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"You see the numbers, we look for the opportunities."

Taxing Times

Dedicated to helping our clients keep the money that belongs to them through a focus on tax.

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SPECIAL POINTS OF INTEREST:

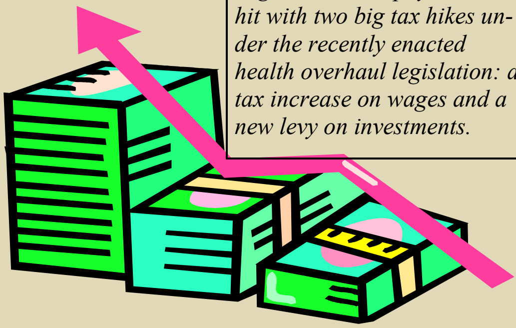
- High-income taxpayers will be hit with two big tax hikes.
- IRS cracking down on unlicensed tax return preparers.
- A breakdown of how the tax system works.
- Key points to home office deductions.

INSIDE THIS ISSUE:

Higher Medicare taxes on high-income taxpayers in the 2010 health reform legislation

High-income taxpayers will be hit with two big tax hikes under the recently enacted health overhaul legislation: a tax increase on wages and a new levy on investments.

To help offset the cost of providing health insurance to millions of Americans, the new law imposes an additional 0.9% Medicare tax on wages above $200,000 for individuals and $250,000 for married couples filing jointly. In addition, for higher-income households, the new law adds a 3.8% tax on unearned income, including interest, dividends, capital gains and other investment income.



High-income taxpayers will be hit with two big tax hikes under the recently enacted health overhaul legislation: a tax increase on wages and a new levy on investments.

Higher Medicare tax on wages and self-employment income. The Medicare tax is the primary source of financing for Medicare's hospital insurance trust fund, which pays hospital bills for beneficiaries who are 65 and older or disabled.

Under current law, wages are subject to a 2.9% Medicare tax. Workers and employers pay 1.45% each. Self-employed people pay both halves of the tax (but are allowed to deduct half of this amount for income tax purposes).

Unlike the payroll tax for Social Security, which applies to earnings up to an annual ceiling ($106,800 for 2010), the Medicare tax is levied on all of a worker's wages without limit.

Under the provisions of the new law, which take effect in 2013, most taxpayers will continue to pay the 1.45% Medicare tax, but single people earning more than $200,000 and married couples earning more than $250,000 will be taxed at an additional 0.9% (2.35% in total) on the excess over those base amounts. Self-employed persons will pay 3.8% on earnings over those thresholds.

It should be noted that the $200,000/$250,000 thresholds aren't indexed for inflation, so it is likely that more and more people will be subject to the higher tax in coming years.

Employers will collect the extra 0.9% on wages exceeding $200,000 just as they would withhold Medicare taxes and remit them to the IRS. However, companies won't be responsible for determining whether a worker's combined income with his or her spouse made them subject to the tax.

Instead, some employees will have to remit additional Medicare taxes when they file income tax returns, and some will get a tax credit for amounts overpaid. Married couples with combined incomes approaching $250,000 will have to keep tabs on both spouses' pay to avoid an unexpected tax bill.

Medicare tax extended to investments. Under current law, the Medicare tax only applies to wages and self-employment income. Beginning in 2013, a Medicare tax will, for the first time, be applied to investment income. A new 3.8% tax will be imposed on net investment income of single taxpayers with AGI above $200,000 and joint filers over $250,000 (unindexed).

Net investment income is interest, dividends, royalties, rents, gross income from a trade or business involving passive activities, and net gain from disposition of property (other than property held in a trade or business). Net investment income is reduced by the deductions that are allocable to that income. However, the new tax won't apply to income in tax-deferred retirement accounts such as 401(k) plans.

Because the new tax on investment income won't take effect for three years, that leaves more time for Congress and the IRS to tinker with it. So we can expect lots of refinements and "clarifications" between now and when the tax actually takes hold in 2013. ❁

> "Opportunity is missed by most people because it is dressed in overalls and looks like work."
> -Thomas Edison, American inventor

WARNING: Protect Yourself from Unscrupulous Tax Preparers

IRS Announces Plan to Crack Down on Unlicensed Tax Return Preparers Not Already Subject to Oversight

Each year thousands of tax preparers come and go. The large volume stores typically train a new batch of part-time tax preparers to man their store-fronts or kiosks each filing season. Currently, anyone may prepare a federal tax return for anyone else and charge a fee. While some preparers are currently licensed by their states or are enrolled to practice before the IRS, many do not have to meet any government or professionally mandated competency requirements before preparing a federal tax return for a fee.

