MortonCPAs PC

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Dear Clients and Friends:

Welcome to 2010. Together we made it through a tough time in 2009 and are slowly moving forward. There has been a lot going on in the tax and business world and we are here to help you navigate forward. A tool to help is our redesigned website www.mortoncpas.com, which has numerous calculators and tools to use for projections and estimates. Please visit our new website to see how it can help you!

> *"Worried about an IRS audit? Avoid what's called a red flag. That's something the IRS always looks for. For example, say you have some money left in your bank account after paying taxes. That's a red flag."*
> - Jay Leno

Here is some real advice....

REMINDER OF CHANGES FOR 2009

Spend on Green, Save Green, Be Green then and NOW!

TAX CREDITS FOR 2009 AND 2010 - ENERGY-SAVING HOME IMPROVEMENTS

Energy-saving home improvements in 2009 or 2010 will cut your tax bill. You can claim a tax credit for 30% of the cost of certain skylights, outside doors, insulation, water heater, electric heat pump hot water boiler, windows and pigmented roofs, as well as for high-efficiency furnaces and central air conditioners. The maximum credit is $1,500, limited by the amount of any nonbusiness energy property credit you took in 2006 or 2007.

Here comes the Sun

For 2009 homeowners can also claim a 30% tax credit for the cost of solar energy systems used to heat air or water, fuel cell property, small wind energy* property and geothermal heat pump* property. Solar heaters for pools or hot tubs will not qualify. The credit is not capped in 2009 but was capped in 2008, at $2,000 apiece for home furnaces and water heaters.
These items must be installed in your primary home (or vacation home for 2009 only) to qualify.

Arizona also offers a tax credit and APS and SRP offer incentives. The Arizona tax credit is 25% of cost and installation up to $1000.

The APS and SRP incentives reduce the basis in the cost of the system and calculation of the federal tax credits.

Before you switch to solar please call your provider for assistance with the paperwork requirements. Current SRP incentives for Solar electrical system expire after April 30, 2010 and for APS there is limited funding

*Limited credit please ask about limits.

TAX RULES in HARD TIMES

UNEMPLOYMENT COMPENSATION For 2009 you may exclude up to $2,400 of unemployment compensation from your income.

COBRA PENALTY If you qualified and received the 65% subsidy for COBRA health insurance, due to involuntary termination from a prior job, you need to notify your prior employer once you become eligible for other group health coverage. If you continue to get the subsidy you may be subject to 110% of the subsidy received after you became eligible for the new coverage.

SOCIAL SECURITY 2010 In 2010 there will be no Cost of Living Adjustment for Social Security benefits. This is a result of no change in the Consumer Price Index for Urban Wage Earners and Clerical Workers. This amount stayed the same from 3rd quarter 2008 to 3rd quarter 2009. That is the measuring stick resulting in no cost of living adjustment for 2010.

HOUSING WOES

What to do with Residential Foreclosure, Repossessions or Short Sales

If your **principle residence** was foreclosed, repossessed, or short-sold and you received a 1099-A and or a 1099-C it is imperative that you provide that to us so we can correctly prepare your tax return.

In addition, if you had a **second home or rental property** that was foreclosed, repossessed, or short-sold and you received a 1099-A and or a 1099-C it is imperative that you provide that to us so we can correctly prepare your tax return. Since this is not your primary residence it is reported differently on your tax return.

****Ask us for Form 1099-C Cancellation of Debt synopsis or call us for more details.

Debt Forgiven on a Residence Repo

Up to $2 million of debt discharge can be excluded from tax if the debt was used to purchase or improve the home. Amount excluded goes to reduce property basis.

SILVER LINING IF YOU QUALIFY

CASH for CLUNKERS If you participated in the cash for clunkers in Arizona the credit does not count as income on your Federal or Arizona tax returns. If you participated in the program in a different state let us know as there may be state income that you are required to report.

