



QUICK ACCOUNTING SERVICES

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Taxing Topics

2009—2010 Tax Years

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Relating to 2009 Tax Returns

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Taxing Topics—4th Edition

The American Recovery and Reinvestment Act of 2009 and the Worker, Homeownership and Business Assistance Act of 2009 have brought about many important changes this year, which include the Making Work Pay Tax Credit, expansion of the First-Time Homebuyer Credit guidelines, changes to educational credits and qualifying educational expense, and non-taxable unemployment benefits, to mention a few, I have summarized these changes, along with other important information, in this edition of Taxing Topics. New items, or those items with substantial changes, are presented in red.

Abbreviations used throughout these publications include: AGI—Adjusted Gross and MFJ—Married Filing Joint filing status. Also, any forms, instructions or Publications referenced herein have been made available on my website www.QASspace.com. I have updated the website to have separate sections for IRS Form and Publications and all documents are listed in order of their respective numbers. I hope you find the information I have provided you here, and on the website, useful.

Child-Related Tax Changes

Additional Child Tax Credit—Taxpayers who cannot take full advantage of the child tax credit because the credit is more than the taxes they owe may receive a payment for some or all of the credit not used to offset their taxes. It is a refundable credit, which means taxpayers may receive refunds even when they do not owe any tax.

The new law reduces the minimum earned income amount used to calculate the additional child tax credit to \$3,000. Before the new law, the minimum earned income amount was set to rise to \$12,550. Reducing the amount to \$3,000 permits more taxpayers to use the additional child tax credit and increases the amount of the payments they may receive.

Adoption Benefits Increased—For 2009, the maximum adoption credit has increased to \$12,500. Also, the maximum exclusion from income for benefits under your employer's adoption assistance program has increased to \$12,500. These amounts are phased out if your modified AGI is between \$182,180 and \$222,180. You cannot claim the credit or exclusion if your modified AGI is \$222,180 or more.

Child's Investment Income—Generally, Form 8615 must be used to figure the tax for any child who had more than \$1,900 of investment income (such as taxable interest, ordinary dividends, or capital gains), and who either was:

- ◆ Under age 18 at the end of 2009,
- ◆ Age 18 at the end of 2009 and did not have earned income of more than 1/2 the child's support, or
- ◆ A full-time student over age 18 and under 24 at the end of 2009, and did not have earned income of more than 1/2 of the child's support.

Standard Deduction

Single or Married Filing Separate	\$ 5,700
MFJ or Qualifying Widow(er)	\$11,400
Head of Household	\$ 8,350
Additional amounts for: age 65 or older, or blind, per person, per event:	
MFJ, Qualifying Widow(er), or Married Filing Separate	\$ 1,100
Single or Head of Household	\$ 1,400

Taxpayer claimed as a dependent—the deduction is the greater of \$950, or earned income plus \$300 (but not more than the regular standard deduction amount).

NOTE: If your spouse itemizes on a separate return or you were a dual-status alien, your Standard Deduction is zero, even if you were born before January 2, 1945, were blind, paid real estate taxes or paid new motor vehicle taxes..

Your 2009 standard deduction increases by:

- ◆ Any state or local real estate taxes you paid in 2009 that would be deductible on Schedule A if you were itemizing, up to \$500 (\$1,000 if MFJ).
- ◆ **NEW**—Any state or local sales or excise taxes you paid in 2009 on the purchase of a new vehicle after February 16, 2009. The amount is limited to tax on the first \$49,500 of the purchase price. A qualified vehicle includes a passenger automobile, light truck or motorcycle which has a gross weight rating of 8,500 pounds or less. A qualified vehicle also includes a motor home. The deduction is phased out over a \$10,000 range that begins when modified adjusted gross income is more than \$125,000 (\$250,000 if MFJ). No deduction is allowed when modified adjusted gross income is equal to or more than \$135,000 (\$160,000 if MFJ). You can use this deduction to increase the amount of your standard deduction OR you can take it as an itemized deduction.
- ◆ **NEW**—Any net disaster loss from a federally declared disaster that occurred in 2009.

You must file Schedule L with your return if you are increasing your standard deduction for any of the above. You can use the worksheet provided in Form 1040 instructions, or you may access it at www.QASspace.com.

2009 Standard Mileage Rates

Purpose	Rate
Business*	55¢
Medical/Moving	24¢
Charitable	14¢

*You may not use the standard mileage rate if you: claimed a depreciation deduction using any method other than straight line; claimed Sect. 179 deduction for vehicle; used the vehicle for hire; or operated five or more cars at the same time.

If you want to use the standard mileage rate for a vehicle, you must choose to use it in the first year the vehicle is available for use in your business. In later years, you can choose to use either the standard mileage rate or actual expenses.

Making Work Pay and Government Retiree Credits—NEW

You must complete new Schedule M to take either of these credits and both these credits are included in the combined total on line 14 of Schedule M. Carefully read the information below about each credit. Even if you cannot take the making work pay credit (for example, because your adjusted gross income is too high), you may be able to take the government retiree credit.

Making Work Pay Credit

If you had earned income from work, you may be able to take a credit of 6.2% of earned income up to \$400 (\$800 if MFJ). Even if your federal income tax withholding was reduced during 2009 because of the credit, you must complete Schedule M and claim the credit on your return to benefit from it. You cannot take the credit if:



- ◆ Your modified adjusted gross income (AGI) is \$95,000 (\$190,000 if MFJ) or more,
- ◆ You are a nonresident alien, or
- ◆ You can be claimed as a dependent on someone else's return.

The credit is reduced if:

- ◆ You (or your spouse, if filing jointly) received a \$250 economic recovery payment in 2009 because you were a recipient of social security benefits, supplemental security income (SSI), railroad retirement, or certain veterans disability compensation or pension benefits,
- ◆ Your modified AGI is more than \$75,000 (\$150,000 if MFJ), or
- ◆ You take government retiree credit discussed next.

