risk the assessment of penalties by IRS and Franchise Tax Board

Odds & Ends

If you are required to take a "required minimum distribution" from a retirement plan, and you received a distribution early in the year before learning Congress had waived the requirement for 2009, you have until November 30, 2009 to roll the funds back into the tax deferred account (IRS Notice 2009-82 of September 24, 2009).

As we go to press with this issue, it appears very likely that the \$8,000 first-time homebuyer's credit will be extended into 2010, at least for those already in escrow by the current expiration date of November 30.

There's still time to buy a new automobile in 2009 and deduct the sales tax even if you itemize deductions. It must be a new vehicle, not merely "new to you" in order to qualify for this very favorable tax treatment.

There may be other year-end planning opportunities we can identify for you, if you want to schedule a tax-planning meeting before the end of the year.

ANSPACH FINANCIAL GROUP TAX AND FINANCIAL PLANNING

**YEAR-END NEWSLETTER
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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

December 10	Final due date for property tax installment
December 31	Deadline for establishment of 401(k) and other qualified retirement plans for 2010
January 15	Fourth quarter estimated tax payments due
February 1	Fourth quarter payroll tax returns and annual payroll reports due
	Final date for mailing Forms 1099 to recipients and Forms W-2 to employees
March 15	Calendar year corporation tax returns due
April 12	Final due date for second property tax installment
April 15	Due date for individual, partnership, and calendar year fiduciary returns

Anspach Financial Group Calendar

Nov. 1 - Dec. 15	Best time for year-end tax planning
January 4	Tax organizers mailed or e-mailed