

Child and Education-Related Tax Breaks

Dependent Care Credit

Parents who, in order to work, pay for the care of a dependent under age 13 may be eligible for a tax credit of between 20 percent and 35 percent of qualifying expenses. For 2009, the maximum amount of expenses on which the credit can be claimed is \$3,000 for the care of one dependent or \$6,000 for two or more.

This credit is not restricted to child-related care costs. If you pay someone to look after an incapacitated dependent of any age, such as a parent or disabled family member, you may be eligible for this tax break.

Education Tax Credits

Two credits available to help defray the cost of higher education. The Hope Credit, now called the American Opportunity Tax Credit, worth up to \$2,500 for each qualifying student, is available for each of the first two years of college. A Lifetime Learning Credit of up to \$2,000 per year is available for undergraduate, graduate, and professional degree courses. Both credits begin to be phased out once modified AGI surpasses \$100,000 for joint filers and \$50,000 for single filers. You cannot claim both credits for the same student in the same tax year.

529 Plans

The tax benefits of 529 college savings plans, which were to expire in 2010, are now a permanent part of the tax code. These plans give parents and other relatives a tax-advantaged way to save money for higher education expenses. Funds in the account grow tax-free, and withdrawals also are tax-free if they are used to pay for qualified educational expenses.

Tax Considerations for Investors

Long-Term Capital Gains and Dividends

The maximum tax rate on net long-term capital gains remains 15 percent. For taxpayers in the 10 percent and 15 percent tax brackets, the tax rate on long-term capital gains is zero for 2008 through 2010. To qualify as a long-term capital gain, the asset must be held for more than one year before selling. Capital gains on investments held for one year or less are taxed at regular income tax rates - as high as 35 percent. For collectibles held for more than one year, the maximum capital gains tax rate is 28 percent.

Qualified dividend income from a domestic or qualified foreign company is taxed at a top rate of 15 percent, with zero for taxpayers in the 10 percent and 15 percent tax brackets in 2009.

Offset Capital Gains with Losses

Net capital losses are fully deductible against capital gains. If your capital losses exceed your capital gains, you can deduct up to \$3,000 in net capital losses against ordinary income (\$1,500 if married filing separately). Any remaining capital losses may be carried over to the next year. Planning here can be extremely beneficial.

Kiddie Tax

Investors with children need to be aware that Congress has increased the age threshold of dependents subject to the Kiddie Tax, which sets a child's investment income over a certain amount to be taxed at the parents' highest marginal tax rate. For 2009, any net unearned income over \$1,900 will be taxed at parental rates if the child is in one of these three categories: under age 18, age 18 and does not have earned income exceeding 50 percent of his/her support, and age 19 through 23 and is a full-time student who does not have earned income exceeding 50 percent of his/her support.

Other Recent Tax Law Changes

Alternative Minimum Tax (AMT) Patch

The AMT was designed to ensure equitable taxes are paid by higher-income taxpayers and is an addition to the income tax. The AMT is not indexed for inflation, so more taxpayers are affected by it annually. Among the provisions included in the Emergency Economic Stabilization Act of 2008 is the AMT patch, which protects most middle-income taxpayers by increasing the AMT exemption amounts for 2008: \$46,200 for single filers and heads of household, \$69,950 for married taxpayers filing jointly and qualifying widows(ers), and \$34,975 for married taxpayers filing separately. For 2009, we expect the same adjustment.

Extended Mortgage Foreclosure Tax Relief

The Mortgage Forgiveness Debt Relief Act of 2007 excluded from gross income up to \$2 million from the discharge of qualified personal residence indebtedness occurring in 2007, 2008, or 2009. The basis of your principal residence is reduced by the excluded amount, but not below zero. Under the Emergency Stabilization Act of 2008, this exclusion will continue through 2012.

New Energy Tax Incentives

The Emergency Economic Stabilization Act of 2008 extended the nonbusiness energy efficient property credit of 30 percent, up to \$1,500, for the costs of making certain energy-efficient improvements to your principal residence. Examples include new exterior doors and windows, skylights, insulated walls or ceilings, and installation of a high-efficiency furnace or water heater. This credit expired on Dec. 31, 2007, but is now available in 2009.

The law extends the 30 percent credit for installing residential, alternative-energy-efficient property in your principal residence or second home through the year 2016. Qualifying property includes solar water heating, solar electric, fuel cell, wind energy, and geothermal heat pump. In addition, starting after 2008, the amount of credit will depend on which qualified property is purchased.