Government Retiree Credit

You can take a credit of \$250 (\$500 if MFJ) if both you and your spouse received a qualifying pension or annuity payment in 2009 for service performed for the U.S. Government or any state or local government (or any agency of one or more of these) and the service was not covered by social security.

However, you cannot take this credit if you received a \$250 economic recovery payment in 2009. If you file a joint return, both you and your spouse received a qualifying pension or annuity, and both of you received an economic recovery payment in 2009, no government retiree credit is allowed. If only one of you received an economic recovery payment in 2009, the credit is \$250.

Visit www.QASspace.com for more information on any topic presented in this brochure.

Nontaxable Unemployment—NEW

You should receive a Form 1099-G showing in box 1 the total unemployment compensation paid to you in 2009. Report on Line 19 the part, if any, you received that is more than \$2,400. If married filing jointly, also report any unemployment compensation received by your spouse that is more than \$2,400.

If you made contributions to a governmental unemployment compensation program and you are not itemizing deductions, reduce the amount you report on Line 19 by those contributions.

If you received an overpayment of unemployment compensation in 2009 and you repaid any of it in 2009, reduce the amount you would otherwise be required to report on Line 19 by the amount you repaid.

Net Operating Loss Carryback—NEW

Under a new revenue procedure issued by the IRS in November 2009, most businesses may use losses incurred to reduce income from prior tax years. Taxpayers may elect to carry back a net operating loss (NOL) for a period of three, four or five years, or a loss from operations for four or five years, to offset taxable income in those preceding years. An NOL or loss from operations carried back five years may offset no more than 50% of taxpayer's taxable income in that 5th preceding year. This limitation does not apply to the 4th or 3rd preceding year.

Personal Exemptions

Regular exemption amount per person	\$3,650
Exemption if AGI is above max phase-out	\$2,433
In 2009, you can lose no more than 1/3 of the exemption—(each exemption cannot be reduced to less than \$2,433).	

If AGI exceeds the following, deduction begins to phase-out.

Single	\$166,800
Married Filing Joint or Qualifying Widow(er)	\$250,200
Married Filing Separate	\$125,100
Head of Household	\$208,500

If your adjusted gross income exceeds the level for your filing status, use the Deduction for Exemptions Worksheet to figure the deduction (found at www.QASspace.com in the Worksheets tab).

You can take the exemption for your spouse on a joint return. If, however, you file a separate return as married filing separate or head of household, you can claim an exemption for your spouse **only** if your spouse had no gross income, is not filing a return and was not the dependent of another taxpayer. This is true even if the other taxpayer does not actually claim you spouse as a dependent. This is also true if your spouse is a nonresident alien.

First-Time Homebuyer Credit

The Worker, Homeownership, and Business Assistance Act, signed into law on November 6, 2009, changed the rules for this credit and have added new rules, which are summarized below. When referenced, “main home” refers to the one you live in most of the time and can be a house, houseboat, mobile home, coop apartment or condominium.

Time Period for Purchasing New Home

- ◆ Has been extended by 5 months—until April 30, 2010. You can also claim a credit for a home purchased after April 30 and before July 1, 2010, if you entered into a binding contract before May 1, 2010, to purchase the property before July 1, 2010.
- ◆ Members of the uniformed services or Foreign Service and employees of the intelligence community who are on qualified official extended duty outside the United States may have an additional year to purchase a home and qualify for the credit.
- ◆ If you constructed your home, you are treated as having bought it on the date you first occupied it.
- ◆ You can choose to claim the credit on your 2009 return for a home you bought in 2010 that qualifies.



Qualifying and Credit Amount

- ◆ First-Time Homebuyer—10% of the purchase price of the home, but limited to \$8,000 (\$4,000 if married filing separately). You are considered a first-time homebuyer if you bought a main home in the United States after 2008 but before the time limits above, AND you (and your spouse if married) did not own any other main home during the 3-year period ending on the date you bought the home, .
- ◆ **NEW**—Qualified Long-Time Resident—10% of the purchase price of home, but limited to \$6,500 (\$3,200 if married filing separately). You are treated as a first-time homebuyer for a new main home purchased after November 6, 2009, but before the time limits above, if you (and your spouse if married) owned and used the same home as your main home for any period of 5 consecutive years during the 8-year period ending on the date you bought the new main home.

Phase-Out of Credit

Homes purchased before November 7, 2009

You are allowed the full amount of credit if your modified AGI is \$75,000 or less (\$150,000 or less if MFJ). Phase-out of the credit begins when your modified AGI exceeds these limits. The credit is eliminated completely when your modified AGI reaches \$95,000 (\$170,000, MFJ).

Homes purchased after November 6, 2009—NEW

The new law raises the income limitations for claiming the credit. You are allowed the full amount of the credit if your modified AGI is \$125,000 or less (\$225,000 or less if MFJ). Phase-out of credit begins when your modified AGI exceeds these limits. The credit is eliminated when your modified AGI reaches \$145,000 (\$245,000, MFJ).

Who Cannot Claim Credit—If any of the following apply:

- ◆ Your modified AGI exceeds the credit elimination limits listed under Phase-Out of Credit.
- ◆ The purchase price of the home is more than \$800,000.
- ◆ You can be claimed as a dependent on another person's tax return.
- ◆ You (and your spouse if married) are under age 18 on the date of purchase.
- ◆ You are a nonresident alien.
- ◆ You acquired your home from a related person. This includes: your spouse, ancestors (parents, grandparents, etc.), or lineal descendants (children, grandchildren, etc.); a corporation in which you directly or indirectly own more than 50% of the outstanding stock; a partnership in which you directly or indirectly own more than 50% interest.
- ◆ You acquire the home from a person related to your spouse, including your spouse's ancestors or lineal descendants.
- ◆ You acquired the home by gift or inheritance.

