

SHOEMAKE TAX NEWS

JANUARY 2009

NANCY SHOEMAKE CPA

WWW.SHOEMAKECPA.COM

Greetings from Nancy and Staff

As always, we appreciate you trusting us to handle your tax matters. Since this can be a stressful and intimidating process, we do our best to make the process as painless as possible. Welcome back!

Schedule an Office Appointment

Our on-line calendar will be available on or before January 15th for making appointments that will give you “at-a-glance” time-slot options, see www.shoemakecpa.com. Please phone our office if you do not have access to a computer or if you feel you need “Multiple Appointments” for your personal tax preparation. If you have a business, (schedule C) please advise the receptionist that you need two appointments. Clients with corporations should schedule a separate appointment prior to January 25, 2009.

Office Hours During Tax Season

| | |
|---------------------|------------|
| Monday | 7am to 6pm |
| Tuesday | 7am to 6pm |
| Wednesday | 7am to 8pm |
| Thursday | 7am to 8pm |
| Friday | 7am to 7pm |
| Saturday | 8am to 4pm |



Email Nancy with Your Questions

As much as Nancy would like to talk to each one of you regarding any questions you may have in the preparation of your appointment, it is impossible to do so. Please email her with any and all questions you may have. She checks her email through out the day and will respond in this manner.

Please email to nshoemake@shoemakecpa.com and make sure to include in the subject area the following: your NAME, “TAXES” and either “QUESTION FOR YOU” “INFORMATION FOR YOU”.

For simple questions that only take a few minutes, one of our staff will be happy to help you. We want to accommodate your needs and appreciate your understanding.

Tax Organizer Options

This year we have three options for you to complete an organizer.

1. Provide us with your email address and we will send you an e-organizer. Please note; this option is only for the computer-savvy – if in doubt please use another option.
2. Provide us with your email address and we will send you a “personalized organizer” based on your tax information from 2007. You can print this out and bring it to your appointment.
3. The website (www.shoemakecpa.com) has an organizer available for printing. If you do not have access to the internet, please call our office to have one mailed to you.

Worksheets: See page 6 on the Organizer for a list of additional deduction worksheets. You may download these from www.shoemakecpa.com or phone our office to mail copies.

Defray Your Costs: We strive to provide the most cost competitive CPA fees in the industry. Please help us defray costs by completing your organizer. It is to your advantage that we spend more time discussing your tax situation and equally important it will improve accuracy and speed in the final processing of your return.

Download: If you need additional copies of Organizers or Worksheets for family members please go to our website at www.shoemakecpa.com to download a pdf copy or phone us to mail you copies.

Please Bring Originals Documents

Tax Organizer/Deduction Worksheets W-2 and 1099(s)
Per Diem Statements/Bank Statements 1099INT/Mutual Fund & Brokerage Statements 1099B/ Pension-IRA/ Withdrawal 1099RW/ Church donation statements
Mortgage statements/ Property tax statements/ Year-end pay stubs/ K-1 schedule(s) Part/Estates/Trusts



**No Need to Copy
Your Documents –
Please Bring
Originals To Be
Scanned**

Signatures/Electronic Filing

Before we can electronically file your tax return, the IRS requires BOTH signatures on an IRS 8879 form. Unfortunately, the 8879 form is not ready to sign until your tax return is complete. You both can sign when you pickup your return or fax / mail it back to us with both signatures.

College/Working Dependents

Verify if your young adults have already filed their own tax returns, as Dependents may only be claimed on ONE tax return. We have numerous returns each year that are delayed and amended due to college age Dependents filing their own return prior to their parents. An Amendment Fee will be charged if the Dependent information is not accurate at the time of your appointment.

Kiddie Tax!

Children / young adults through age 18 and full time students age 24 to 23 will be subject to the Kiddie Tax Rules. Dependents age 18-23 will not be subject to the tax if the child's earned income exceeds one-half of the child's support.

Deduction Worksheet List Please take advantage of the worksheets below to aid you in all applicable deductions. You will need to provide the below applicable forms before we can finalize and complete your tax return.

| | |
|--------------------------|---------------------------------------|
| Airline Flight Attendant | Moving Expenses |
| Airline Mechanic | Medical Expenses |
| Airline Pilot | Medical Professional |
| Attorney | Non-Reimbursed Employee Expenses |
| Beauty & Barber | Non-Cash Contributions |
| Business Use of Home | Real Estate Income & Expense |
| Business Profit and Loss | Rental & Royalty |
| Construction Worker | Sale of Home |
| Daycare Provider | Sale of Stocks, Bonds or Mutual Funds |
| Educator & Teacher | Vehicle Mileage Record |

Download worksheets www.shoemakecpa.com

Charitable Contribution Rules Tightened

Although Congress has been active in the past few years enacting laws to curtail overstated and unverified contributions, the tax code still contains incentives to encourage contributions to approved charitable organizations. However, your tax deductions must be itemized in order to deduct charitable contributions.

