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## **2009 TAX PLANNING & TIPS**

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*Greetings to you as we enter a new decade! 2009 was a year of many tax changes which will affect most of us one way or another. We are here to assist you to get the biggest refund or pay the smallest amount of tax possible.*

*Our appointment schedule will be the same as prior years. Claudia will be seeing clients on Mondays, Wednesdays, and Thursdays. Amy will be taking appointments on Tuesdays and Fridays.*

*As you get your tax papers together, we'd really appreciate it if you would fill out and sign our worksheets, included in this mailing or available on our website. We need your signature as documentation that you understand you are responsible for the information you provide to us. For those of you wishing to receive your refund via Direct Deposit, we will need a voided check for our files to verify the bank routing information.*

*We thank you for your business and especially for your referrals! We will continue the program started in 2009 of sending you a check for \$25 for every new client you refer to us as a thank-you.*

*Claudia, Amy, Nickie, Sue, and Hillary*

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### ***Wisconsin & Minnesota End Income Tax Reciprocity***

As of January 1, 2010, Wisconsin & Minnesota have ended their 40+ year income tax reciprocity.

What this means for a Wisconsin resident working in Minnesota is that starting 1/1/10, they will have to pay Minnesota income taxes and file a Minnesota income tax return for 2010. Wisconsin will give you a credit for taxes paid to Minnesota on income that is taxable in both states. (The same is true for MN residents working in WI).

However, upon our initial research, it appears that the Minnesota withholding tables are lower than the Wisconsin tables so you may end up having to pay additional income tax to Wisconsin when you file your 2010 returns (and possibly facing penalties as well).

If you are affected by this, please review your pay stubs and make sure that you are having the same or more state withholding deducted than you did before 1/1/10 on the same amount of income. If the state withholding is less, you should contact your payroll department and request that they withhold additional state tax.

### ***American Recovery and Reinvestment Act of 2009***

**Making work pay credit.** The Making Work Pay credit allows a credit against income tax in an amount equal to the lesser of 6.2 percent of the individual's earned income or \$400 (\$800 for married couples filing jointly).

The credit applies retroactively to the start of 2009 and will be repeated again in 2010. The credit

applies in full for individuals whose modified adjusted gross income (MAGI) does not exceed \$75,000 or \$150,000 in the case of married couples filing jointly.

**Note: This tax credit means more take-home pay for millions of American workers; however, this “reduced withholding” could result in potentially smaller refunds or a balance due rather than an expected refund for many taxpayers.**

**Education Credits.** The new law temporarily enhances the existing HOPE education credit for 2009 and 2010. The new law also renames the credit the “American Opportunity Tax Credit” and makes 40 percent of the credit refundable.

Under the new credit, the maximum \$2,500 per year would be allowed on \$4,000 in qualifying payments (100 percent of the first \$2,000 and 25 percent of the next \$2,000). In addition, the definition of qualified tuition and related expenses has been expanded to include course materials, (i.e., books).

**Qualified Tuition Programs.** For 2009 and 2010 the new law allows beneficiaries of qualified tuition programs (529 plans) to use tax-free distributions to pay for computers and computer technology, including internet access. However, this provision does not include computer software or equipment that is used primarily for entertainment purposes.

**2009 Unemployment benefits.** The new law excludes up to \$2,400 of unemployment compensation from a recipient’s gross income for 2009. Keep in mind that amounts in excess of \$2,400 remain fully taxable.

**Residential Energy Credits.** For energy efficient improvements to your principal residence, the new law increases the Code Sec. 25C residential energy property tax credit from 10 percent to 30 percent, raises the maximum cap to a \$1,500 aggregate amount for 2009 and 2010 installations, eliminates the \$500 lifetime cap, and makes several other modifications. The changes are effective for eligible property placed in service after December 31, 2008, and before January 1, 2011.