What To Attach to Your Returns

You must attach the following documentation regarding your main home:

- ◆ A copy of your settlement statement showing all parties' names and signatures, the property address, the contract sales price and the date of purchase.
- ◆ If you are unable to obtain a settlement statement because you purchased a mobile home, attach a copy of your executed retail sales contract showing all information required on a settlement statement.
- ◆ If you are claiming the credit for a newly constructed home and you do not have an executed settlement statement, attach a copy of your certificate of occupancy showing your name, the property address and the date of the certificate.
- ◆ If you are claiming the credit as a long-time resident of the same main home, attach copies of one of the following: Form 1098, Mortgage Interest Statement, property tax records, or homeowner's insurance records. These records should be for 5 consecutive years of the 8-year period ending on the purchase date.

Repaying Credit

- ◆ The credit for homes purchased after 2008 does not have to be repaid over 15 years, as did the 2008 credit

(information can be found at www.QASspace.com in last year's issue of Taxing Topics under the My Publications tab).

- ◆ If you purchased the home after 2008, you generally must repay the credit only if, during the 3 year period beginning on the purchase date, you dispose of the home or it ceases to be your main home. This includes situations where you sell the home, you convert the entire home to business or rental property, the home is destroyed, condemned, or disposed of under threat of condemnation, or the lender foreclosed on the mortgage.

Exceptions to Repayment Rule

- ◆ If you sell the home to someone who is **not** related to you, the repayment in the year of sale is limited to the amount of gain on the sale. The amount of the credit in excess of the gain does not have to be repaid.
- ◆ If the home is destroyed, condemned, or disposed of under threat of condemnation, you do not have to repay the credit if you purchase a new main home within 2 years of the event and you own and use it as your new main home during the remainder of the 3 year period.
- ◆ If, as part of a divorce settlement, the home is transferred to a spouse or former spouse, the spouse who receives the home is responsible for repaying the credit if the 3 year holding period is not met and none of the other exceptions apply.
- ◆ If you die, repayment of the credit is not required. If you claimed the credit on a joint return before you died, your surviving spouse would be required to repay half of the credit if the 3 year holding period is not met and none of the other exceptions apply.

To claim this credit, use Form 5405, available at www.QASspace.com under Forms & Pubs.

2009 Federal Tax Rate Schedule				
Single Taxable Income				
\$ 0 to 8,350	x 10%	minus	\$ 0.00	= Tax
8,351 to 33,950	x 15%	minus	417.50	= Tax
33,951 to 82,250	x 25%	minus	3,812.50	= Tax
82,251 to 171,550	x 28%	minus	6,280.00	= Tax
171,551 to 372,950	x 33%	minus	14,857.50	= Tax
372,951 and over	x 35%	minus	22,316.50	= Tax
Married Filing Joint or Qualifying Widow(er) Taxable Income				
\$ 0 to 16,700	x 10%	minus	\$ 0.00	= Tax
16,701 to 67,900	x 15%	minus	835.00	= Tax
67,901 to 137,050	x 25%	minus	7,525.00	= Tax
137,051 to 208,850	x 28%	minus	11,736.50	= Tax
208,851 to 372,950	x 33%	minus	22,179.00	= Tax
372,951 and over	x 35%	minus	29,638.00	= Tax
Married Filing Separate Taxable Income				
\$ 0 to 8,350	x 10%	minus	\$ 0.00	= Tax
8,351 to 33,950	x 15%	minus	417.50	= Tax
33,951 to 68,525	x 25%	minus	3,812.50	= Tax
68,526 to 104,425	x 28%	minus	5,868.25	= Tax
104,426 to 186,475	x 33%	minus	11,089.50	= Tax
186,476 and over	x 35%	minus	14,819.00	= Tax
Head of Household Taxable Income				
\$ 0 to 11,950	x 10%	minus	\$ 0.00	= Tax
11,951 to 45,500	x 15%	minus	597.50	= Tax
45,501 to 117,450	x 25%	minus	5,147.50	= Tax
117,451 to 190,200	x 28%	minus	8,671.00	= Tax
190,201 to 372,950	x 33%	minus	18,181.00	= Tax
372,951 and over	x 35%	minus	25,640.00	= Tax

Earned Income Credit (EIC)	Number of Qualifying Children			
	None	1	2	3 or more
You may be able to take the credit if:				
Married Filing Joint and you earned less than—	\$18,440	\$40,463	\$45,295	\$48,279
All other filing status and you earned less than—	\$13,440	\$35,463	\$40,295	\$43,279
Maximum credit	\$ 457	\$ 3,043	\$ 5,028	\$ 5,657
Earned Income at or above which maximum credit is allowed	\$ 5,970	\$ 8,950	\$12,570	\$12,570
Married Filing Joint phase-out begins at*	\$12,470	\$21,420	\$21,420	\$21,420
All others phase-out begins at*	\$ 7,470	\$16,420	\$16,420	\$16,420
*Amount of AGI or earned income above which credit begins to phase-out.				
A qualify child is a child who meets the following criteria:				
◆ Is your son, daughter, stepchild, foster child, brother, sister, stepbrother, stepsister, or a descendant of any of them (i.e. grandchild, niece, or nephew), AND				
◆ Under age 19, OR was under age 24 and a student, OR any age and permanently and totally disabled, AND				
◆ Is not filing a joint return for 2009, AND				
◆ Lived with you in the U.S. for more than 1/2 of 2009, AND				
◆ Must have a valid social security number.				
You cannot take the EIC credit if any of the following apply:				
◆ Your filing status is married filing separate,				
◆ You, or your spouse if filing jointly, do not have a valid social security number,				
◆ You file Form 2555 relating to foreign earned income.				
For more information regarding the EIC go to www.QASspace.com , click on Worksheets .				

