



To assist you in your tax and investment planning, we will be providing a quarterly newsletter. Many tax and other matters will be streaming from Washington as Mr. Obama and Congress push through their proposed health care programs with its surtaxes and other provisions. We will keep you informed with such matters and other items of interest.

## Investments & Retirement



Build your money tax free in a Roth IRA. Many people are concerned about their investments because of the posing threat of high taxes due to the Baucus Healthcare Bill. For this reason many people are switching to **Roth IRAs**. These investment tools have been proven to save people money on taxes. If you would like to begin a Roth IRA or switch to one please contact us.

If you wait until 2010 to convert an IRA to a Roth IRA, you'll be able to spread the taxes over the next two years.

In 2010 the Adjusted Gross Income tax limit of \$100,000 will be lifted for Roth IRAs but you might want to pay taxes upfront. The reason is because after 2010 the tax rate will go from 35% to 39.6%.

If you withdraw money from an IRA within the first 5 years of converting it from a Roth IRA, you may incur a 10% penalty unless you are 59½ or older.

You can skip a payout from plans and IRAs without being penalized if you're 70½ or older. This applies only for 2009.

To avoid losing money in your nest-egg, switch to an Equity Indexed Annuity. People are fed up with losing money due to the stock market fluctuations these days. Investing in indexed annuities avoids the potential loss of your principal. This is an annuity that has an interest rate that goes up as the stock market rises and stays the same as it falls. Some of the other features of these types of annuities are 100% safe principals, no sales charges, and they accumulate liquidity. If you'd like to know more about these please contact us.

The earnings limit for Social Security Benefits have increased. Now those from 62 to 65 can earn \$14,160. For every \$2 over this amount \$1 is withheld from benefits. Those in their 66<sup>th</sup> year can make \$37,680 or less. For every \$3 over the limit, \$1 is withheld from benefits until the month you reach full retirement age.

Low interest government bonds are being offered in place of receiving a tax refund in 2010. These inflation protected bonds are called **Series I Bonds**. The inflation and fixed rates are posted on the first of May and November. The current inflation rate is 1.53% and the current fixed rate is .3%.

401(k) maximum pay-ins won't drop for 2010. Even though a \$500 drop was expected, the IRS has decided to keep it the same so employers won't have to reprogram their systems. \$16,500 will remain as the maximum that you can pay in if you were born after 1961. If you were born before 1961 you can put in a maximum of \$22,000.

## Automobiles



Use a logbook. To get a big write-off by putting a heavy pickup in use by year end, you must substantiate the vehicle's business use by using a logbook in order to expense the cost of the pickup. If you do this you can expense up to \$250,000 of the cost of a heavy pickup whose loaded weight is greater than 6,000lbs and whose separated cargo bed is at least 6 feet long. Corporations must use the actual expenses of vehicles. Using mileage for these corporate expenses isn't allowed.

Deduct the state and local sales taxes paid on a new car this year even if you don't itemize deductions. This "**Deal on Wheels**" goes for all new cars, motor homes, light trucks, and motorcycles. For this to apply to one of your cars you have to have made the purchase/s between February 16, 2009 and January 1, 2010. Also, to get the full benefits of it you have to have an Adjusted Gross Income under \$250,000 for joint filers and under \$125,000 for single filers. A good part about it is that

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it applies to the first \$49,500 of each car you buy. So, for instance if you buy two cars at a value of \$45,000 per car and there's a 4% tax rate then you can deduct \$3,600.

Buying an SUV can save you money on taxes even though they hurt you at the pumps. The maximum section 179 **depreciation** you can take on an SUV that weighs over 6,000 lbs for businesses is \$25,000. After that you get a bonus depreciation of half that remains. Then you can depreciate 20% of the rest for normal depreciation. For a \$50,000 SUV all combined that'd be \$40,000 in total depreciation on the first year if it's used 100% for business.

### Business Ventures

Try to wait until January to buy the majority of assets for depreciation purposes, unless you plan on using section 179. When you purchase more than 40% of your assets in the last quarter normal **depreciation on all assets** are calculated quarterly. That means that all items bought in the first quarter get 10½ months and items bought in the last quarter get only 1½.

Business owners can shift income from 2009 to 2010 to save on 2009 taxes. This is possible by sending out bills later than December to shift income to 2010 or earlier to gain more income in 2009. They can also shift expenses from one year to the next by paying them late in December 2009 or putting them off until early 2010.

There are higher fringe benefit exclusions for those that work abroad in 2009. It ends up being \$91,400.

### Real Estate & Home Improvement



The \$8,000 first time home buyer credit is now extended until April of

2010. This means that new home owners will have until April 2010 to sign a contract for a new home and still be able to take the credit in the 2009 tax return. The house has to close by June 30, 2010. If you're an armed forces member you'll have until December 31, 2010. You qualify as a "first time home buyer" if you haven't owned a residence in the US within the last 3 years.

Another change now allows higher incomers to take full advantage of the first time home buyer credit. Originally only couples with a gross income of \$150,000 or less would be able to receive \$8,000 on a home that is \$80,000 or more. Now the gross limit has risen to \$225,000 or less. It has risen to \$125,000 for singles.

There's now a break for current homeowners in buying a new home. You qualify for as much as \$6,500 if you've owned a home for 5 consecutive years out of the last eight. This deal is affective from November 6, 2009 to May 1, 2010. Also, just like with the first time home buyer credit, it will have to be your primary residence.

If you've bought a house from an in-law after November 6, 2009 you can't claim either one of these new home credits.

Get a 30% tax credit for making your home more energy efficient. This applies to many changes in home heating, air conditioner systems, storm windows and doors, biomass stoves, and skylights. This credit is topped off at \$1,500.

Also get back 30% of the changes made on alternative energy equipment installed. This includes solar electric systems, solar hot water heaters, geothermal heat pumps and wind turbines. There isn't a cap for this one.

Property taxes and interest can be deducted without itemizing. If you don't itemize and you're married you can add as much as \$1,000 for property taxes paid. It's \$500 for singles.

### Family Finances

"Legal expenses attributable to divorce are not deductible," according to the tax courts.

The cost of infant formula is not a **medical expense** even though you undergo a double mastectomy and can't breast-feed.

### Tax Strategies and Other Changes



Get 2010 tax return money from your 2009 tax return. A good tax strategy would be to **accelerate** some of your 2010 itemized **deductions** this year if your 2009 itemized deductions are already over the standard deductions. Then in 2010 take the standard deduction. But, if your itemizations aren't higher than the standard deductions for this year then consider taking the standard deduction this year and itemizing next year.

Donating appreciated stock can lower your taxes. This is a great way of **paying tithing** if your church allows it. If you've owned stock for over a year that you plan on selling, consider donating some to a tax exempt organization. You don't have to pay capital gains tax on the appreciation of the stock you donated.

There's a 1% reduction on itemized deductions for those that make over \$166,800 this year, but, it doesn't affect some write-offs such as medical expenses, other investment interest, and casualty losses.

#### Standard Deductions for 2009 Tax Returns

	Both Under 65	One Under 65	Both Over 65
Married	11,400	12,500	13,600
Single	5,700	7,100	-----
H of H	8,350	9,750	-----

*\$1,100 should be added to any amount for those that are legally blind. For sources see our online newsletter.*