



Thumb Tax

Year-End 2009

helpful tax information provided by

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Tax Law Changes & Reminders

There have been many tax law changes in 2009. Here, in no particular order, is a summary of some of the new provisions:

- ☒ The 2009 standard mileage rate for business use of a vehicle is 55¢ for the entire year. Remember, even if you want to use the standard mileage rate in claiming a car deduction, you still must have a log or other records that prove the number of business miles you drove during the year.
- ☒ To encourage businesses to invest in new furnishings, vehicles, and equipment, a special 50% bonus depreciation was available for items purchased in 2008. This meant those items, particularly cars, were eligible for much more of a deduction than would normally be allowed. This provision was extended through 2009 and is due to expire 12/31. If you're considering buying a new car soon and you use your car for business (not commuting from home to work), you could save a significant amount of tax if you buy it before December 31. The bonus depreciation doesn't apply to used items.
- ☒ The \$8000 first-time homeowner credit has been extended to cover new owners who have a binding contract by April 30, 2010 and who close/complete escrow on the home purchase by June 30.
- ☒ There's a new \$6500 'move up' credit for homeowners who have lived in their current homes for 5 of the last 8 years and who buy and move to a new home after 11/6/09. To get the credit, they must have a binding contract by April 30, 2010 and close on the purchase by June 30. Although this is being referred to as a 'move up' credit, the new house does not need to be bigger or more expensive than the old house.
For both housing credits, the new house must cost less than \$800,000. These credits will probably not be extended beyond the April/June expiration dates.
- ☒ The 2009 and 2010 maximum contribution amount for traditional and Roth IRAs is \$5,000 with an extra \$1,000 contribution allowed for those 50 or older. The amount of your income and whether or not you are contributing to another retirement plan will determine whether you can contribute to and/or deduct an IRA.
- ☒ Unemployment benefits received are taxable on federal returns. However, for 2009, the first \$2400 collected is not subject to tax.
- ☒ The energy credit disappeared for 2008 returns but is back for 2009 and 2010. It applies to such things as adding insulation, buying new energy-efficient windows or skylights, and purchasing energy efficient heating and air conditioning. You can spend up to \$5,000 during 2009 and 2010 on one or a number of energy improvements, and get 30% or \$1,500 back as a tax credit. If you get the entire \$1,500 credit in 2009, you can't get anything additional in 2010.
- ☒ The solar credit has become more generous in 2009. Residential alternative energy equipment such as solar electricity and hot water heaters, as well as geothermal heat pumps and wind turbines are eligible for a credit equal to 30 percent of the cost, with no maximum cap.
- ☒ The Small Business Administration (SBA) is now making available loans to small businesses that have been in operation for at least two years, have had a recent profitable year, but have experienced declining sales and revenues which is causing financial hardship. For more information about the ARC Loan Program, go to www.sba.gov
- ☒ Sales tax paid on the purchase of a car between 2/17/09 and 12/31/09 is deductible on your tax return, whether you itemize your personal deductions or not. Normally, the deduction is only available to those who itemize.

Three Big California Changes For Self-Employed People

California is attempting to collect use tax on items purchased over the internet, from catalogues, or in other ways in which sales tax isn't collected. Use tax is the same as sales tax, except that sales tax is paid to the merchant (who remits it to the state) while use tax is paid directly to the state.

The State Board of Equalization's focus right now is self-employed people and rental property owners who have a gross income from their business or rental property of \$100,000 or more. They are sending out letters, requiring that these people register and open a sales/use tax account with them. Next, these business and rental property owners will be asked to report all business purchases made in the last 3 years on which no California state sales tax was paid. Those business owners who already have an account with the State BOE because they sell items in their business, don't need to open another account.

At the time of registration, the State BOE will send the business/rental property owner a password to enable them to file their annual reporting form online. Starting in 2010, State Board of Equalization form BOE-401-A will be due each April 15. Again, only purchases on which no California sales tax was paid will need to be reported. Even those who have no such purchases will need to file the form, putting zeros on each line.

Another big California change is in the way state quarterly estimated tax payments are to be made in 2010. The chart below shows the changes from 2008 to 2010.

In 2008, state estimated tax payments were made the same way quarterly payments are made to the IRS—25% of the total annual tax due is paid each quarter. In 2009, the State asked taxpayers to send 30% of their total tax in each of the first 2 quarters and then send 20% of the total in each of the remaining quarters.

For 2010, the State is requiring people who make quarterly estimated tax payments (primarily, but not only, self-employed people) to send 30% of the total tax amount by the 1st quarter due date of April

15 and then another 40% of the total by the 2nd quarter (June 15). In other words, they want to receive by June 15, 70% of the tax owed for the year — even though most people won't have earned 70% of their income by that time!

The third change became effective in 2009 and affects taxpayers who live in California and who, in the course of their business or in the operation of their rental property, pay someone more than \$1500 for services performed in California and the person paid lives outside California. The business or rental property owner needs to withhold and remit to the Franchise Tax Board 7% of the amount paid that exceeds \$1500. This is the State's way of ensuring that California tax is paid on all income earned within the state. People who pay business (not including home office) rent on California property to a non-resident of California, must also withhold 7% when the amount paid for the year exceeds \$1500.

Important Note: The information provided in this newsletter is, by necessity, just a summary. Please get more details, learn about applicable restrictions, etc. before preparing your tax return.

If you're looking for tax help, here's what I offer:

I will be able to take a few new tax preparation clients this year. I only work with people who are either self-employed as sole proprietors (no partnership, corporation, LLC, or estate returns) or who own rental property.

I will also continue to meet with people who have prepared their own return and are either stuck on some part of it or who want someone to review it before it gets sent in. In addition, I'm available for consultations about the tax implications of being self-employed or about any other tax-related subject. My hourly rate for consultations is \$180 and I meet with people for a minimum of one hour in either my Oakland or my San Francisco office.

I will be offering my tax and recordkeeping class for self-employed people in January and February. I'll send you a flier about the seminar soon and would appreciate it if you'd share it with your friends and colleagues.

Best wishes for a happy holiday season and a successful new year.