Tax Credit for First-Time Home Buyers -- April 9, 2008 – July 1, 2009

A refundable tax credit equal to 10% of the purchase price of the home, up to $7,500, for homes purchased between April 9, 2008, and before July 1, 2009. One who has not owned a principal residence for the past three years is a "first-time home buyer". The credit starts to phase out when adjusted gross income hits $150,000 joint return, $75,000 single. The credit must be paid back over 15 years, or when the house is sold.

Tax Credit for First-Time Home Buyers -- January 1 – November 30, 2009

A refundable tax credit equal to 10% of the purchase price of the home, up to $8,000 for homes purchased between January 1, 2009 and before December 1, 2009. One who has not owned a principal residence for the past three years is a "first-time home buyer". The credit starts to phase out when adjusted gross income hits $150,000 joint return, $75,000 single. We will need to attach the Closing Escrow statement to the tax return so please bring us your closing documents. We can amend your 2008 tax return to claim this credit for a home purchased in the above time frame. THIS CREDIT IS NOT PAID BACK OVER 15 YEAR like the one above; unless the home ceases to be your primary residence within 36 months from the date of purchase.

Tax Credit for First-Time Home Buyers -- November 6, 2009 – April 30, 2010

An extension of the Home Buyer Credit requires that you enter into a binding contract by April 30, 2010 and close by June 30, 2010. The income phase outs have been increase to $125,000 single and $225,000. As this is a new-change not all details are available. Please call us with questions.

INCREASE TO THE STANDARD DEDUCTION For those who take the standard deduction, this can be increased by domestic real estate taxes you paid, up to $500 filing single ($1000 married filing jointly) again for 2009.

FOR OUR OUT OF STATE FRIENDS

CALIFORNIA NOL For taxable years beginning in 2008 and 2009, California has suspended the Net Operating Loss (NOL) carryover deduction. Taxpayers may continue to compute and carryover an NOL during the suspension period. However, taxpayers with net business income of less than $500,000 or with disaster loss carryovers are not affected by the NOL suspension rules. Same goes for corporations

CASH-STRAPPED STATE ISSUING AN IOU Interest on those instruments is tax free treated like a municipal bond. These states either delayed refunds or issued IOU instead of timely tax refunds in 2009, CA, GA, KS, MD, MO.

COLLEGE – LESS TAXING!?

COLLEGE TAX CREDITS – The Hope Credit, has been replaced by the American Opportunity Tax Credit (AOTC). The AOTC is calculated by taking 100% of the first $2,000 and 25% of the next $2,000 of expenses for a maximum of $2,500. This is available for 2009 and 2010 and applies to the first four years of college. The income phase out starts at $80,000 single and $160,000 joint filing. The Lifetime Learning Credit is equal to 20% of expenses up to $10,000 (maximum credit $2,000). Those credits are phased out based on income, the phase out begins at $100,000 on a joint return. (Note: you cannot claim both credits for the same student). Instead of the credit you may be able to take up to a $4,000.00 deduction.

STUDENT LOAN INTEREST – You can deduct up to $2,500 of interest paid on an education loan in 2009, but the deduction begins to phase out as your gross income goes from $60,000 to $75,000 for singles and from $120,000 to $150,000 for married filing joint.

A CAUSE WORTH FUNDING FOR...

MILITARY FAMILY RELIEF FUND CREDIT – ARIZONA CREDIT

A donation made to the Arizona Department of Veterans' Affairs' (AZDVS) may qualify as dollar for dollar Arizona tax credit. There is a Military Family Relief Fund Tax Credit, which assists families of Arizona service members injured or killed fighting. Please visit the website www.azdvs.gov/mfrf.htm to download application. Taxpayers need to have a receipt from AZDVS that indicates they are eligible for the credit. The credit is maximized up to $200 single or $400 married. The MFRF is in effect through December 31, 2013.

