

Common Sense

Third Quarter 2009

Financial News and Tips for Clients and Friends of Albertz & Associates

Major Tax Changes Create New Risks, Opportunities

In this issue we're highlighting some of the big changes the government has made to the tax code in the first two quarters of 2009—changes that could hit you with unexpected costs, change the way you do business, or create profitable opportunities for you down the road.

Please review this issue carefully, as there have been an unusual number of recent changes which may affect you, your business, or your retirement. In addition to the stories covered on both sides of this issue, we encourage you to call us if any of the following topics may apply to you:

- Employers with 10 or more workers may have to create IRA plans funded by payroll deductions
- IRS plans more audits to find misclassified workers
- Ethics concerns may create new IRS standards for unlicensed tax preparers
- Health care reform may increase taxes on individuals, Medicare, and employers who don't provide a health care plan
- Get tax breaks by hiring your kids

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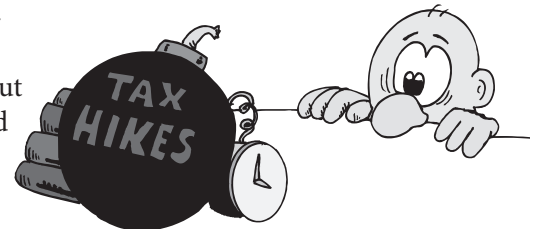
*"It's not what you earn,
it's what you keep."*

Stimulus Credit May Create Tax Liability for Workers and Retirees

Recent changes to the federal withholding tables may hide a nasty surprise for taxpayers next April, but you don't have to be taken off guard if you act quickly.

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009, more commonly known as the "stimulus package." In an effort to help boost the economy, this act changed the federal tax withholding tables, increasing the take-home pay of many employees as of April 1, 2009.

What *didn't* change are the tax rates, which means that many taxpayers will owe the same amount as before, but may have less withheld. Many workers will be eligible for an \$800 tax credit that offsets the change, but this won't apply to everyone, and the cuts may even be excessive for those who qualify. This could reduce many



taxpayers' refunds or even require them to pay more when tax time rolls around in 2010.

Retirees who have taxes withheld from their pensions are particularly at risk because many do not qualify for the payroll tax credit. Workers who receive unemployment compensation or who are self-employed may also wish to adjust their withholdings.

If you're concerned that you may not be withholding enough, we'll be happy to give you a quick, free review to make sure you're not at risk of being penalized by this new legislation. Just give us a call at (513) 891-8400.

Believe it or Not: It's a Great Time to Buy a New House or Car...Even if You Already Bought

Doom and gloom about the economy is hiding significant incentives to buy a home or vehicle today. Not only are prices lower because sellers are willing to wheel and deal, there are significant tax breaks available to qualified buyers.

As of now, first-time home buyers and buyers who haven't owned their own home for at least three years are

eligible for an \$8,000 tax credit on homes purchased through December 1 of this year (the credit may be extended through January 1 of 2011, but the final vote isn't in yet).

This credit is available retroactively for buyers who purchased homes in 2008, but you'll need to make sure

Continued On Other Side...

See other side for additional news and tips...

Home and Car, continued

you jump through a few extra re-filing hoops to get it (contact us to learn how to take advantage of the credit the right way).

Here's another bonus: the Federal Housing Administration will soon allow this credit to be used as a down payment, allowing you to get the \$8,000 benefit right away with a short-term bridge loan. Contact us for details.

The auto bailout also has the government eager to push sales of new vehicles. You can deduct the sales tax on the first \$49,500 of any vehicle you purchase between February 16, 2009 and January 1, 2010. This break applies to every purchase, so you can deduct sales tax from multiple vehicles. You're even eligible for a similar break if you live in a state that doesn't charge vehicle sales tax. Call us for details.

Don't Miss Out on Home Energy Credits

Thinking of making energy-saving upgrades at home? Do it before the end of next year. You can deduct up to 30% of the cost of energy-efficient improvements installed in 2009-10, up to a total of \$1,500 for most home improvements. There's no credit limit for qualified solar, wind, or geothermal projects.

S-Corps Beware: Document *Everything*

Even if you're the sole shareholder of an S-corporation, you must document all major decisions in a corporate minute book. It's okay to do this retroactively as long as the owner hasn't been challenged. Failure to do so makes the IRS suspect that you're running your business as a sole proprietorship, which puts your "corporate veil" at risk. Call us to learn which decisions must be documented.

Avoid 10% Penalty for Tapping Your IRA

If you're thinking about tapping into your IRA to help cover costs during the recession, there are a few ways you can avoid the 10% penalty for early withdrawals if you're younger than 59½. Both of these options require careful consideration and some paperwork to avoid the penalty, so contact our office before you consider using either strategy.

If you've been receiving unemployment benefits for 12 consecutive weeks or more, you can use funds in your IRA to cover health insurance premiums. You'll have to pay

the premiums yourself and recoup the cost from your IRA withdrawal. Unless the funds are coming from a Roth IRA, you'll still have to pay income tax on the distributions.

You can also avoid the penalty by taking an ongoing series of payments of approximately the same amount for at least five years. The drawback is that you can't change your mind later...once you start the payouts, they must continue until you're 59½. And you can't do a rollover into or out of the account without automatically triggering the 10% penalty.

New Tax Rules for Divorced Parents

If you're a divorced parent who doesn't have custody of the children, there are new regulatory hoops that you and your ex-spouse must jump through if you have an agreement about tax exemptions for your dependents.

Typically, a noncustodial parent isn't eligible for a tax exemption for dependents. In the past, many divorce agreements have given the non-custodial parent a break, typically by alternating the years that each parent takes the exemption.

Until now, a signed divorce decree has been enough to share or waive

the exemption, but the IRS has recently changed the way it handles these cases. If your divorce decree was signed on July 3, 2008 or later, a noncustodial parent can't take the exemption unless the parent with custody signs Form 8332 for *each year* the exemption is transferred.

This applies even if you have a signed divorce decree that states the conditions for transfer of the exemption and proof they were carried out.

Contact our office to make sure that this exemption is applied to the correct parent according to your mutual agreement.

New Reporting Rules May Hit Corporations and Landlords

Congress is considering legislation that would require all payments to corporations that exceed \$600 to be reported on a 1099, just as payments to individuals are now. Landlords may also be required to file 1099s for handymen and other service providers. Watch future issues of *Common Sense* for more details.