Energy Incentives in the American Recovery and Reinvestment Act

Residential Energy Property Credit—The new law increases the credit rate to 30% of the cost of all qualifying improvements and raises the maximum credit limit to \$1,500 for improvements placed in service in 2009 and 2010. The credit applies to improvements such as adding insulation, energy efficient exterior windows and energy-efficient heating and air conditioning systems. A similar credit was available in 2007, but was not available in 2008.



Residential Energy Efficient Property Credit—Beginning in 2009, there is no limitation on the credit amount for property costs of the following qualified property: solar electric, solar water heating, small wind energy, and geothermal heat pumps. The credit is equal to 30% of the cost of the qualifying property.

Plug-in Electric Drive Vehicle Credit—The new law modifies the credit for qualified plug-in electric drive vehicles purchased after December 31, 2009. To qualify, vehicles must be newly purchased, have four or more wheels, have a gross vehicle weight rating of less than 14,000 pounds, and draw propulsion using a battery with at least four kilowatt hours that can be recharged from an external source of electricity. The minimum amount of the credit is \$2,500 and the credit tops out at \$7,500, depending on the battery capacity. The full amount of the credit will be reduced with respect to a manufacturer's vehicles after the manufacturer has sold at least 200,000 vehicles.

Plug-In Electric Vehicle Credit—The new law also creates a special tax credit for two types of plug-in vehicles. The amount of the credit is 10% of the cost of the vehicle, up to a maximum of \$2,500 for purchases made after Feb. 17, 2009, and before Jan. 1, 2012. To qualify, a vehicle must be either a low speed vehicle propelled by an electric motor that draws from a battery with a capacity of 4 kilowatt hours or more, OR be a two- or three-wheeled vehicle propelled by an electric motor that draws from a battery with the capacity of 2.5 kilowatt hours. A taxpayer may not claim this credit if the plug-in electric drive vehicle credit is allowable.

Visit the Website

www.QASspace.com

For helpful links, IRS Forms and Instructions, IRS Publications, tax tables and much more.

Other Tax Changes

Cash for Clunkers—A \$3,500 or \$4,500 voucher or payment made for such voucher under CARS "cash for Clunkers" program to buy or lease a new fuel-efficient vehicle is not taxable for federal income tax purposes.

Section 179 Deductions—The maximum amount of qualifying property placed in service that businesses can expense is generally \$250,000. The total amount of depreciation (including the Section 179 deduction) you can take for a passenger automobile you use in your business and first place in service in 2009 is \$2,960. Special rules apply to trucks and vans. For more information, see Publication 946 available at www.QASspace.com.

Alternative Minimum Tax (AMT)—A growing number of middle-income taxpayers are discovering they are subject to the AMT. For 2009, the alternative minimum tax exemptions are raised to the following levels:

- ◆ \$70,950—married filing joint & qualifying widow,
- ◆ \$35,475—married filing separate,
- ◆ \$46,700—singles and head of household.

Exemption amount for a child whose unearned income is taxed at parent's tax rate has increased to \$6,700.

If you claim a regular tax deduction for any state or local sales or excise tax on the purchase of a new vehicle, that tax is also allowed as a deduction for the AMT.

These exemption amounts will drop to \$45,000, \$22,500 and \$33,750, respectively, in 2010.

Sale of Main Home—Gain from the sale of the main home is no longer excludable from income if allocable to periods of nonqualified use. Nonqualified use means any period after 2008 where neither you nor your spouse used the property as a main home. A period of nonqualified use does not include:

- ◆ Any portion of the 5-year period ending on the date of the sale or exchange that is after the last date you or you spouse use the property as a main home;
- ◆ Any period (not to exceed an aggregate period of 10 years) during which you or your spouse is serving on qualified official extended duty as a member of the uniformed services, a member of the Foreign Service of the United States, an employee of the intelligence community; and any other period of temporary absence (not to exceed an aggregate period of 2 years) due to change of employment, health conditions, or such other unforeseen circumstances.

To figure the portion of gain that is allocated to the period of nonqualified use, multiply gain by the following fraction:

$$\frac{\text{total nonqualified use during period of ownership after 2008}}{\text{total period of ownership}}$$

Penalty for Failure to File Income Tax Return—For income tax returns required to be filed after 2008, if you do not file your return by the due date (including extensions) you may have to pay a failure-to-file penalty. The failure-to-file penalty for returns filed more than 60 days after the due date is increased—the minimum penalty is the smaller of \$135 or 100% of the unpaid tax.

Health/Medical-Related Tax Changes

2009 Medical/Health Savings Account Limits

	MSAs	HSAs
Annual Contribution Limit*		
Self-only, under age 55	65% of annual deductible	\$3,000
Self-only, age 55 and older		\$4,000
Family, under age 55	75% of annual deductible	\$5,950
Family, both spouses 55 and older		\$7,950
Minimum Annual Deductible		
Self-only coverage	\$2,000	\$1,150
Family coverage	\$4,000	\$2,300
Maximum Annual Deductible**		
Self-only coverage	\$3,000	\$5,800
Family coverage	\$6,050	\$11,600
Out-of-Pocket Expense Limit		
Self-only coverage	\$4,000	\$5,800
Family coverage	\$7,350	\$11,600
2009 contributions can be made until April 15, 2010.		
* If you were not an eligible individual for the entire year, or changed coverage during theyear, contributions may be limited. See Limitation Worksheet in Form 8889 available at www.QASspace.com .		
**This limit does not apply to deductibles and expenses for out-of-network services. Instead, only deductibles and out-of-pocket expense for services within the network should be used to figure whether the limit applies.		
MSA = Archer Medical Savings Account; HSA = Health Savings Account.		

