

S&DAVID HATT

TAXES

Two things you can count on in life...

800 Menlo Ave., Suite 128
Menlo Park, CA 94025-4732
Phone: 650-326-1099
Fax: 650-326-4421
David@DavidHattEA.com
DLHEA@aol.com
www.DavidHattEA.com

Hello Everyone,

I thought I would write a newsletter to inform you of changes that might affect your tax situation.

If you have not received your tax organizer — and you normally receive one, then please contact me and I will mail one to you immediately.

January 2010

DO YOU HAVE A FOREIGN BANK ACCOUNT?

You probably read about the IRS going after taxpayers who open bank accounts overseas to hide income. It is not illegal to have a bank account in another country. It is illegal not to report the income from that bank account in another country. There are many reasons to have a foreign bank account: the other country may stronger currency, you might have a rental property there, or you might have a second home there.

If you have an bank account overseas, then please let me know. If your account was worth

\$10,000 or more during the year, then a TDF 90.22-1 Report of Foreign Bank and Financial Accounts (“FBAR”) must be filed by June 30, 2010.

Here’s the hammer: The IRS can confiscate the higher of \$100,000 or 50 percent of the off-shore account’s value when someone deliberately does not report the account — that’s PER year a report is not filed and is required to be filed.

HOME BUYER CREDIT — SO MANY CHANGES IN SO LITTLE TIME.

What has changed:

1. The purchase date has extended to April 30, 2010 and the deal must close by June 30, 2010.
2. The price of the home is now capped at \$800,000. For home purchases in excess of \$800,000 after November 6, you do not qualify for the credit.

3. There is a credit for repeat buyers (before it was just first-time home-buyers). Taxpayers who have lived in one residence for five consecutive years out of the past eight, can now qualify for a tax credit of 10% of the purchase price up to \$6,500.

4. Income limits have increased. The new phase-out is \$125,000 to \$145,000 for individuals and \$225,000 to \$245,000 for married couples.

ROTH IRA CONVERSIONS....COULD BE A GOOD DEAL

For 2009 and previous years, taxpayers could not convert their traditional IRA to a Roth IRA if their income was more than \$100,000.

With traditional IRAs, the income would be taxable upon distribution. With Roth IRAs, distributions are tax-free if certain circumstances were met. The downside is that contributions are not deductible.

Starting in 2010, that ceiling is removed.

Here's an incentive if you are thinking about converting: in 2010 — and 2010 only — you can pay the income tax over two years. One-half of the income in 2011 and the other half in 2012. That tax on conversion is automatic unless you elect out of it.

STOCK BASIS REPORTING

If you already have a full-service broker, then you are already ahead of the curve. Starting after 2010, all brokers must report your basis in stocks, bonds, mutual funds, options, and other securities when you sell that security. It will make everyone's job easier to report the gain or loss.

This information will also be reported to the IRS. But I guess you already knew that.

FEDERAL TAX CREDITS FOR ENERGY EFFICIENCY

Tax credits are available at 30% of the cost, up to \$1,500 in 2009 and 2010 for:

- Windows,
- Insulation,
- Roofs (metal and asphalt),
- HVAC,
- Water Heaters (non-solar),
- Biomass Stoves (whatever that is).

California follows federal law. But you can make a separate election to be taxed on the converted amount in 2010.

There are a few items you should consider:

- 1)** If you expect your 2011 and 2012 income to be substantially higher than 2010, then it might be advantageous to report the whole \$200,00 in 2010.
- 2)** If you are collecting Social Security, your premium could go sky-high.
- 3)** Make sure you have money available to pay the income tax!
- 4)** Conversions may increase the tax-ability of your Social Security Benefits (up to \$353.60 per month) and
- 5)** The income tax rates will likely increase to 39.6% in 2011.

CONVENIENCE FEES

Do you charge your federal income tax?

Well, good news! You can deduct the convenience fees. The IRS has allowed the expense as part of tax preparation fee.