Improvements eligible for the Code Sec. 25C credit (i.e., existing homes only) include insulation materials, exterior windows including skylights, exterior doors, central air conditioners, natural gas, propane or oil water heaters or furnaces, hot water boilers, electric heat pump water heaters, certain metal roofs and stoves, and advanced main air circulating fans.

For additional information on qualified property and the revised standards for energy efficient building property, go to [www.energystar.gov](http://www.energystar.gov) and click on the tax credits link.

**Above-the-line deduction for new car purchase.** The new law also has a provision which allows purchasers of new vehicles on or after February 17, 2009, and before January 1, 2010, an above-the-line deduction for state & local sales taxes paid on the purchase. The new law has a couple of limits on this new deduction regarding vehicle price (sales tax is capped on first \$49,500 of the purchase price of one vehicle) and income limits.

**First-time Homebuyer Credit.** The new law raises the current maximum \$7,500 first-time homebuyer tax credit to \$8,000, and extends it at that level through November 30, 2009. It also eliminates any required repayment to the IRS after 36 months in the home. These enhancements apply to purchases of a principal residence by a first-time homebuyer after December 31, 2008. Purchases on or after April 9, 2008, and before January 1, 2009, continue to be governed by the original first-time homebuyer credit enacted last year. The credit phase-outs that start for taxpayers with AGI in excess of \$75,000 (\$150,000 for joint filers) continue to apply to both years.

**COBRA subsidy for unemployed workers.** The American Recovery and Reinvestment Act of 2009 provides that, for a period of not more than 15 months, an “assistance eligible individual” (i.e. an employee involuntarily laid-off) is eligible to pay 35% of the COBRA coverage and the employer must pay the balance of 65%. The 65% will be returned to the employer upon filing his quarterly payroll Form 941.

## ***Additional Information***

**New Federal Refund Option - Purchase of U.S. Government Savings Bonds.** For the 2010 filing season (i.e., for returns filed for 2009), taxpayers will be able to direct the IRS to use their tax refunds to buy Series-I U.S. Savings Bonds in their own names (for married taxpayers filing jointly, in both spouses' names). Beginning in the 2011 filing season, taxpayers will be able to use this refund option to buy these bonds in their names and a co-owner's name (e.g., child or grandchild). Treasury will mail the bonds directly to taxpayers. This refund option won't require individuals to have previously set up an account with Treasury.

You can buy Savings Bonds in denominations of \$50, \$100, \$200, \$500, and \$1,000. You buy them at face value, meaning if you pay \$50 (using your refund), you get a \$50 Savings Bond. In any single calendar year, you can buy up to a total of \$5,000 of U.S. savings bonds of any series (whether using your refund or some other method).

**Long-Term Care Insurance- “anti-nursing home insurance.”** A discussion about long term care insurance is really a discussion about anticipating the need for care as we get older, and the impact it can have on you, your family, and your finances. The fact is people are living longer and the longer you live the more likely it is you will need some level of care. Many people have an image of a nursing home when they think of long term care, however, most long term care is provided at home, not in the nursing home. In other words, this is really anti-nursing home insurance as the goal is to keep people at home, where they are likely the most comfortable and happy as long as is possible.

In addition, tax incentives for individuals and businesses have been established by the government to encourage people to purchase long term care insurance.

For more information, please contact our LTCI specialist, Kathy Linehan, at (715) 386-3122, or, [KathyL@NewmanLTC.com](mailto:KathyL@NewmanLTC.com).

**Deduction for losses in Ponzi schemes.** The IRS has announced special relief for victims of Bernard Madoff's Ponzi scheme (and for investors in other similar fraudulent schemes). Because Madoff's scheme continued for years, many investors are faced not only with the loss of their original investments, but also with having paid taxes on “phantom income,” based on fraudulent statements sent by Madoff's firm to investors over a number of years.

Investors who lost money in this type of fraudulent scheme will be allowed to take an ordinary loss deduction and the deduction isn't subject to the 2 percent of adjusted gross income (AGI) limit on miscellaneous itemized deductions, the income-based limitation on itemized deductions.