A CHOICE!? – FOR 2009 DEDUCT EITHER SALES OR INCOME TAX – You have the choice of deducting either sales tax plus some large item purchases i.e. car, boat or state income tax as an itemized deduction on your tax return. This has been extended through 2009.

CHANGES TO KIDDIE TAX – Starting in 2008 children under age 19 and full time students under age 24 will be taxed at their parents rate if their unearned income exceeds $1,900.

NEW ARIZONA REQUIREMENT TO USE FEDERAL E-VERIFY FOR NEW HIRES – Starting after December 31, 2007, Arizona employers must use E-Verify, a federal online service, to determine employment eligibility for new employees. Employers must enroll online. Eligibility checks are required within three days after the employees start date. All employers must become familiar with these new rules. There are services that will handle this for you.

Arizona Department of Economic Security also has a requirement to report new hires within 20 days.

OTHER TAX POINTS TO NOTE:

The income tax has made more liars out of American people than *golf* has. – Will Rogers
Ensure that you keep solid accounting records for the year!

- ✓ Self-employed health insurance deduction remains at 100%.
- ✓ Child tax credit is $1,000.
- ✓ Qualified dividend tax bracket remains at 15%.
- ✓ Social security wage base jumps from $102,000 for 2008 to $106,800 for 2009 and to stay $106,800 for 2010. This means for 2009 the non-Medicare portion of social security tax jumps to $13,244 ($6,622 employer, $6,622 employee).
- ✓ There are credits that apply to cars with good fuel economy. Many of the car credits have phased-out but there are still some available. If you purchased a Hybrid, please ask about credit information.

Standard mileage rates for vehicles:

	2009	2010
✓ Business usage	55.0	Not released yet
✓ Medical and moving	24.0	
✓ Charity	14	
	(cents per mile)	

A taxpayer may not use the business standard mileage rate for a vehicle after using any accelerated depreciation method - modified accelerated cost recovery system, claiming a Section 179 deduction for that vehicle, for any vehicle used for hire, or for more than four vehicles used simultaneously.

DOMESTIC PRODUCTION DEDUCTION – Do you have any of the following activities: manufacturing (including computer software, music recording and film production), farming, construction, renovation of real property, engineering or architectural services? You may qualify for the extra deduction if you also have taxable income and pay W-2 wages. The deduction is basically 9% of the net income from the activity for 2008 and 2009. The calculation is complex.

SAME DEPRECIATION BREAKS – ARE STILL UNBELIEVABLY GOOD!!!

In 2009, the first year, write off (Sec. 179) of business personal property is $250,000.

Example: Cost – New		2009	
Equipment (5 years)	$500,000	$(250,000)	Section 179 Depr
Remaining Cost	250,000	(125,000)	Bonus Depreciation**
Remaining Cost	125,000	(25,000)	Normal depreciation (Half-year convention)
		$(400,000)	Total depreciation, 1st year

Thus, the total depreciation for 2009 is $400,000, or 80% of the cost.

ANOTHER YEAR FOR THE $25,000 WRITE OFF FOR SPORTS UTILITY VEHICLES USED FOR BUSINESS – However, the business deduction can still be large. Example, you buy a new $60,000 SUV (100% business) with gross vehicle weight over 6,000 pounds:

		2009	
Cost	$ 60,000	$ 25,000	179 Depreciation
Remaining cost	35,000	17,500	Bonus Depreciation**
Remaining cost	17,500	3,500	Normal Depreciation
		$ 46,000	Total 1st year Depr

If this were an expensive car, the limit on depreciation would be only $10,960. But is the loophole really closed? **PLEASE NOTE** – An over 6,000 pounds GVW truck (pickup with a cargo area of at least 5 feet in length that is separate from the passenger compartment) the deduction could still be $60,000.

Please note that Sec. 179 deduction is subject to limits in net income. Also any unused Sec. 179 deduction can be carried over. If you buy over $800,000 of business equipment in 2009 the amount eligible for Sec. 179 is reduced dollar for dollar. Also the equipment does not have to be new equipment, it can be used.
Now there is a 15 year life for certain building leasehold improvements. The building must be at least 3 years old.