In 2009, the Alternative Motor Vehicle Credit grants four separate credits for different types of energy-efficient vehicles. Your credit will be determined by the type of vehicle and which of the four credits applies. You can check with your CPA or the IRS for a list of qualified vehicles and allowable credits.

Additional Child Tax Credit

For 2009, the Child Tax Credit is worth \$1,000 for each qualifying child who is under age 17 at the end of the calendar year and who qualifies as a dependent. For 2009, the credit begins to phase out when modified AGI exceeds \$110,000 for married couples filing jointly, \$55,000 for married taxpayers filing separately, and \$75,000 for single filers, heads of households, and qualified widows(ers). The credit is reduced by \$50 for each \$1,000, or fraction thereof, of AGI above these thresholds.

Obtain Professional Advice

A CPA tax professional understands the business of taxes and finances. He or she can review your overall financial picture to help you identify winning tax strategies.

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Personal Income Tax Returns

Tips for filing 2009 returns

The image shows a collage of tax forms. The most prominent is Form 1040, U.S. Individual Income Tax Return, for the year Jan. 1-Dec. 31, 2005. It includes sections for 'Label', 'Filing Status', and 'Exemptions'. The 'Filing Status' section shows 'Single' selected with an 'X'. The 'Exemptions' section shows 'Yourself' selected with an 'X'. Other forms visible include SCHEDULE E (Form 1040) and SCHEDULE A-Itemized Deductions (Schedule B).

Note: Due to the complexity and volatility of tax law, consult your CPA before acting on any of the information provided in this brochure.

Personal Income Tax Returns



The best strategies for minimizing tax liability and bolstering your financial position are to stay current on tax law and to plan ahead. However, in a time of sweeping change, new regulations, and unprecedented economic woes, doing so can be a challenge.

In 2008 and 2009, we saw tax law changes that span a range of categories, from tax benefits for middle income and energy conscious taxpayers, to tax relief for mortgage-strapped individuals, to tax credits for parents. What remains constant, though, is the need for in-depth knowledge when preparing your tax returns and considering future tax minimization strategies.

Tax Saving Tips for 2009 provides an overview of key tax law changes that may affect your return and practical strategies for minimizing your tax bill.

Filing Basics

Filing Status

Taxpayers can file as single, married filing jointly, married filing separately, head of household, or qualifying widow(er). If you are married and filing jointly, you can take advantage of certain tax deductions, tax credits, and benefits not available to couples filing separately. Unmarried taxpayers may file as single or, if they qualify, head of household.

Exemptions

You may claim a personal exemption for yourself, your spouse, and each of your dependents. A dependent child includes children born to your family, as well as stepchildren, foster children, and adopted children. Each exemption reduces taxable income by \$3,650 in 2009. However, you begin to lose part of the exemption benefit if your adjusted gross income (AGI) is above the following phase-out limits:

- Single – \$160,800
- Married filing jointly/qualifying widow(er) – \$250,200
- Married filing separately – \$125,100
- Head of household – \$208,500

Deductions

Even if you do not itemize deductions, some of the following may be available to you: traditional IRA, SEP, and qualified plan contributions; contributions to health savings accounts; one-half of the self-employment tax; alimony; job-related moving expenses; educator deduction; and self-employed health insurance premiums.

In addition to these above-the-line deductions, you can claim a standard deduction or choose to itemize your deductions, which include health care costs, taxes paid, interest paid, charitable contributions, certain losses from casualties, and other miscellaneous items such as tax return preparation fees or investment advisory fees.

The basic standard deduction for 2009 is \$5,700 if single or married filing separately, \$11,400 for married filing jointly or qualifying widow(er), and \$8,350 for head of household. Taxpayers age 65 and older and/or blind receive an additional standard deduction of \$1,100 for married filing jointly or separately, and \$1,400 for single or head of household.

The standard deduction can increase by up to \$1,000 for a joint return or \$500 for a single person if you paid real estate taxes but choose not to itemize your deductions. In general, you should itemize if your total allowable itemized deductions are more than the standard deduction, although there are exceptions.

Keep in mind that the value of some of your itemized deductions will be reduced if your AGI is above \$166,800 (\$83,400 if married, filing separately). This reduction is being phased out until it is eliminated in 2010.

