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Certified Public Accountants – Financial Advisors

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Year End Tax Planning News

November - 2009 Edition

With the end of the year rapidly approaching, it is time to start thinking about taxes again. Several popular tax breaks from prior years have been extended, and there are many other tax breaks which are new for 2009.

Tax Changes for 2009

Several tax credits and deductions are new for 2009. The change affecting most people will be the Making Work Pay Tax Credit. This credit will be calculated as 6.2% of the taxpayers' earned income, up to a maximum of \$400 for singles and \$800 for married couples filing jointly. Your paycheck likely increased slightly in April as the IRS adjusted the federal withholding tables to get this tax savings to you more quickly than waiting to the end of the year. This credit is in effect for 2009 and 2010.

The Hope education credit for college expenses was enhanced and renamed the American Opportunity Credit. This new credit is slightly larger, and a portion of the credit is now refundable (40%). The new maximum credit is \$2,500 (up from \$1,800) and the credit is now available for the first four years of undergraduate education as opposed to the first two years.

New credits for making energy efficient improvements to your home have also been put into effect for 2009 and 2010. Windows, doors, roofing, furnaces, and water heaters which meet certain energy efficiency requirements may be eligible for a 30% credit, up to a maximum of \$1,500. These improvements must be installed in your primary residence, and the credit is non-refundable. Other products eligible for an efficiency credit include geo-thermal heat pumps, solar water heating systems, and residential fuel

cell systems. The credit on these items is 30% of the cost, with no cap.



The First-Time Homebuyers credit, initially enacted in 2008, was extended on November 6, 2009, when President Obama signed into law the “Worker, Homeownership, and Business Assistance Act of 2009.” This act not only extends the present credit, but expands the credit to apply to some taxpayers who have owned a home in the past. Attached to this newsletter is a letter which explains in more detail the provisions of the credit. We encourage you to contact our office if you have questions about applying the credit to your specific situation.

For taxpayers who purchased a new vehicle between Feb. 17th, 2009 and Dec. 31st, 2009, the sales tax paid on the purchase price of that vehicle is deductible on the taxpayer's 2009 tax return. This deduction is available even if the taxpayer does not itemize.

For taxpayers who were laid-off or lost their job during 2009, up to \$2,400 of unemployment benefits will be tax-free in 2009. Normally, all unemployment benefits are taxable in the year received.

Several other tax deductions continue to be in effect for the 2009 tax year, including the election to deduct sales taxes instead of state and local taxes when itemizing, the “above the line” deduction for college tuition and expenses, and the \$250 deduction for out of pocket expenses paid by teachers.

A reminder – for those taxpayers who are currently required to take minimum distributions from their retirement accounts, the minimum distribution requirement for 2009 has been waived. This includes required minimum distributions from a 401(k), 403(b), 457, IRA, SEP, and SIMPLE account. The waiver of the required minimum distribution is for 2009 only, and 2010 RMD requirements have not been waived.

If you have a question about how any of these new tax provisions may affect your specific tax situation, we encourage you to call our office for details

Depreciation Limits

Two popular depreciation provisions were extended into 2009 – Sec. 179 expensing and 50% bonus depreciation. Sec. 179 of the Internal Revenue Code allows a business a first year write-off of up to \$250,000 of equipment purchased during the year. The 179 expense deduction is limited to business taxable income. The equipment purchased can be new or used, and this provision is effective for tax years beginning in 2009. The 50% bonus depreciation deduction allows a business to write-off 50% of the cost of qualifying assets purchased during 2009. The equipment purchased must be new, and the expense deduction is not limited by income.

Standard Mileage Rate

The standard mileage rate for operating an automobile for business in 2009 is \$0.55/mile. The standard mileage rate for medical miles is \$0.24/mile, and the rate for charitable miles is \$0.14.

Retirement Plan Limits



Are you taking advantage of tax savings by maximizing your retirement plan contributions? For 2009, 401(k) plan participants may defer up to \$16,500 of wages into the plan pre-tax. For those 50 or older, the limit is \$22,000. These contribution limits apply to 403(b) and 457 plans as well. Participants

in a SIMPLE IRA can put away a maximum of \$11,500, and up to \$14,000 if 50 or over. The contribution limits for traditional and Roth IRA’s remains steady at \$5,000, plus an additional \$1,000 for anyone born in 1959 or earlier.