**Bonus Depreciation, was reinstated in 2008 and extended to 2009. This allows up to a 50% deduction of purchase cost of new equipment that is placed in service by 12/31/09. This is an additional depreciation to be used at a clients discretion and can be used with Section 179 depreciation.

YEAR-END TAX PLANNING - OVERVIEW

In the past the general rule-of-thumb for year-end tax planning was always to defer income to the next year and accelerate deductions into the current year. Now, with the strong possibility of changes to the upper-end of the tax tables for 2010, it may make more sense to do the opposite in anticipation of the top brackets increasing from 33% and 35% to something significantly higher.

The general rules of year-end income shifting are still valid for most people. If the reverse applies to you, just do the opposite.

***POSTPONE INCOME UNTIL NEXT YEAR*:**

- Income from employment may not be easily switched from year to year, but there could be some flexibility for bonuses and commissions. If your company has a 401(k) or a Simple plan, consider investing your year-end bonus in the plan if you have not reached the maximum amount.
- Business owners have flexibility in deferring income. Sales and billing can be deferred until the following year.

- Social security recipients need to be aware that their social security can become taxable as modified adjusted gross income exceeds $32,000 married, $25,000 single. A sudden increase in other income may make Social Security as much as 85% taxable.

- Also, increases in income reduce amounts available for medical deductions and miscellaneous deductions, not to mention the general itemized deduction phase out for adjusted gross income over $166,800 for singles.

TAKE DEDUCTIONS NOW:

- ***PAY STATE INCOME TAXES*** – If you will owe state income taxes, pay them by year-end. Either have more state taxes withheld or make the state fourth quarter estimated tax payment in December rather than by January 15, 2010.

- ***MEDICAL*** – **Remember ALL medical is fully deductible in Arizona.** Schedule and pay for medical deductions by year-end (eyeglasses, dental, surgery, etc.). Remember, medical is subject to federal limitations (7.5% of adjusted gross income), so it may pay to "bunch" them into one year instead of over two years.

- ***BUSINESS DEDUCTIONS*** – Prepay business expenses (some limits). Write off obsolete inventory at year-end. Write off bad accounts receivable and look for additional accounts payable at year-end (if on accrual basis). Look for business deductions that were paid personally but are really business related – for example business travel and entertainment, dues, subscriptions, etc. Autos and light trucks also benefit if they are used for business. Maximum first-year depreciation write off for cars has increased to $10,960 and trucks to $11,160.

- ***DEDUCT POINTS PAID ON A HOME PURCHASE*** – Mortgage points can be deducted in full by the buyer in year of home purchase. Same is true of points paid on home improvement loans. Points being amortized on an old loan may be fully written-off in the year of refinance.

- ***MORTGAGE INTEREST*** – You may deduct mortgage interest on two residences. The limits on the deduction are $1,000,000 combined total mortgage on the two homes. You can also deduct the interest on an additional $100,000 of home equity loans. Boats and motor homes qualify as residences if they have a stove, bed and toilet.

- ***HOME MORTGAGE INSURANCE DEDUCTION*** – If your adjusted income is under $109,000, mortgage insurance premiums on a new policy (acquired in 2008) are now deductible as interest expense. This deduction has been extended through 2010.

- ***DONATE TO CHARITY BY YEAR-END*** – Donations of $250 or more require a statement from the charity (your cancelled check is not good enough). Cash donations (Salvation Army kettle or church basket) must have a receipt from the charity in order to qualify for a deduction. **UNBELIEVABLE!!!!**

  Noncash donations of appreciated stocks usually get full fair market value deduction. Used donated items (such as clothing and household goods) should be valued at what the charity could sell them for. A list of the items (and possibly photos) and a receipt from the charity would be good support. Items are required to be in good or better condition. Go to salvationarmyusa.org for their valuation guide. The donation of a car or boat requires an IRS form from the charity (Form 1098-C) showing what it sold for.