Tax credits are available at 30% of the cost — with no upper limit through 2016 for:

- Geothermal heat pumps
- Solar panels
- Solar water heaters
- Small wind energy systems
- Fuel cells

For more info, check out:

www.energystar.gov/index

CONTACT ME NOW FOR YOUR TAX APPOINTMENT 650-326-1099 or DAVID@DAVIDHATTEA.COM

Please call now to make your tax appointment. The appointment can always be changed, if necessary. The sooner you call, the more likely you will get the time you want.

1099s will be issued by February 15, 2010. But that shouldn't stop you from making your appointment.

There's always a concern about corrected 1099s, but come on in. Corrected 1099s won't take much time to enter.

The FTB Form 540 is now THREE — count 'em three — pages. The signature block is on page 1

2010 CALIFORNIA QUARTERLY PAYMENTS — ANOTHER CHANGE

Our lives used to be so simple. It used to be that quarterly payments were 1/4, 1/4, 1/4, and 1/4.

FTB changed that in 2009 so that the payments were 30%, 30%, 20%, 20%.

Starting in 2010, the payments will be 30%, 40%, 0%, 30%.

That means you are paying 70% of your tax by June 15. I think the FTB wants the money now so

they can issue refunds. I guess last year's warrants caused just a bit of negative publicity.

Another benefit to the FTB is if there's an underpayment penalty, that penalty will be even higher!

Also, if you expect your income to be \$1 million or more in 2010, then you MUST pay at least 90% of the 2010 tax this year. And safe harbor provisions, i.e., pay 100% of the 2009 tax, do not apply to you. Sorry. But you do have \$1 million of income.

HOPE SCHOLARSHIP CREDIT

The Hope Scholarship Credit is changing for 2009 and 2010. It also falls under "American Opportunity Tax Credit." The credit is now 100% of the first \$2,000 of qualified expenses, and 25% of the next \$2,000 of qualified expenses up to \$2,500. "Qualified expenses" now include materials.

(side bar: 529 plan "qualified expenses" now included computer technology and equipment.) Forty percent of the credit is refundable.

NEW CAR SALES TAX DEDUCTION

Did you buy a new car?

For 2009, you can deduct the sales and excise taxes on the purchase of a new car, light truck, or motorcycle with a GVW of 8,500 or less, or a motor home. The deduction is limited to the tax on \$49,500 for each car purchased. You are not limited to one car. Two cars, then two deductions. If you bought a new car, I will need more information from you.

CONSULTANTS AND THE BOARD OF EQUALIZATION AND USE TAX

I started asking clients how much did they buy over the Internet so that they could pay the use tax to the State of California (or wherever you live). The Board of Equalization (BOE) is now requiring that ALL self-employed businesses, landlords, partnerships, etc., that have gross income of \$100,000 or more — 2007, 2008 or 2009 — to register with them. You must file form BOE-401-A Sales and Use Tax Return or BOE-401-EZ even if you owe zero tax. That return must be filed by April 15, 2010 for tax year 2009. But you must also file BOE reports for 2007 and 2008!

BOE is reviewing 2007 tax returns to see who qualifies.

Once you register, you will be issued an account number as well as log-in information.

If you want more information, here's the website:

<http://www.boe.ca.gov/sutax/useTaxRegFAQ.htm>

2010 HEALTH SAVINGS ACCOUNT LIMITS:

- **Single: \$3,050 (\$3,000 in 2009)**
- **Family: \$6,150 (\$5,950)**

2010 MILEAGE RATES:

- **Business: \$ 0.50 (down \$ 0.05)**
- **Charitable: \$ 0.14 (no change)**
- **Medical and moving: \$ 0.165 (down \$ 0.075)**

2010 ROTH AND TRADITIONAL IRAs CONTRIBUTION LIMITS:

- **Under 50: \$5,000 (no change)**
- **Age 50 and older: \$6,000 (no change)**

If you have any questions, please feel free to contact me. I welcome all your questions.

Sincerely,



DAVID HATT, EA

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Phone: 650-326-1099
Fax: 650-326-4421
David@DavidHattEA.com
DLHEA@aol.com
www.DavidHattEA.com

This newsletter is intended to be a broad overview.