

Tax Tips

Keeping you informed...

Winter
2009/2010

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Information Theft – It can happen to you!

Every year, during the income tax filing season we meet people who have had their personal credit card or account information misused by an unknown party. It's illegal, it's very harmful to your financial situation and it is happening more and more! Credit card fraud and identity theft is at an all time high but there are many things you can do to limit the risk of it happening to you.

Be very careful who you give your personal information to. Never give out credit card or bank account information to an unfamiliar caller on the telephone. If you purchase items over the internet from reputable established sources such as Walmart or Amazon you have little risk but be very cautious when buying items from an auction or social networking site.

If you have a portable storage device such as an I-phone, Blackberry or laptop you should use multiple layers of passwords and encryption whenever possible. Your passwords should be long and complex, not something as obvious as your last name. They should contain both numerals and letters and at least one special character. The thumb drive in your purse should be encrypted and password protected also. Sure these measures make accessing your own data more cumbersome for yourself, but they may prevent someone else from accessing it for you!

When organizing your files of personal bills and records, be careful to review anything you throw away. Shred any document containing credit card or personal information of any kind. The home computer should have both a software and a hardware firewall. It is not enough to have a virus protection software by itself. A good hardware firewall will prevent the anti-virus software from fending off so many attacks. If you have children using the home computer be aware of what sites they are visiting. Hackers love to plant viruses and spyware in video game downloads. As you can see there are many ways your personal information can be obtained and misused by a third party. There is no one solution to protect our data. We must use multiple types of prevention. You need to take control of guarding your data.





Hobby or Business?

The tax laws require us to report all our income, even when that income is earned from an activity normally considered a hobby. The primary differences between a hobby and a business are the existence of a profit motive and the expectation of profits. Other factors such as frequency of the activity and the existence of other revenue sources are also considered.

The Treasury regulations indicate that businesses are expected to make a profit in two out of every five years, two out of seven years for most horse related activities. The failure to realize the expected profit does not mean the business is a hobby, it simply means the IRS has more reason to question and audit the activity. How the business is organized and operated are factors that would indicate whether or not a profit motive is present. The level of education and experience of the owner / operator is considered. If other significant sources of income exist, that could indicate the lack of a profit motive.

The determination of whether an activity is a hobby or a business is based on all of the circumstances and not one isolated factor. If you are uncertain as to whether your activity is a hobby or a business contact our office.

Earned Income Credit (EIC)

Should you request an advance payment?

In 2009 and 2010, there is an increased EIC for taxpayers with three or more qualifying children. The EIC reduces the tax you owe, and gives you a refund even if you do not owe any tax. In 2009, you may be able to claim the credit if:

- You have three or more qualifying children and your earned income and adjusted gross income (AGI) are less than \$43,279 (\$48,279 if married filing jointly). The most you can get is \$5,657.
- You have two qualifying children and your earned income and AGI are less than \$40,295 (\$45,295 if married filing jointly). The most you can get is \$5,028.
- You have one qualifying child and your earned income and AGI are less than \$35,463 (\$40,463 if married filing jointly). The most you can get is \$3,043.
- You have no qualifying children and your earned income and AGI are less than \$13,440 (\$18,440 if married filing jointly). The most you can get is \$457.

If you think you will be eligible for the EIC and you have at least one qualifying child, you may choose to get advance EIC payment with your pay by completing Form W-5, Earned Income Credit Advance Payment Certificate, and giving it to your employer. Be careful requesting advance EIC payments! If you get advance payments and you are not eligible for the EIC, you must pay back these payments when you file your 2009 tax return.

Qualifying Child

Do you need to adjust your withholding?

If you want to claim someone as a dependent, the individual must be a qualifying child or a qualifying relative. In 2009, the definition of a qualifying child was revised. Now:

- Your qualifying child must be younger than you;
- A child cannot be your qualifying child if he or she files a joint return, unless the return was only filed to claim a refund; and
- If the parents can claim the child as a qualifying child but no parent so claims the child, no one else can claim the child as



a qualifying child unless that person's AGI is higher than the highest AGI of any parent of the child.

These new provisions generally affect siblings and grandparents. Those parents who didn't benefit from the dependency exemption because their income was too high can no longer have a younger child claim an older sibling as a qualifying child to benefit from the earned income credit (EIC). In addition, siblings and grandparents cannot claim a child as a qualifying child if the parents can claim the child and either of the parent's AGI is higher than the sibling's or the grandparent's. If you are affected by these provisions, you may need to adjust your withholding.

0-Percent Capital Gains Rate Tax-free step-up in basis?

If you have owned stock with a low basis for more than a year and think the stock will continue to go up in value, now may be the time to sell it if all of the gain on the sale falls within the 10- or 15-percent income tax brackets. In this case, the gain on the sale is taxed at the 0-percent capital gains rate. In addition, if you buy the stock right back, you effectively receive a tax-free step-up in basis.