For more information on health and medical tax related tax issues, see Publication 969—Health Savings Accounts and Other Tax-Favored Health Plans available at www.QASspace.com.

Health Coverage Tax Credit (HCTC)

For coverage months beginning after April 2009 and before 2011, the credit increases to 80%. For coverage months beginning after 2008 and before 2011, newly-enrolled monthly participants will be able to receive a retroactive credit on their HCTC account for qualified health insurance payments they paid while enrolling in the monthly HCTC program. Payments will not begin until August 2009, but credits will apply to any coverage month beginning after 2008.

Effective February 17, 2009, qualified health insurance is expanded to include coverage under an employee benefit plan funded by a voluntary employees' beneficiary association.

Individuals receiving COBRA premium assistance are not eligible for the credit for any month that assistance is provided.

Health Flexible Spending Arrangements (FSAs)

A special rule allows amounts in a health FSA to be distributed to reservists ordered or called to active duty. This rule applies to distributions after June 17, 2008, if the plan has been amended to allow these distributions. A qualified reservist distribution is allowed if:



- ◆ The individual was ordered or called to active duty for a period in excess of 179 days or more, and
- ◆ The distribution is made during the period beginning on the date of such order or call and ending on the last date that reimbursements could be made for the plan year which includes the date of such order or call.

Long-Term Care Premiums

The maximum amount of qualified long-term care premiums you can include as medical expenses has increased. You can include qualified long-term care premiums, up to the amounts shown below, as medical expenses on Schedule A (Form 1040).

- ◆ Age 40 or under - \$320.
- ◆ Age 41 to 50 - \$600.
- ◆ Age 51 to 60 - \$1,190.
- ◆ Age 61 to 70 - \$3,180.
- ◆ Age 71 or over - \$3,980

Long-Term Care & Accelerated Death Benefits Exclusion

For 2009, the limit on the exclusion for payments made on a *per diem* or other periodic basis under a long-term care insurance contract increases to \$280 per day. The limit applies to the total of these payments and any accelerated death benefits made on a *per diem* or other periodic basis under a life insurance contract because the insured is chronically ill.

The excludable amount for any period is figured by subtracting any reimbursement received (through insurance or otherwise) for cost of qualified long-term care services during the period from the larger of the following amounts.

- ◆ Cost of qualified long-term care services during period.
- ◆ Dollar amount for the period (\$280 per day for any period in 2009).

Education-Related Tax Changes

If you (or your dependent) paid qualified expenses in 2009 for yourself, your spouse, or your dependent to enroll in or attend an eligible educational institution, you may be able to take an education credit. You must use Form 8863 to claim these credits. For more information about these credits and how to claim them, refer to Publication 970, Chapters 2, 3 and 4, which I have made available at www.QASspace.

Who can claim a dependent's expenses—If a student is claimed as a dependent on another tax return, only the person who claims the student as a dependent can claim a credit or the student's qualified education expenses. If a student is not claimed as a dependent on another person's tax return, only the student can claim a credit.

Qualified education expenses paid on behalf of the student by someone other than the student (such as a relative) are treated as paid by the student. However, qualified education expenses paid (or treated as paid) by a student who is claimed as a dependent on your tax return are treated as paid by you. Therefore, you are treated as having paid expenses that were paid from your dependent student's earnings, gifts, inheritances, savings, etc.



Who cannot claim a credit—You cannot take an education credit if any of the following applies:

- ◆ You, or your spouse if filing jointly, are claimed as a dependent on someone else's 2009 tax return.
- ◆ Your filing status is married filing separately.
- ◆ You are taking a deduction for tuition and fees on Form 1040, page 1, line 34, for the same student.
- ◆ You, or your spouse, were a nonresident alien for any part of 2009 unless your filing status is MFJ.
- ◆ Your modified AGI exceeds the limits set forth in the table provided in this article.

Qualified Expenses—**NEW** Books and other course required materials that were not previously allowed can now be used as qualified expenses. It does not matter whether the expenses were paid in cash, by check by credit card, or with borrowed funds. Qualified expenses **do not** include amounts paid for:

- ◆ Room and board, insurance, medical expenses (including student health fees), transportation, or other similar personal, living, or family expenses.
- ◆ Any course or other education involving sports, games, or hobbies, or any noncredit course, unless such course or other education is part of the student's degree program or (for the lifetime learning credit only) helps the student acquire or improve job skills.
- ◆ Nonacademic fees, such as student activity fees, athletic fees, insurance expenses, or other expenses unrelated to the academic course of instruction.

Reduction of Qualified Expense—For all credits, you must reduce the total of your qualified education expenses by any tax-free educational assistance and by any refunds of your expenses. Tax-free educational assistance includes a tax-free scholarship or Pell grant or tax-free employer-provided educational assistance.

Credit Definitions—A **refundable** credit can give you a refund for any part of the credit that is more than your total tax. A **nonrefundable** credit can reduce your tax, but any excess is not refunded to you.

Caution—If you have more than one student eligible for the American Opportunity Credit or the Hope Credit, you must claim the same credit for all eligible students. You cannot claim both the American opportunity credit and the Hope credit on the same tax return. But, you can claim both the American Opportunity Credit and the Lifetime Learning Credit, or the Hope Credit and the Lifetime Learning Credit on the same return—but not for same student.

Claiming the Tuition and Fees Deduction (instead of educational credits)—You may be able to deduct qualified education expenses paid during the year for higher education for yourself, your spouse or your dependent. The tuition and fees deduction can reduce the amount of your income subject to tax by up to \$4,000. This deduction, reported on Form 8917—Tuition and Fees Deduction, is taken as an adjustment to income.