The IRS kicked off 2010 by releasing, in early January, the results of a landmark study that proposes new registration, competency testing and continuing education of unlicensed tax preparers. Licensed tax preparers such as CPAs, attorneys, and enrolled agents are already subject to these requirements by their states. The goal, according to the IRS, is to significantly enhance protections and service for taxpayers by raising the standards within the tax preparer community.

"The decisions announced today represent a monumental shift in the way the IRS will oversee tax preparers," said IRS Commissioner Doug Shulman. "Our proposals will help ensure taxpayers receive competent, ethical services from qualified professionals and strengthen the integrity of the nation's tax system." Taxpayers are ultimately responsible for what is on their tax returns and "should protect themselves from unscrupulous preparers."

Based on the study results, the IRS plans to:

During this effort, the IRS announced, it will continue to work closely with the Department of Justice to pursue civil or criminal action as appropriate.

- Subject unlicensed preparers to a limited tax compliance check to ensure they have filed required returns and paid all the appropriate personal and business taxes.
- Require competency tests for all unlicensed paid tax return preparers.
- Require ongoing continuing professional education for all unlicensed preparers.
- Extend the ethics rules which apply to CPAs, attorneys and enrolled agents to all paid preparers.

The IRS expects to implement these plans over future filing seasons, but they are already taking action to step up oversight of preparers this year. Approximately 10,000 paid tax return preparers have received letters from the IRS reminding them to be vigilant in areas where errors are frequently found, including Schedule C income and expenses, Schedule A deductions, the Earned Income Credit and the First Time Homebuyers Credit. Revenue Agents from the IRS will be following up those letters with visits.

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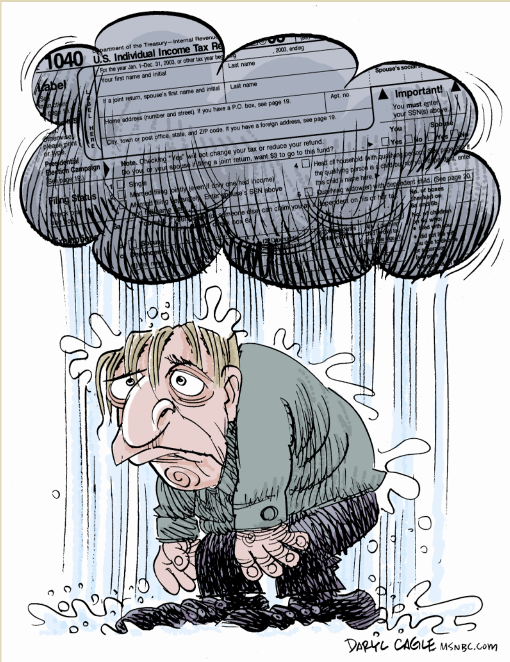
Tax Tip For Job Seekers



Some job seeking expenses can be tax deductible. A taxpayer can only deduct related job seeking expenses if you are looking for a job in the same occupation as before or that you are presently employed. One can deduct employment and outplacement agency fees that you may pay while seeking a new job in the same field; however, if these fees are paid back by the employer in a later year, the amount must be recorded as gross income in the year you received it. You can deduct the price of preparing and mailing copies of resumes to prospective employers if it's in the same type of occupation. When or if you have to travel to look for a new job in the same/prior occupation, as long as the trip is primarily for finding a new job, expenses can be deductible. You cannot deduct job seeking expenses if there is a substantial break between your last job and the time you begin looking for a new job. If a taxpayer is seeking a job for the first time, you cannot deduct job seeking expenses.

How to Fail at Business Without Really Trying

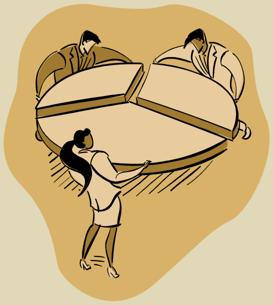
We've all heard the tried-and-true tips on getting ahead in the office. Here are some ways that employees have done quite the opposite, according to a CareerBuilder.com survey of more than 5,700 workers:

- **Falling asleep at work (45%)**
- **Kissing a co-worker (39%)**
- **Stealing from the office (22%)**
- **Spreading a rumor about a co-worker (22%)**
- **Drinking alcohol while on the job (21%)**
- **Snooping after hours (18%)**
- **Lying about academic background (4%)**
- **Taking credit for someone else's work (2%)**

How Taxes Work...

Suppose that every day, ten men go out for beer and the total bill for all ten comes to $100. If they paid their bill the way we pay our taxes, it would go something like this:

The first four men (the poorest) would pay nothing.
The fifth would pay $1.
The sixth would pay $3.
The seventh would pay $7.
The eighth would pay $12.
The ninth would pay $18.
The tenth (the richest) would pay $59.



So, that's what they always did.

