

THE *JUST TAXES!* CLIENT NEWSLETTER

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Dear Client:

January 2009

A Brief Introduction

It's hard to believe that another tax season is already upon us. It seems as though we just saw all of you last week. Anyway, we have lots of stuff to talk about so without further adieu . . .

Election Overview

Congratulations to President-elect Barack Obama. We certainly don't envy Mr. Obama the problems that he will have to contend with, and we sincerely hope that he has those qualities needed to resolve the issues facing our nation. He will obviously enjoy the support Congress which now has commanding Democratic majorities in both the Senate and the House. But he will simultaneously have to contend with the more impatient and uncompromising elements of his party who will demand immediate action on many controversial programs. We believe that Mr. Obama, a student of history and politics, will attempt to govern from the political center similar to Bill Clinton. Fortunately, politicians are not entirely tone deaf. They are aware that many voters are tired of "politics as usual" and expect a bipartisan effort in resolving our current problems. Regardless, it promises to be an interesting year for the political junkies among us. These are, from our perspective, the potential tax ramifications of the Obama administration. Be forewarned, however, that Mr. Obama's priorities, and our perceptions, could change dramatically based on the unfolding realities of the economic recovery.

Tax Rate Changes: Mr. Obama has made clear his intent to increase the top individual tax rates. This could occur relatively soon after he takes office or somewhat later in the year. In either case, we expect that any increases will likely be retroactive to January 1, 2009. However, we would not be entirely surprised if these tax increases were delayed until the economy stabilizes. In that event, we suspect that the most significant changes will occur in 2010, the year in which the Bush tax rate cuts are scheduled to expire. All that is required is for Congress to do nothing and tax rates will increase across the board. And, as we all know, Congress is very, very good at doing nothing . . . or at least not much that is useful.

Capital Gain Tax: We expect that capital gain tax rates for high income tax payers could be increased retroactive to January 1, 2009.

Alternative Minimum Tax: The AMT is ensnaring more and more tax payers, and several of our clients experienced that sting this past year. Politicians being politicians, we expect that there will be some minor "tinkering" with the AMT so that fewer middle income taxpayers will be affected. However, any significant changes will most likely be delayed until 2010.

Estate Tax: We anticipate that the estate tax will not be phased out in 2010, as scheduled. Specifically our guess is that the exemption will be kept at about \$3.5 million (or thereabouts) with a top rate of 45 percent.

Earned Income Tax Credit: We believe that Mr. Obama's focus in early 2009 will be on providing tax relief for those with low-income. Efforts will most likely include expansion of the earned income tax credit along with increased funding for jobless benefits and food stamps. We also anticipate yet another economic stimulus package

Home Foreclosures: Mortgage "workouts" and home foreclosures can have significant tax consequences. There are, however, special provisions that may reduce or eliminate that tax bite

for individuals who have lost their homes. We'll review these provisions in detail with those to whom they may apply.

Watch out for stealth taxes at both the federal and state level. Efforts to raise revenue will include new taxes on services, increased sales and utility taxes, and "technical changes" in tax law which will increase taxes without increasing tax rates. We also expect that there will be significant increases in payroll taxes (Social Security and Medicare) within the next couple of years, particularly for those with high income. We'll do our best to keep you informed.

Interesting Tax Stuff

Starting in 1987 taxpayers were, for the first time, required to provide social security numbers for their children as well as for other individuals whom they claimed as dependents on their tax returns. That year 7 million dependents disappeared from the tax roles. We suspect that there may have been a lot of "kids" with four legs whose real names were Butch and Fido (or Phidoux in the case of French Poodles).

Charitable Contributions

The Tax Court recently ruled that a couple who tithed to their church throughout the year, providing 10 payments totaling more than \$6,000, were not entitled to the deduction because they had not complied with the substantiation rules. Even though the donations were made to a qualified charitable organization and the couple had canceled checks, IRS had denied the write-off because the couple lacked proper written acknowledgment from the church for each gift. As we have discussed previously written acknowledgments are required for each individual donation of \$250 or more. Even if a donation is less than \$250 you must keep a canceled check, a bank record, or a receipt with the charity's name and the amount of the gift. So if you make substantial charitable contributions during the year ensure that you understand and comply with all of the rules. Call us if you have any questions.

Tax Humor

"65 percent of people say that cheating on your income tax is worse than cheating on your spouse. The other 35 percent were women." -- Jay Leno

What's New for 2008?

Provided below are some brief comments about some of the more significant tax law changes enacted for 2008.