Student-activity fees and expenses for course-related books, supplies and equipment are included in qualified education expenses **ONLY** if the fees and expenses must be paid to the institution as a condition of enrollment or attendance.

You cannot claim the deduction if any of the following apply: 1) Your filing status is married filing separately; 2) Another person can claim an exemption for you as a dependent; 3) Your modified AGI is more than \$80,000 (\$160,000 if MFJ); 4) You were a nonresident alien for any part of the year; OR 5) You or anyone else claims an education credit for expenses of the same student.

Education Credits Comparison

	American Opportunity Credit— NEW*	Hope Credit**	Lifetime Learning Credit
Maximum Credit	Up to \$2,500 credit per eligible student —available for 2009 and 2010.	Up to \$1,800 (\$3,600 if a student in a Midwestern disaster area) credit per eligible student .	Up to \$2,000 (\$4,000 if a student in a Midwestern disaster area) credit per return .
Limit on modified AGI	\$90,000 (\$180,000 if MFJ) -Phase out begins at \$80,000 (\$160,000 if MFJ).	\$60,000 (\$120,000 if MFJ) - Phase out begins at \$50,000 (\$100,000 if MFJ).	
Refundable or Nonrefundable	40% of credit may be refundable; the rest is nonrefundable.	Nonrefundable—credit limited to the amount of tax you must pay on your taxable income.	
# of Years of postsecondary Education	Available ONLY for the first 4 years of postsecondary education.	Available ONLY for first 2 years of postsecondary education.	Available for all years of postsecondary education and education to improve job skills.
Number of tax years credit available	Available ONLY for 4 tax years per eligible student (including any year(s) Hope credit was claimed).	Available ONLY for 2 tax years per eligible student.	Available for an unlimited number of years.
Type of degree required	Undergraduate degree or other recognized education credential.		Student does not need to be pursuing a degree or other recognized education credential.
# of courses	Student must be enrolled at least half time for at least one academic period beginning during the year.		Available for one or more courses.
Felony drug conviction	No felony drug convictions on student's records.		Felony drug convictions are permitted.
Qualified expenses	Tuition, required enrollment fees and course-related books , supplies and equipment, which do not need to be purchased from the institution in order to qualify.	Tuition, required enrollment fees and only amounts required to be paid to the institution for course-related books, supplies and equipment. Additional expenses allowed for student in Midwestern disaster areas.	
Qualifying payments include payments made in 2009 for academic periods beginning in 2009 or the first 3 months of 2010.			
*Modifies the existing Hope Credit for tax years 2009 and 2010, making the Hope Credit available to a broader range of taxpayers and allows the credit to be claimed for four post-secondary education years instead of two.			
** Generally applies to 2008 and earlier tax years. Consequently, you can claim the Hope Credit only if at least one eligible student is attending an eligible educational institution in a Midwestern disaster area.			

Education Savings Bond Exclusion

An individual who redeems qualified U.S. savings Bonds to pay for higher education expenses may be able to exclude interest income from gross income.

For 2009, the amount of your interest exclusion is phased out if your filing status is MFJ or qualifying Widow(er) and your modified AGI is between \$104,900 and \$134,900. You cannot take the exclusion if your modified AGI is \$134,900 or more.

For all other filing statuses, your interest exclusion is phased out if your modified AGI is between \$69,950 and \$84,950. You cannot take the exclusion if you modified AGI is \$84,950 or more.



2009 Phase-Outs Based on Modified AGI

Itemized Deductions	
MFJ, Single, Head of Household	\$166,800
Married Filing Separate	\$ 83,400
For 2009, the phase out is reduced by two-thirds.	
Education Savings Account	
Married Filing Joint	\$190,000 to \$220,000
All Others	\$95,000 to \$110,000
Student Loan Interest Deduction	
Married Filing Joint	\$120,000 to \$150,000
Single, Head of Household	\$60,000 to \$75,000
Married Filing Separate	Does Not Qualify
Child Tax Credit	
Married Filing Joint	\$110,000
Single, Head of Household	\$ 75,000
Married Filing Separate	\$ 55,000
Ending phase-out amounts vary.	

Don't forget — Refer a friend and you both get a \$10.00 credit!

General Information Regarding Tax

Nontaxable Income—includes: child support; economic stimulus payments; life insurance proceeds due to death; gifts and bequests.

Canceled Debts—reported in box 2 of Form 1099-C. Part or all of you income from the cancellation of debt may be nontaxable. Refer to [Publication 4681](#).

Annual Exclusion for Gifts—For 2009, the maximum amount you can give to each recipient is \$13,000, up from \$12,000 in 2008.

Personal Casualty & Theft Loss Limit—Each personal casualty or theft loss is limited to the excess of the loss over \$500. In addition, the 10% of AGI limit generally continues to apply to the net loss.

Wage Threshold for Household Employees—The social security and Medicare wage threshold for household employees is \$1,700. If you pay a household employee cash wages of less than \$1,700 in 2009, you do not have to report and pay social security and Medicare taxes on that employee's wages. For more information, see *Social Security and Medicare wages* in Publication 926, Household Employer's Tax Guide, available at [www.QASspace.com](#).

Divorced or Separated Parents—A noncustodial parent claiming an exemption for a child can no longer attach certain pages from a divorce decree or separation agreement instead of Form 8332 if the decree or agreement was executed after 2008. The noncustodial parent must attach Form 8332 or a similar statement signed by the custodial parent.

Innocent Spouse Relief—Generally, both you and your spouse are each responsible for paying the full amount of tax, interest and penalties on a joint return. However, you may qualify for relief from liability for tax on a joint return if (a) there is an understatement of tax because your spouse omitted income or claimed false deductions or credits, (b) you are divorced, separated, or not longer living with your spouse, or (c) given all the facts and circumstances, it would not be fair to hold you liable for the tax.