Common Itemized Deductions (reduce your taxable income)

Mortgage interest, including interest on equity loans up to \$100,000	Charitable contributions of cash, property, donated clothing or household items, and appreciated long-term assets
Points paid for the original mortgage or refinancing	Mileage and expenses associated with volunteer work
State and local income taxes, real estate taxes, and personal property taxes	Unreimbursed casualty and theft losses
Health insurance costs and medical expenses in excess of 7.5 percent of adjusted gross income	Income tax preparation software and fees *
Prescription eyeglasses, contacts, and hearing aids §	Job-search expenses *
Crutches, canes, and orthopedic shoes §	Investment expenses *
Medical transportation§	Unreimbursed employee business expenses *
Cost of alcohol- or drug-abuse treatment §	Professional investment advisory fees *

§ Deductible to the extent the total of all medical and dental expenses exceeds 7.5 percent of AGI

* Deductible as miscellaneous itemized deductions to the extent the total exceeds 2 percent of AGI

Common Above the Line Deductions (reduce your adjusted gross income)

Teacher classroom expenses	IRA contributions and one-half of contributions to SEP, SIMPLE, and qualified plans
Student loan interest	Health savings account contributions
Alimony expenses	Moving expenses
One-half of self-employment tax	Tuition and fees for higher education
Penalties on early withdrawals from savings accounts	

Tax Breaks for Homeowners

Acquisition Tax Credit (often referred to as First-Time Homebuyer Credit)

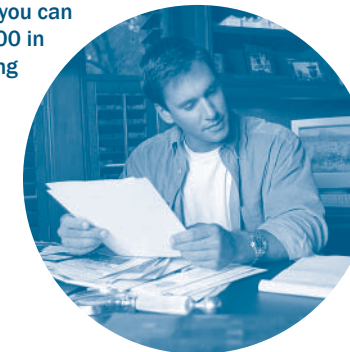
Individuals who have not owned a home over the past three years can qualify for a tax credit of up to \$8,000. Presently, the credit is scheduled to expire, but there is significant movement to continue it. Your CPA can provide you with details, especially if you want to use the credit as part of your down payment.

Interest and Property Taxes

Home mortgage interest on up to \$1 million of home acquisition loans secured by your principal residence and/or second home is fully deductible. You also may deduct mortgage interest on a home equity loan or line of credit (up to \$100,000). Points paid to secure a loan for the purchase or improvement of a principal residence usually are fully deductible in the year you pay them. Points paid to refinance an existing mortgage must be deducted over the life of the loan. Real estate taxes and state and local property taxes on all of your tangible property are deductible.

Exclude Capital Gains

If you sell your principal residence, you can exclude from income up to \$250,000 in gains (\$500,000 if married and filing jointly). To qualify, you must have owned and used your home as a principal residence for at least two years during the five-year period ending on the date of sale. Limitations apply if you use the property as a rental property.



Retirement Savings Tax Breaks

Tax-advantaged retirement plans can help lower your current tax bill and achieve a secure retirement. Recent legislation made higher IRA and 401(k) contribution limits permanent.

IRAs

You may contribute up to \$5,000 to fund a traditional or Roth IRA in 2009. Those age 50 or older can make an additional catch-up contribution of \$1,000.

Traditional IRA contributions may be deductible, depending on your AGI and whether you or your spouse (if filing jointly) are covered by an employer's pension plan. Roth IRA contributions are not deductible, but the earnings accumulate tax-deferred and may be withdrawn tax-free if you meet the qualified distribution requirements.

Eligibility to contribute to a Roth IRA is phased out one dollar for every two dollars as AGI rises from \$105,000 to \$120,000 for single filers, and \$166,000 to \$176,000 for joint filers. Married taxpayers who file separately have complete phase out of their ability to contribute if their modified adjusted gross income exceeds \$10,000.

If you have traditional IRA accounts and you want to convert them to Roth IRAs there will be a special opportunity to do so in 2010 to spread the tax liability over two years. You should meet with your CPA to review this unique situation.

Employer-Sponsored 401(k)s

Pretax contributions to employer-sponsored retirement plans reduce taxable wages. Matching contributions and income earned within your plan also are tax-deferred. The employee contribution limit for 2009 is \$16,500. Employees age 50 or older by the end of 2009 may make an additional catch-up contribution of \$5,000 for 2009.

Minimum Distribution

As a result of the collapse of our financial markets, Congress suspended the required minimum distribution for 2009. If you are receiving, or are about to receive, retirement account distributions, please review the opportunity with your CPA.