Clothing & Household Items – Although there are stricter rules, the fair market value of used clothing and household items donated to a qualified charity can still be deducted, provided the items are in good condition. Make sure you get written documentation from the organization verifying the contribution.

Auto Donations – Although severely curtailed, a vehicle may still be contributed to charity, but the deduction is limited to what the charity actually obtains from the sale of the vehicle if the claimed value is in excess of \$500. IRS Form 1098-C (or equivalent substitute statement) must be attached to your return showing what the charity received for the vehicle. However, if the charity actually keeps and uses the vehicle in its charitable function, or sells it at a low price to a needy family, you may be able to deduct the FMV of the vehicle.

Recordkeeping for Cash Donations –Regardless of the amount of money contributed, the contribution must be backed up with either a bank record or written communication from the donee organization showing the (1) name of the donee organization, (2) date of the contribution, and (3) amount of the contribution. The recordkeeping requirements may not be satisfied by maintaining other written records. What this means is that unless the charitable organization provides a written communication, cash donations put into a “Christmas kettle,” church collection plate, and pass-the-hat collections at youth sporting events will not be deductible. Donations by checks and debit or credit cards can be substantiated by bank records.

Tax Preparation Fee

The fee for your tax preparation is due upon completion and prior to E-filing or receiving your return. We accept personal or business checks, cash and all major credit cards. The tax preparation fee does not include auditing, review, or any other verification.

Extensions

If you want us to file an extension on your behalf please mail, email or fax us your request to do so listing your current address and phone number.

Making Changes After Your Taxes Are Completed

If you have additional information to be included in your tax return after we have finished your taxes, we can amend your tax return. There is an additional fee to do this as we must input the changes, reprint and reprocess your Tax Return. Amended return fees begin at \$125.

Property Tax Refund

If you think you are eligible for Minnesota refunds bring your Property Tax or CRP statements to your tax meeting and we can determine if you qualify. These are not part of your State or Federal tax returns.

There is an additional fee to process these forms, \$25 if processed with your tax return and \$50 if we receive your Property Tax or CRP statements AFTER your tax return is finished. Minnesota will mail your refund to you sometime after September 15th.

Tax Relief for Midwest Disaster Areas

Special tax relief related to severe storms, tornadoes or flooding, occurring after May 19, 2008 and before Aug 1, 2008 is available to individuals in portions of Arkansas, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska and Wisconsin that were affected by these disasters. Tax benefits include liberalized rules for certain personal casualty losses and charitable contributions, an additional exemption amount for persons who provided housing for someone displaced by these disasters, the option to use 2007 earned income to figure a 2008 earned income tax credit, an increased charitable standard mileage rate for use of personal vehicle for volunteer work related to these disasters, and special rules for withdrawals and loans from IRAs and other qualified retirement plans.

If you think this may apply to you, please let us know.

2008 AMT Exemption Amounts – “before phase-out”

- ✓ Unmarried Taxpayers - \$46,200
- ✓ Married Filing Jointly - \$69,950
- ✓ Married Filing Separately - \$34,975

Recovery Rebate Credit

The Recovery Rebate Credit is a special one-time benefit that most people received last year in the form of an Economic Stimulus Payment. People who did not receive the maximum amount of the Economic Stimulus Payment, and whose circumstances have changed, may be eligible now. Note: Filers could get an additional \$300 for the birth or adoption of a child in 2008. If you believe this may apply to you, please let us know.



Reporting Sale of Stocks or Mutual Funds

Sale of stock or mutual funds is shown on page (3) of your Tax Organizer. It is essential that you have the necessary information to report the sale including the:

- ✓ Dates you purchased and sold it;
- ✓ Prices per share when you purchased and sold it;
- ✓ Number of shares sold

Please contact your broker if you do not have this information, as your taxes cannot be completed without it.

Mortgage Insurance Premiums

Premiums paid for qualified mortgage insurance in connection with acquisition indebtedness on a qualified residence is treated as deductible mortgage interest. To be deductible, the premiums must have been paid in connection with acquisition debt for a mortgage insurance contract issued after Dec. 31, 2006. It must be for a qualified residence (first and second homes) and the premiums must have been paid or accrued after Dec. 31, 2006 and before Jan. 1, 2011.

The deductible amount of the premiums phases out ratably by 10% for each \$1,000 (or fraction thereof) by which the taxpayer's AGI exceeds \$100,000.

Qualified mortgage insurance means mortgage insurance provided by the VA, FHA, RHA and private mortgage insurance. Prepaid premiums for mortgage insurance, other than that provided by the VA or RHA, are not fully deductible in 2008 but must be amortized over the period to which they apply. The unamortized balance is not deductible if the mortgage is paid off before the end of its term.