Available IRS Publications

Following I have summarized all the IRS Publications which I have made available on my website [www.QASspace.com](#).

Pub 3 - Armed Forces Tax Guide
 Pub 15 - Circular E, Employer's Tax Guide
 Pub 15a - Employer's Supplemental Tax Guide
 Pub 15b - Employer's Tax Guide to Fringe Benefits
 Pub 17 - Your Federal Income Tax (for Individuals)
 Pub 334 - Tax Guide for Small Business
 Pub 463 - Travel, Entertainment, Gift and Car Expense
 Pub 501 - Exemptions, Standard Deductions and Filing Information
 Pub 502- Medical and Dental Expenses
 Pub 503 - Child and Dependent Care Expense
 Pub 504 - Divorced or Separated Individuals
 Pub 521 - Moving Expense
 Pub 523 - Selling Your Home
 Pub 524 - Credit for the Elderly or the Disabled
 Pub 525 - Taxable and Nontaxable Income
 Pub 526 - Charitable Contributions
 Pub 529 - Miscellaneous Deductions
 Pub 547 - Casualties, Disasters and Thefts
 Pub 550 - Investment Income and Expense
 Pub 554 - Tax Guide For Seniors
 Pub 559 - Survivors, Executors and Administrators
 Pub 560 - Retirement Plans for Small Business
 Pub 587 - Business Use of Your Home
 Pub 590 - Individual Retirement Arrangements (IRAs)
 Pub 596 - Earned Income Credit (EIC)
 Pub 907 - Tax Highlights for Persons with Disabilities
 Pub 908 - Bankruptcy Tax Guide
 Pub 915 - Social Security and Equivalent Rail Road Benefits
 Pub 929 - Tax Rules for Children and Dependents
 Pub 950 - Introduction to Estate and Gift Taxes
 Pub 969 - Health Savings Accounts and Other Health Plans
 Pub 970 - Tax Benefits for Education
 Pub 971 - Innocent Spouse Relief
 Pub 972 - Child Tax Credit
 Pub 1542 - Per Diem Rates (for U.S.)
 Pub 4681 - Canceled Debts, Foreclosures, Repossessions and Abandonments

Who Must File a Return

IF your filing status is ...	AND at the end of 2008 you were ... *	THEN file a return if your gross income was at least ...
Single	Under 65 65 or older	\$9,350 \$10,750
Married Filing Jointly	Under 65 (both spouses) 65 or older (one spouse) 65 or older (both spouses)	\$18,700 \$19,800 \$20,900
Married Filing Separately	Any age	\$3,650
Head of Household	Under 65 65 or older	\$12,000 \$13,400
Qualifying Widow(er) with dependent child	Under 65 65 or older	\$15,050 \$16,150

*If you were born on January 1, 1945, you are considered to be age 65 or older at the end of 2009.

Exception: You can elect to include on your return the interest and/or dividend income of a child who was under age 18 at the end of 2009 or was a full-time student under age 24 at the end of 2009. To do so, use Form 8814 available at [www.QASspace.com](#) under the Forms & Pubs. tab.

Retirement Plans and Contributions

As baby boomers reach retirement age, more and more of the U.S. population will be dependent upon different sources of income, including social security and retirement plan distributions. It is extremely important that you plan now for your retirement and understand how tax laws effect you. IRAs are a good



way to save toward your retirement goals and gives you tax advantages for setting aside money for retirement.

Two tax advantages of an IRA are that:

- ◆ Contributions you make to an IRA may be fully or partially deductible, depending on which type of IRA you have and on your circumstances, and
- ◆ Generally, amounts in your IRA (including earnings and gains) are not taxed until distributed. In some cases, amounts are not taxed at all if distributed according to the rules.

◆ Below, I have provided you with the basic information on most of the current social security and retirement account information. Further information can be found in the IRS Publications available at www.QASspace.com.

Retirement Accounts			
Retirement Savings Contributions Credit			
Phase Out of Credit Based on Modified AGI			
Rate	MFJ	HOH	All Others
50%	\$33,000	\$24,750	\$16,500
20%	\$36,000	\$27,000	\$18,000
10%	\$55,500	\$41,625	\$27,750
0%	\$55,001	\$41,626	\$27,751
Maximum contribution eligible for the credit is \$2,000, and the credit is available for persons who made contributions to either: a) traditional or Roth IRA; b) 401(k) or 403(b) plan or a governmental 457, SEP, or SIMPLE plan; c) federal Thrift Savings Plan; or d) to a 501(c)(18)(D) plan.			
You cannot take the credit if you were: under 17, a dependent of someone else's, OR a student. A school does not include on-the-job training course, correspondence school, or school offering courses only on the internet.			
Roth IRA			
Phase Out of Contribution Based on Modified AGI			
MFJ or Qualifying Widow(er)	\$166,000 to \$176,000		
Single or Head of Household	\$105,000 to \$120,000		
Married Filing Separate	\$ 0 to \$10,000		
You may be able to contribute to a Roth IRA up to: \$5,000, or \$6,000 if you were age 50 or older by the end of 2009, but the amount you can contribute may be less depending on income, filing status and if you contribute to another IRA.			
Traditional IRA Active Participation Phase Out			
Deduction Phase Out Based on Modified AGI			
MFJ or Qualifying Widow(er)	\$89,000 to \$109,000		
Single or Head of Household	\$55,000 to \$65,000		
Married Filing Separate	\$ 0 to \$10,000		
If you either lived with your spouse or file a joint return, and your spouse was covered by a retirement plan at work, but you were not, your deduction is passed out if your modified AGI is more than \$166,000 but less than \$176,000.			
You can contribute to a traditional IRA up to: \$5,000, or \$6,000 if you were age 50 or older by the end of 2009. There is no limit on how much you can earn and still contribute.			