TAKE SUFFICIENT CAPTIAL LOSSES TO OFFSET ANY CAPITAL GAINS – Unfortunately, for 2009, most people with stock market investments have a considerable unrealized losses. If you can create realized losses (not in IRA or other retirement plans) by selling stocks you have no desire to keep, sell enough to offset any capital gains from other sources plus an additional $3,000 to offset other ordinary income. Any capital loss in excess of this carries forward to future years.

CHANGING FROM "'IF' I RETIRE BACK TO 'WHEN' I RETIRE"

CONVERSION OF TRADITIONAL IRA to ROTH IRA In 2010, the income and filing status restrictions on converting a traditional IRA into a Roth IRA no longer apply. Please plan with us if you are looking to do this, you may face tax consequences.

REGULAR IRA ACCOUNTS

- ✓ You can contribute $5,000 to an IRA for 2009 and 2010 (Plus $1000 additional catch up if you are over 50).
- ✓ Contributions to regular IRA accounts must be made by 4/15/10 to qualify for the deduction this year.
- ✓ You can contribute $5,000 for a NON-WORKING SPOUSE.

- ✓ If you are covered by an employer retirement plan, you can still deduct an IRA contribution for yourself, but this deduction phases out when modified adjusted gross income for 2009 reaches between $55,000 to $65,000 for singles, and $89,000 to $109,000 for married filing joint.
- ✓ However, if you are covered by an employer retirement plan and your spouse is not, your spouse may make an IRA contribution if modified adjusted gross income is less than $176,000.

ROTH IRA'S ARE GENERALLY TAX FREE FOREVER!!

- ✓ If age 59 ½ and held 5 years, no tax on interest, dividends or appreciation.
- ✓ If age 59 ½ but not held 5 years, taxed but no penalties.
- ✓ If you are under 59 ½ and not held 5 years, both tax and penalties apply upon distribution.
- ✓ Nondeductible contributions of $5,000 may be limited based on modified adjusted gross income.
- ✓ Can make contributions after age 70 ½ (unlike current IRA's).
- ✓ No required minimum distribution at age 70 ½.
- ✓ You may still be in employer retirement plan and have a ROTH IRA.

OTHER RETIREMENT PLANS – Think about contributing more to your 401(k) or 403(b) plan at work. If self-employed, set up a Keogh plan by year-end. A SEP Plan may be set-up and funded as late as the extended due date of your 2009 tax return. A

401(k) for sole proprietors combines the deferrals of a 401(k) with the flexibility of a profit sharing plan. This also must be set up prior to year-end.

I AM RETIRED

RETIREMENT PLAN REQUIRED MINIMUM DISTRIBUTIONS are required for 2010 after a one year reprieve in 2009. If you are 70 ½ years young you are required to take distributions from your IRA, 401(k), Profit-Sharing. MPP or 403(b) plan.

MAKE CHARITABLE DONATIONS DIRECT FROM YOUR IRA – If you have reached age 70 ½ you can donate up to $100,000 directly to a charity out of your IRA. The distribution is not income to you and the donation is not deductible. This is typically used to gift your "Required Minimum Distribution" (RMD) when you don't need it to live on and you would ordinarily make a charitable donation. Since the RMD is not in your adjusted gross income, your medical deduction threshold is now lower as is your AGI for the taxability of your social security.

AREAS OF SPECIAL INTEREST

Intaxication: Euphoria at getting a refund from the IRS, which lasts until you realize it was your money to start with. ~Author unknown

- ***SALE OF PERSONAL RESIDENCE – NO TAX EVER ON $500,000 GAIN!!*** – Homeowners can exclude $250,000 for single filers / $500,000 for married filing joint filers of capital gain on the sale of a personal residence which you have owned and lived in for at least two years out of the last five years. A surviving spouse has two extra years to sell the house and claim the full $500,000 exclusion.