Social Security



For the first time since 1972, there will be no cost of living adjustment (COLA) to increase recipients’ social security checks in 2010. Federal law requires an annual COLA to social

security payments based on any increase in the consumer price index (CPI). However, the CPI actually decreased from the 3rd Qtr of 2008 to the 3rd Qtr of 2009. In addition, the social security wage base of \$106,800 will remain the same in 2010. Tax rates will remain the same: 6.2% for FICA and 1.45% for Medicare. Self-employed taxpayers will pay 15.3% on the first \$106,800 of their net earnings, and 2.9% on any amounts above that. For those social security recipients drawing benefits before their full retirement age, benefits will continue to be withheld on earnings above \$14,160, which remains unchanged from 2009.

Ohio Minimum Wage

In November 2006, Ohio voters passed a constitutional amendment requiring Ohio's minimum wage to increase each year based on the increase in the Consumer Price Index (CPI). However, from Sept. 1, 2008 to Aug. 31, 2009, the CPI decreased by 0.2%, which results in no change to the minimum wage. For 2010, Ohio minimum wage will remain at \$7.30/hr for non-tipped employees and \$3.65/hr for tipped employees. For employers who gross less than \$267,000 per year and for 14- and 15-year old employees, the minimum wage is \$7.25/hr (the current federal minimum wage).

Roth IRA Conversions

Since 2006, Congress has allowed taxpayers to convert traditional IRA's to Roth IRA's. The conversion required the taxpayer to pay income tax on the converted amount, but avoid the 10% early withdrawal penalty if under age 59 ½. However, they limited the conversion option to taxpayers with modified adjusted gross income (MAGI) of less than \$100,000. This income limitation eliminated many taxpayers who wanted to convert their IRA balances. Beginning in 2010, the income limitation is removed and anyone can convert a traditional IRA balance to a Roth IRA. And for 2010 only, the converted amount does not have to be declared as income for 2010. If the taxpayers choose, they may report half the converted amount as income in 2011 and half as income in 2012. With the possibility of increased tax rates in the future, Roth IRA accounts may become more valuable as withdrawals are completely tax free if the account has been open for five years and the taxpayer is over age 59 ½.

Plan Ahead – Save Tax Dollars

With a little planning, there are several simple steps you can take before the end of the year to save valuable tax dollars.

If you normally itemize your deductions, try to bunch as many as possible into one year. You can make an extra mortgage payment at the end of the year, prepay your property taxes, or increase your charitable donations. As mentioned earlier,

consider maximizing your retirement plan contribution. Don't forget – you can make your deductible IRA contribution until April 15th of the following year. If you're self-employed, consider delaying billing your customers until the following year or prepaying expenses not due until January. Cash basis sole-proprietors have some flexibility in managing income as the end of the year draws near. Thinking about making an equipment purchase next year? If your income is higher this year, make that purchase a year early and use the flexible depreciation provisions to save some tax dollars.

IRS E-mail Scams



In recent weeks, several clients have reported receiving correspondence from the IRS via e-mail. These e-mails look official, but are scams. The IRS

does not correspond via e-mail. If you have received an e-mail from someone claiming to be the IRS, please delete the e-mail and do not respond. Additional information about e-mail phishing is available on the IRS website at www.irs.gov.

BWC Safety Training Requirement

Employers participating in a Bureau of Workers Compensation group rating plan who have had a workers' compensation claim within the past two years will need to complete two hours of mandatory safety training during the 2009 policy year. This new requirement adopted by the Ohio Bureau of Workers' Compensation applies to any claim – regardless of size or severity – with a date of injury between January 1, 2007 and December 31, 2008.

The National Federation of Independent Business (NFIB) is attempting to make fulfilling this training requirement less burdensome for small business owners. On December 9, 2009, they are offering a web-based safety training course. This

webinar is a two hour program, and pre-registration is required. Cost of the program is \$10. While it is not necessary to be an NFIB member to participate, they do urge you to check with your BWC third party administrator to be certain they will accept the certificate of compliance from NFIB.

College Savings Plans

College Savings Plans, commonly referred to as "529 Plans", have had the definition of a qualifying expense expanded to include computers and internet access. Previously, the definition of a qualifying expense eligible for tax free treatment included tuition, fees, supplies, and room and board. Money withdrawn from 529 plans can be excluded from income if it is used to pay college related expenses such as those listed above.

Alternative Minimum Tax

For 2009, Alternative Minimum Tax (AMT) exemption amounts have increased to \$70,950 for couples filing jointly and \$46,700 for singles and head of household filing status. These exemption amounts are in effect for 2009 only. Congress will need to act again in 2010 to keep the exemption amounts from falling and subjecting millions of Americans to the AMT. The AMT was originally enacted in the 1960's to make sure all Americans paid a fair share of tax. However, it was never indexed to inflation, and has gradually begun to capture a greater share of taxpayers as income has grown over time.

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