**Wisconsin Treatment – Ponzi Schemes.** Refunds will be allowed on amended returns filed for years open to adjustment to exclude “phantom income” previously reported as income from the investment arrangement provided the taxpayer can show that the amounts were not income that was actually or constructively received.

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**Standard Mileage Rate.** Taxpayers can use the standard mileage rate (in lieu of actual expenses) in computing the deductible costs of operating automobiles owned or leased by them (including vans, pickups or panel trucks) for business purposes. This rate is also used as a benchmark by the federal government and many businesses to reimburse their employees for business travel.

The following rates are applicable for the following tax years:

	<u>2009</u>	<u>2010</u>
Business	\$.55	\$.50
Medical	.24	.165
Moving	.24	.165
Charitable	.14	.14

If you are an employee you may deduct an amount computed using the standard mileage rate only as an itemized deduction, subject to the 2 percent floor on miscellaneous itemized deductions.

**Gift tax annual exemption.** The annual gift tax exemption, which rose from a base of \$10,000 to \$11,000 in 2002, \$12,000 in 2008, and \$13,000 in 2009, will remain at \$13,000 in 2010.

**Roth IRA Conversions for next year.** For 2010 and beyond, the \$100,000 modified adjusted gross income restriction on Roth IRA conversions will be eliminated because of a favorable provision in the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA). This change will eventually allow many more individuals to take advantage of Roth conversions. In addition, TIPRA provides that federal income taxes owed from a 2010 Roth conversion can be paid in two equal installments in 2011 and 2012. Alternatively, taxpayers may elect not to have the two-tax-year spread apply, and include all applicable taxes due with their 2010 return. For conversions after 2010, the conversion taxes owed cannot be stretched out.

**Note: WI is NOT following this change and you will pay the income tax & penalty for converting.**

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## **Two New Wisconsin Donations for 2009**

**1. Donations to Military Family Relief Fund.** Designations, less administrative expenses, shall be deposited in the military family relief fund administered by the WI Dept of Military Affairs. The fund will be used to provide financial assistance to eligible members of the immediate family of members of the U.S. armed forces or of the National Guard who are residents of Wisconsin and are serving on active duty.

**2. Donations to the Second Harvest food bank program.** Designations, less administrative expenses, shall be distributed to Second Harvest food banks in the cities of Milwaukee, Madison, & Eau Claire.

**WI Capital Gain Exclusion Revised.** Changes were made to the Wisconsin capital gain exclusion effective for taxable years beginning on or after January 1, 2009. Except for “farm assets,” the net long-term capital gain exclusion is reduced from 60

percent to 30 percent. Sale of farm assets capital gain exclusion remains unchanged.

“Farm assets” means livestock, farm equipment, farm real property, and farm depreciable property. Capital gains and capital losses for all assets are to be netted before application of the percentage.

**WI Top Income Tax Rate Increased.** The top individual income tax rate is increased from 6.75 percent to 7.75 percent. The increased rate applies to the upper income brackets (> \$150,000)

## **Federal Deductions and Exclusions NOT accepted by Wisconsin**

**1. Exclusion of Unemployment:** For federal income tax purposes for 2009, the first \$2,400 of unemployment compensation is excluded from income. This provision was not adopted by WI.

**2. Federal treatment of IRA deductions donated to charity** extended for 2009 the federal provision that provides that individuals age 70 ½ or older can distribute up to \$100,000 of their IRA balance to charitable organizations without recognizing income has not been adopted for WI tax purposes.

**3. Health Savings Accounts.** Wisconsin does not allow a deduction for contributions to HSA's so an adjustment must be made on Wisconsin Schedule I.

**4. K-12 Teacher \$250 Classroom expense deduction.** Wisconsin does not allow this deduction either like #3 above.

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## **PRIVACY POLICY**

We do not disclose any non-public personal information about our clients or former clients to anyone, except as instructed to do so by such clients, or required by law. We restrict access to non-public personal information and we maintain physical, electronic, and procedural safeguards to guard your personal non-public information.