- ***TWO ARIZONA SCHOOL TAX CREDITS (UP TO $1,400 FOR MARRIED)***
  - ✓ $200 for single, $400 for married for payment of fees to an Arizona public school for support of extracurricular activities.
  - ✓ $500 for single, $1,000 for married credit for a cash contribution to a school tuition organization that provides scholarships or grants to qualified schools.
  - ✓ In addition to the Arizona credit, you get a federal tax deduction!!

  Thus, you may contribute to your child's specific school activity and get a direct 100% credit on your Arizona income tax return. These are nonrefundable credits, but any unused credit will carry forward to next year.

- ***OTHER ARIZONA CREDITS TO NOTE*** – Cash contributions to charities that provide assistance to the working poor (such as Salvation Army, Food Banks and United Way etc) - $200 single, $400 married credit. There is a prior year itemized deduction test. Nonrefundable credit, unused credit carries forward to next year. Also, Arizona Department of Veteran's Affairs Military Relief Fund Credit ($400 married, $200 single).

- ***ESTATE TAXES – A CHANGING ENVIRONMENT*** – The amounts you can pass on tax free to your beneficiaries is changing as follows:

2009	$3,500,000
2010	UNLIMITED!!!
2011	$1,000,000

It is assumed by most everyone that Congress will make changes to the above next year. Your guess is as good as ours to what that will be. As of writing of this letter (11/4/09) there has been no remedy to the Estate and Gift Taxes limits.

- ***REDUCE ESTATE TAX – START AN ANNUAL GIFTING PROGRAM*** – One can gift an annual amount of $13,000 for 2009 and 2010 ($12,000 for 2008) to any other person ($26,000 per donee if married) without using your combined gift and estate tax credit. A gifting program can lower your taxable estate at your death. It does not, however, reduce your current income tax.

  Gifts for your donee for their education or medical expense is not subject to the $13,000 gifting limit if paid directly to the educational or medical institution.

- ***SEC. 529 QUALIFIED TUITION PROGRAM*** – make gifts to a Section 529 Qualified Tuition Program (QTP) to fund future education for children or grandchildren. These gifts are removed from your estate and future distributions for education are not income to the beneficiary. One may normally gift up to $12,000 per beneficiary for 2008 and $13,000 for 2009.

ARIZONA UNCLAIMED PROPERTY REPORTS

Businesses Beware: Have you written any payroll checks or other checks that remain uncashed? For several years the state of Arizona and many other states have had a law on the books that if any businesses have unclaimed property in their possession, they must remit that property to the state of Arizona.

Tax Rate Schedules

There are currently 6 major tax brackets for individuals:

Single Individual 2009 Taxable Income		
Over	But not over	Tax Rate %
$0	$8,375	10
8,375	34,000	15
34,000	82,400	25
82,400	171,850	28
171,850	373,650	33
337,650	--------------	35

Married Filing Jointly 2009 Taxable Income		
Over	But not over	Tax Rate %
$0	$16,750	10
16,750	68,000	15
68,000	137,300	25
137,300	209,250	28
209,250	373,650	33
373,650	---------------	35

Head of Household 2009 Taxable Income		
Over	But not over	Tax Rate %
$0	$11,950	10
11,950	45,550	15
45,550	117,650	25
117,650	190,550	28
190,550	373,650	33
357,700	--------------	35

Married Filing Separate 2009 Taxable Income		
Over	But not over	Tax Rate %
$0	$8,375	10
8,375	34,000	15
32,550	68,650	25
68,650	104,625	28
104,625	186,825	33
186,825	---------------	35

- Personal exemptions are $3,650 per person for 2009
- Long term capital gains rates for 2009: Not listed Yet

  0% if tax bracket is 10% or 15%

  15% if tax bracket is over 15%

  25% Depreciation Recapture on Real Estate

  28% Collectables (*i.e. 1957 Chevy*)