Mileage Rate: As shown on the following page, the standard mileage rate has changed effective July 1, 2008. Those of you who claim automobile mileage will therefore have to provide us with data from January 1, 2008 through June 30, 2008, and from July 1, 2008 through December 31, 2008.

Mileage Rate Changes (Cents Per Mile)

Purpose	Rates 1/1/2008 through 6/30/2008	Rates 7/1/2008 through 12/31/2008
Business	50.5	58.5
Medical/Moving	19.0	27.0
Charitable	14.0	14.0

Property Taxes: The 2008 Form 1040 will have a special line for the new property tax write-off for filers who don't itemize. This tax break is on top of the standard deduction and is capped at \$1,000 for married couples and \$500 for single filers. Non itemizers will have to check a box if

they are taking the property tax break, and will then have to add the extra amount to their standard deduction. This write-off is effective for 2008 only.

First-Time Home Buyers: First-time home buyers purchasing a home after April 8, 2008 and before July 1, 2009 may receive a tax credit equal to 10 percent of the purchase price of a home that serves as your principal residence. The credit is limited to \$7,500 and phases out for married filers with income between \$150,000 and \$170,000, and for single filers with income between \$75,000 and \$95,000. This credit is essentially an interest free loan that must be repaid in equal installments over 15 years commencing two years after the home is purchased. And there are a number of other catches as well. Call us to discuss the details before making a final decision.

Stimulus Payment There will be a new line on the Form 1040 to record the amount of the stimulus payment that you received in 2008. The purpose of this entry is to determine whether taxable events reported in 2008 may entitle the taxpayer to an additional amount. Relevant events would include the birth of a child, a reduction in income, or a change in dependency status. And we'll bet that every one of you recalls that exact amount of the stimulus payment that you received. Are we having fun yet?

More Tax Humor

"Worried about an IRS audit? Avoid what's called a red flag. That's something the IRS always looks for. For example, say you have some money left in your bank account after paying taxes. That's a red flag." -- Jay Leno

Frequently Asked Questions

Q. I am a stay at home mom and an artist. I've sold a few paintings and have also donated some paintings to charitable organizations. For tax purposes is this activity considered a hobby, or is it a business? And what's the difference?

A. A hobby is an activity that is not pursued for a profit such as fishing, sewing, woodworking, or stamp collecting. However, if you should make a profit (for example, your sold a stamp for more than you paid for it) then that profit should be reported as income on your tax return. Conversely, losses from your hobby cannot be used to offset your income. In comparison, a business is an activity that is carried on with the reasonable expectation of earning a profit. An activity is usually considered a business if it makes a profit during at least three of the last five tax years. If you are conducting a business then you can deduct your ordinary and necessary expenses, which you can't do for a hobby. In short, your activity might be either a business or a hobby depending upon a variety of circumstances. Confused? Call us to discuss your specific situation.

Q. My friend and I have almost identical financial circumstance. She has her taxes done at a national tax preparation firm and her tax return has twice as many pages as mine. Why the difference?

A. We generally don't provide our clients with copies of superfluous worksheets, schedules, and forms unless they are required to be filed by the Internal Revenue Service or Franchise Tax Board. Doing so can not only create unnecessary confusion, but is also a waste of paper. In short, we don't sell our tax returns by the pound . . .

Q. Why doesn't Dennis wear a tie?

A. Dennis believes that ties artificially restrict the flow of blood to the brain thereby inadvertently destroying brain cells. He uses as proof the incompetent performance (and occasional criminal behavior) of so many of our elected officials who are invariably sheathed in coats and ties except during elections. During those times they remove their ties, roll up their sleeves, and carry their coats over their shoulder to prove that they are "hard working Americans" just like us. Right . . . Dennis hasn't resolved this issue vis a vis female politicians, but

thinks that it might have something to do with the chemicals in lipstick imported from China or, possibly, overly tight pantyhose.

Betcha Didn't Know

The top individual tax rate is 39.6 percent. We'll bet that you think that Congress carefully calculated this rate based on a thorough, in-depth analysis of the tax system. We, of course, believe that 39.6 percent just sounds a whole lot better than 40 percent and the fact that 99 percent of 40 percent equals 39.6 percent is not really just a coincidence. Gee, are we becoming cynical?

Client Organizers

We will mail client organizers to those clients who have requested them in mid-January. Call us if you want an organizer but haven't received one by end of month

We're Green!!

We have recently purchased 500 reusable shopping bags. These are available at no cost to our clients. We encourage you to pick one up and use it for your daily shopping excursions.

Until next time,

Dennis T. Graff

Diana L. Muller
Enrolled Agent

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