Elective Deferral Plans	
	Maximum Contribution
401(k) Plans	\$16,500 (\$22,000 if age 50 or over)
403(b) Plans	\$19,500 (\$25,000 if age 50 or over)
SIMPLE Plans	\$11,500 (\$14,000 if age 50 or over)
SEP Plans	Smaller of \$49,000 or 25% of compensation
Compensation Limit	\$245,000
NOTE: These amounts will stay the same for tax year 2010.	

Social Security & Medicare Highlights	
Social Security benefits increase (COLA)	5.8%
Maximum earnings subject to:	
Social Security tax	\$106,800
Medicare tax	No Limit
Maximum Social Security tax:	
Employee	\$ 6,622
Self-employed	\$13,243
Social Security tax rate:	
Employee	6.20%
Self-employed	12.40%
Medicare tax rate:	
Employee	1.45%
Self-employed	2.90%
Earnings needed for 1/4 coverage	\$1,090
Maximum earnings to receive full Social Security benefits:	
Under full retirement age*	\$14,160
Year of full retirement age**	\$37,680
*\$.100 is withheld for every \$2.00 in earnings above limit.	
**Applies only to earnings for months prior to attaining full retirement age. \$.100 is withheld for every \$3.00 in earnings above limit.	

Expiring Tax Benefits

The following benefits are scheduled to expire and will not be available for 2010:

- ◆ Deduction for educator expense in figuring AGI.
- ◆ Tuition and fees deduction in figuring AGI.
- ◆ Increased standard deduction for real estate taxes or net disaster loss.
- ◆ Itemized deduction or increased standard deduction for state or local sales taxes on purchase of a new vehicle.
- ◆ Deduction for state and local sales taxes.
- ◆ Exclusion from income of up to \$2,400 in unemployment compensation.
- ◆ Government retiree credit.
- ◆ District of Columbia first-time homebuyer credit (for homes purchased after 2009).

Recapture of First-Time Homebuyer Credit—If you claimed the first-time homebuyer credit for a home you bought in 2008, you must begin repaying it in 2010.

AMT—Allowance for Certain Personal Credits

The following credits against the AMT have expired.

- ◆ Credit for child and dependent care expenses.
- ◆ Credit for the elderly or the disabled.
- ◆ Lifetime Learning credit.
- ◆ Mortgage interest credit.
- ◆ Credit for non business energy property.

Social Security & Medicare Taxes—The maximum amount of wages subject to the social security tax remains unchanged at \$106,800.

Personal Casualty and Theft Loss Limit—Each personal casualty or theft loss is limited to the excess of the loss over \$100 (instead of \$500).

Medical/Health Savings Account Limits

Archer Medical Savings Accounts (MSAs)—Minimum annual deductible of a high deductible health plan (HDHP) increases to \$2,000 (\$4,500 for family coverage). Maximum annual deductible of a HDHP increases to \$3,000 (\$6,050 for family coverage). The maximum out-of-pocket expenses limit increases to \$4,050 (\$7,400 for family coverage).

Health Savings Accounts (HSAs)—Minimum annual deductible of a HDHP increases to \$1,200 (\$2,400 for family coverage) and maximum annual deductible and other out-of-pocket expenses limit increases to \$5,950 (\$11,900 for family coverage). The maximum contribution increases to \$3,050 (\$6,150 for family coverage).

Personal Exemption and Itemized Deduction Phase-outs Ended—For 2010, taxpayers with AGI above a certain amount will no longer lose part of their deduction for personal exemptions and itemized deductions.

Earned Income Credit (EIC)—You may qualify if:

- ◆ Three or more children lived with you and you earned less than \$43,352 (\$48,362 if MFJ) - maximum credit of \$5,666.
- ◆ Two children lived with you and you earned less than \$40,363 (\$45,373 if MFJ) - maximum credit of \$5,036.
- ◆ One child lived with you and you earned less than \$35,535 (\$40,545 if MFJ) - maximum credit of \$3,050.
- ◆ A child did not live with you and you earned less than \$13,460 (\$18,470 if MFJ) - maximum credit of \$457.
- ◆ Maximum investment income you can have and still get the credit is still \$3,100.

IRA deduction expanded—You may be able to take an IRA deduction if you were covered by a retirement plan and your 2010 modified AGI is less than \$66,000 (\$109,000 if MFJ or qualifying wider(er)). If your spouse was covered by a retirement plan, but you were not, you may be able to take an IRA deduction if your 2010 modified AGI is less than \$177,000.

Roth IRAs—Beginning in 2010, regardless of your modified AGI or filing status, you can roll over to a Roth IRA your traditional IRA, SEP-IRA, SIMPLE-IRA or an eligible rollover distribution from your employer-sponsored plan. Also, a special 2-year option will apply for rollovers to Roth IRAs in 2010 only. You have the option of reporting the taxable portion of your rollover in your gross income for 2010, or reporting half in 2011 and half in 2012.

Long-Term Care & Accelerated Death Benefits Exclusion—The limit on exclusion for payments made on a *per diem* or other periodic basis under a long-term care insurance contract increases to \$290 per day. The limit applies to total of these payments and any accelerated death benefits made on a *per diem* or other periodic basis under a life insurance contract because the insured is chronically ill.

The excludable amount for any period is figured by subtracting any reimbursement received (through insurance or otherwise) from the cost of qualified long-term care services from the larger of the following amounts.

- ◆ Cost of qualified long-term care services during period.
- ◆ Dollar amount for the period (\$290 per day for any period in 2010).

Don't forget — Refer a friend and you both get a \$10.00 credit!