Plan Now for 2010 Roth Conversions

Beginning in 2010, under the newly-enacted legislation, the income and marital status restrictions that limit the ability of a taxpayer to convert a traditional IRA to a Roth IRA have been removed, leading to interesting and advantageous tax and estate planning strategies. Under prior law, an individual was allowed to convert a traditional IRA into a Roth IRA if the taxpayer's adjusted gross income for the year was \$100,000 or less. Beginning in 2010, the new legislation eliminates the \$100,000 modified AGI limit on conversions of traditional IRAs to Roth IRAs, and permits married taxpayers filing a separate return to convert amounts in a traditional IRA into a Roth IRA.

Phone Appointment & Taxes-by-Mail

Many of our tax clients prefer phone appointments. We schedule phone appointments between 7:45 – 9:00am CST. 24 hours prior to your tax appointment please provide us with your paperwork.

We also currently service a large number of clients with Taxes-by-Mail. If you have recently moved or prefer not to schedule an office appointment we are happy to accommodate your needs. Mail us your tax information as indicated above and we will process your return without an office appointment. (Please make sure you include a phone number and email address for questions.)

In both cases you must have a completed Tax Organizer and Worksheets with signatures before we can proceed to process your tax returns.

Mortgage Forgiveness Debit Relief Act

The Mortgage Forgiveness Debt Relief Act of 2007 allows individuals to exclude from gross income a discharge of qualified principal residence indebtedness. This exclusion applies to discharges made after 2006 and before 2010. Additionally, the basis of the principal residence must be reduced (but not below zero) by the amount excluded from gross income.

Economic Stimulus Payments Tax Free

Economic stimulus payments are not taxable, and they are not reported on 2008 tax returns. However, the stimulus payment does affect whether a taxpayer can claim the Recovery Rebate Credit and how much credit you will get.

2008 Inflation Adjustments

Every year, many of the various tax limitations, deductions and allowances are adjusted due to inflation. The following are the more commonly-encountered values that apply to 2008:

- Personal & dependent exemption amount; \$3,500
- Standard deduction: Joint Filers; \$10,900, Single Filers; \$5,450, Head of Household Filers; \$8,000
- IRA contribution limit; \$5000 (\$6,000 if age 50 or over)
- IRA deduction phase-out AGI threshold; \$52,000 for Single filers, \$83,000 for Joint filers
- Spousal IRA deduction AGI phase out threshold; \$159,000
- 401k and 403b plan contribution limit \$15,500 (\$20,500 if age 50 or over)
- Simple plan contribution limit \$10,500 (\$13,000 if age 50 or over)
- Maximum earnings subject to Social Security tax; \$97,500
- Standard mileage rate business; 50.5 and 58.5 cents, medical/moving 19 to 27 cents, charitable 14 cents

Airline Crew Per Diem

We strongly recommend using the service of Pro-diem Inc. to calculate your travel expenses, especially if you have international travel. They will provide you a better return for your travel expenses. Go to www.pro-diem.com or phone them at 888-776-3436. This service has a nominal fee and will more than make up this expense which is tax deductible. Please take advantage of this service and benefit by maximizing allowable deductions that you are due.

Capital Gains Deal Extended Through 2010

Originally set to expire after 2008, the capital gains rates have been extended through 2010. In addition, the “zero” tax rates now apply to 2008 through 2010 instead of just 2008. As part of the 2003 tax package, Congress reduced the preferential tax rates on capital gains from 10% and 20% to 5% and 15% respectively, with the lower rates applying to taxpayers in the 15% and under tax brackets. The 5% rate will drop to 0%, beginning in 2008. These lower rates apply to both the regular tax and alternative minimum tax (AMT).

With the long-term capital gains rates dropping to zero in 2008, and continuing through 2010, there is no tax on your long-term capital gains to the extent your regular tax rate is less than 25%. Depending on your situation, it may be appropriate to put off some of your sales that will result in gains until 2008. Remember the gain itself adds to your income, impacts income-based limitations, and possibly pushes you into a higher regular tax bracket, so it is a balancing act to take advantage of this zero rate. Of course, you can also use losses to offset the gains, and contrary to conventional strategy, you should only have enough losses to keep the gain within the zero tax rate.

First-Time Homebuyer Credit

Those who bought a main home recently or are considering buying one may qualify for the first-time homebuyer credit. A taxpayer may qualify if they didn't own a main home during the prior three years. This unique credit of up to \$7,500 works much like a 15-year interest-free loan. It is available for a limited time only-on homes bought from April 9, 2008, to June 30, 2009. It is repaid each year as an additional tax. Income limits and other special rules apply.

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