The ten men drank in the bar every day and seemed quite happy with the arrangement, until one day, the owner threw them a curve. "Since you all are such good customers," he said, "I'm going to reduce the cost of your daily beer by $20. "Drinks for the ten now cost just $80."

The group still wanted to pay their bill the way we pay our taxes so the first four men were unaffected. They would still drink for free. But what about the other six men—the paying customers? How could they divide the $20 windfall so that everyone would get his 'fair share?' They realized that $20 divided by six is $3.33. But if they subtracted that from everybody's share, then the fifth man and the sixth man would each end up being paid to drink his beer.

So, the bar owner suggested that it would be fair to reduce each man's bill by roughly the same amount, and he proceeded to work out the amounts each should pay. And so:

The fifth man, like the first four, now paid nothing (100% savings).
The sixth man now paid $2 instead of $3 (33% savings).
The seventh now paid $5 instead of $7 (28% savings).
The eighth now paid $9 instead of $12 (25% savings).
The ninth now paid $14 instead of $18 (22% savings).
The tenth now paid $49 instead of $59 (16% savings).

Each of the six was better off than before. And the first four continued to drink for free. But once outside the bar, the men began to compare their savings. "I only got a dollar out of the $20," declared the sixth man. He pointed to the tenth man, "but he got $10!"

"Yeah that's right," exclaimed the fifth man. "I only saved a dollar, too. It's unfair that he got TEN times more than I!"

"That's true!" shouted the seventh man. "Why should he get $10 back when I only got two? The wealthy get all the breaks!"

"Wait a minute," yelled the first four men in unison. "We didn't get anything at all. The system exploits the poor!"

The nine men surrounded the tenth and beat him up.

The next night the tenth man didn't show up for drinks, so the nine sat down and had beers without him. But when it came time to pay the bill, they discovered something important. They didn't have enough money between all of them for even half the bill!

And that, boys and girls, is how our tax system works. The people who pay the highest taxes deservingly get the most benefit from a tax reduction. Tax them too much, attack them for being wealthy, and they may just not show up anymore.

From the viral grapevine.....author unknown

We Believe in Referrals

We really believe in the process of referrals, so part of the service we provide is to be sure to refer our clients and associates to other qualified businesspeople in the community.
Below you'll find a list of areas in which we know very credible, ethical and outstanding professionals. If you're looking for a professional in a specific area we've listed, please feel free to contact us. We will be glad to put you in touch with the people we know who provide these services.

- Home Insulation
- Residential Organizer
- Optometrist
- Attorney
- Handyman
- Dentist
- Nail Salon
- Realtor
- Financial Advisor
- Mortgage Broker
- Used Auto Dealer
- Caterer
- Bathroom Remodeler
- Printer
- Chiropractor
- Pressure Cleaning Service
- Massage Therapist
- Auto / Home / Life Insurance
- Advertising Specialties

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We hope you have a safe and happy Memorial Day!

What Our Clients Say About Us

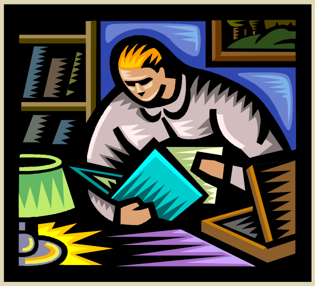
I am extremely satisfied and I refer all of my clients and people I hear needing tax services to Richard.—*Jamie F., Mortgage Broker*

I have peace of mind that everything is always taken care of without mistakes.—*Gwen H., Café Owner*

Everything is always done so professionally and neat. I do appreciate what you do.—*Dianne T., Retired Educator*

Thanks for being thorough, prompt and efficient with your services.—*Sybil M., Sales Associate*

Five Facts About the Home Office Deduction



With technology making it easier than ever for people to operate a business out of their home, many taxpayers may be able to take a home office deduction when filing their 2009 income tax returns next year.

Here are five key points you should know about the home office deduction.

1. Generally, in order to claim a business deduction for your home, you must use part of your home exclusively and regularly:
   - As your principal place of business, or
   - As a place to meet or deal with patients, clients or customers in the normal course of your business, or
   - In the case of a separate structure which is not attached to your home, it must be used in connection with your trade or business

   For certain storage use, rental use or daycare facility use, you are required to use the property regularly but not exclusively.

2. Generally, the amount you can deduct depends on the percentage of your home that you used for business. Your deduction for certain expenses will be limited if your gross income from your business is less than your total business expenses.
3. There are special rules for qualified daycare providers and for persons storing business inventory or product samples.
4. If you are self-employed, use Form 8829, Expenses for Business Use of Your Home, to figure your home office deduction then report the deduction on line 30 of Schedule C, Form 1040.
5. Different rules apply to claiming the home office deduction if you are an employee. For example, the regular and exclusive business use must be for the convenience of your employer.