You may be thinking that the gain on the sale is disallowed under the wash sale rules when you buy identical stock within 30 days of selling it. However, the wash sale rules only disallow losses on such sales.

The 0-percent capital gains rate is available through 2010. To qualify for the 0-percent capital gains rate in 2009, your income (including long-term capital gains) must be under \$33,951 (single and married filing separately), \$67,901 (married filing jointly), and \$45,501 (head of household). Ordinary income uses up the 10- and 15-percent income tax brackets before long-term capital gains, so if you have a lot of W-2 income, you will not qualify for the 0-percent capital gains rate.

We're Upgrading our website! New Look, More tools, Helpful links, Library

We are in the process of redesigning our web site jgeorgecpa.com. The new design will include helpful links to the local offices of county and state agencies such as the Energy Assistance, and Homeowner Tax Credit Programs. We will have more tax saving tips and a library of our prior quarterly newsletters and helpful tax related articles.

The original website will be replaced on or around December 10th with the newer more informative site. We are continually looking for opportunities to serve you better and our new website will have a contact form which will allow you to give us your feedback and submit questions. Check us out at www.jgeorgecpa.com

QUICK TIPS

1 In general, if an inherited IRA has several nonspouse designated beneficiaries, each beneficiary must take required minimum distributions (RMDs) over the oldest beneficiary's (the shortest) life expectancy. However, if you set up separate accounts with separate beneficiaries by the end of the year following the year of death, you can take RMDs from your separate account over your life expectancy. This allows you to stretch out your payments if you are younger. In addition, there are no RMDs for 2009 because they were waived.

2 If you are at least 70½ years old, you can still make tax-free charitable distributions of up to \$100,000 from your IRA through December 31, 2009. The distribution must be made directly by the trustee of your IRA to the charitable organization.

3 You can deduct employment agency fees and amounts paid for preparing your resume while looking for a new job in your present occupation. You can also deduct the cost of traveling to and from an area if the trip is primarily to look for a new job. However, you cannot deduct job search expenses if you are looking for a job for the first time, or in a new occupation.

4 You can rent out your principal residence for a couple years before selling it and still exclude up to \$250,000 of gain (\$500,000 if married filing jointly) if you owned and used it as your principal residence for at least two out of five years ending on the date of sale. However, any gain due to depreciation and periods of nonqualified use must be recognized.

5 If you have an office in your home that is your principal place of business, you may deduct transportation expenses incurred in going between your home office and any other work location in the same trade or business.





IRS to Scrutinize Sole Proprietorships How to minimize your audit risk

The IRS has announced a stepped up review of unincorporated businesses. The focus will be on issues of noncompliance, lack of documentation to support expenses, and unreported income.

Self employed individuals may be unaware of the many IRS regulations that require proof of automobile use, meals and use of subcontractors. Many small businesses don't maintain adequate documentation to support their business transactions. This could be a big problem if the IRS selects you and your business for an examination!

If you are using your automobile in your business you should maintain a daily log of your business related trips. This should include the destination name and odometer reading at each stop. The business purpose of the trips should be supported by a daily planner, time records and receipts whenever possible.

Other area of concern with the IRS are: personal use of company equipment and vehicles, spousal telephone and meal expense deducted through the business, bartered services, unreported income from rebates, non-qualified home offices, personal expenses paid with business checks or credit cards and payments for casual labor.

The best way to minimize your audit risk is to educate yourself regarding the rules and recordkeeping requirements. Maintaining documentation to support your business transactions is just good business management. Your Accountant can explain the rules and requirements that are applicable to your business. Let us help you minimize your audit risk.

Roth IRAs

Roth IRAs can be more beneficial than other retirement accounts because qualified distributions are not taxable, and you don't have to take required minimum distributions when you reach the age of 70½. However, you cannot make a Roth IRA contribution when your income exceeds certain limits. For 2009, the limit is phased out (reduced) when your modified AGI is between \$105,000 and \$120,000 (\$166,000 and \$176,000 if married filing jointly).

If your income is too high to make a Roth IRA contribution for 2009, you can still make a contribution to a traditional IRA. In general, the contribution will be nondeductible if you or your spouse is covered by a retirement plan at work, but it will give you basis in the IRA. On the other hand, if you and your spouse are not covered by a retirement plan at work, the contribution will be fully deductible regardless of your AGI.

For 2010 and beyond, the \$100,000 modified AGI limit on converting a traditional IRA to a Roth IRA has been eliminated, so you can convert that 2009 traditional IRA contribution to a Roth IRA in 2010 regardless of your AGI.

You must recognize the amount converted, except any basis, as income. However, any taxable income from a 2010 conversion will be included in gross income ratably over a two-year period beginning in 2011, unless you elect out of the two-year period and include all of it in 2010. This two-year rule only applies to 2010 conversions. Examine your tax situation to determine which year(s) to recognize any taxable income from a 2010 conversion.

