Donald J. Weiss, Esquire, PC

ATTORNEY AT LAW

DONALD J. WEISS | CHADDS FORD OFFICE
PRESIDENT | 6 Hilloch Lane | FAX: 610-459-8653
Chadds Ford, PA 19317 | PHONE: 610-459-8074

Certified Public Accountant | **Website: www.DonaldJWeiss.com**
LL.M. (Taxation) NYU | **E-Mail: DonaldJWeissEsq@AOL.COM**

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Dear Client,

If you are receiving this and you want to be taken off my mailing or emailing list, please fax this back to me with your name and email address and I'll be sure to take you off my list.

The following are what I consider to be some important tidbits:

1. Tax Assessment Appeals – This past tax assessment season, we represented several hundred homeowners and saved them more than half a million dollars in real estate taxes per year. If you go to my website, there is a real estate tax calculator that you can do yourself to determine whether we can save you any real estate taxes. The deadline in Pennsylvania is August 1st.
2. Refinancing - We are doing more and more refinancing and settlements because people are able to refinance now and get their mortgage interest rates reduced significantly. We have a full service title insurance agency and can offer clients a reduced approved attorney rate on any title insurance placed.
3. Employee Forms – I recently heard of a case where an employer did not have I-9's for all of his employees. An I-9 is similar to a W-9 but the I-9 is required by INS, not the IRS. They were going to be fined $5,000. That facts as stated did not indicate that they were any type of suspect organization and I am sure there were extenuating circumstances that caused such a position by INS but I felt it worthwhile to point this out.
4. Roth Conversions – In the year 2010 there is no maximum adjusted gross income to qualify for a Roth conversion of a 401k. The provisions are only in existence for 2010 and permit the payment of the taxes over 2011 and 2012. A Roth conversion would be advantageous if you believe that your tax bracket in subsequent years would be higher than the bracket you were in during 2010. Don't forget, if you have a substantial amount in your standard 401k than that could push you into a higher tax bracket but if you believe what you hear, it sounds like future tax brackets will be substantially greater than the current ones.
5. First Time Home Buyers – They extended the $8,000 credit for first time home buyers for settlements that take place before April 30, 2010. Then they came along with a new proposal for a $6,500 credit for anyone (not a first time home buyer) buying and moving into a new home, as long as the Agreement of Sale is entered into before April 30th and settlement takes place before June 30th 2010. This is to encourage people who currently live in a home and want to buy a new home. There are certain requirements and if you are interested, give me a call to discuss it.

6. Statutory Employees – I am seeing more people who really qualify as statutory employees who have a significant advantage over a regular employee. A statutory employee is someone who doesn't go into the office every day, who works pretty

much on their own and their compensation is based on a percentage basis and they incur their own expenses. A statutory employee still gets a W-2 and still has withholding taxes, Social Security and Medicare taxes withheld but for those employees who generally do not go into the office and generally work out of their homes, there is a predominantly, there is a tremendous advantage in being a statutory employee. A regular employee is limited to deducting his/her business expenses on Schedule "A" as a miscellaneous itemized deduction which are lost to the extent of 2% of the adjusted gross income. So that leaves a person who makes $100,000 lose the benefit of $2,000 of the employee business expenses. A statutory employee reports gross income from the W-2 on Schedule "C" and then gets to deduct all expenses on Schedule "C" and doesn't lose the benefit of the 2% of the adjusted gross income. In the old days where an employee went to the office every day and worked out of a cubicle and had daily assignments from their boss, that would be a typical common law employee; but with more and more employers preferring their employees to work from home, they really qualify as a statutory employee. Therefore, their home office deduction falls under different rules than a regular employee. If this applies to you, please bring this to my attention when we get ready to do this year's tax return.

7. <u>Donations From an IRA</u> – There is a provision that expires at the end of this year but will likely be extended to next year which permits the donation of up to $100,000 of IRA directly to a charitable organization and as a result does not have to be picked up as income. Although you don't also get the deduction, the advantage is that your adjusted gross income does not go up and your donation would not be limited based upon your AGI. One condition is that you are over 70.5 years old.
8. <u>Wills and Powers of Attorney</u> - In just about every newsletter I send out, I remind you to make sure your heirs know where your ORIGINAL Will and Power of Attorney are. Now, it is rare to find lawyers who hold their client's original Wills and despite my last newsletter saying that I don't keep any Wills unless I am named in them, I have had the children of two previous clients call me asking for their parents' original Will. Most lawyers do not keep any original Wills unless they are named in the will as the attorney, executor or as a beneficiary. Lawyers used to do this in order to make clients' children feel they had to come to them when their parents died but with the increased mobility of people, they move away and then the lawyer is stuck with having hundreds of Wills that are totally useless. Please be sure to look for your original Will NOW and if you don't have the original and only can find a copy, it is a simple matter to get the copy re-executed with an original signature and then it is an original. The same is true for the Power of Attorney. A copy of a Power of Attorney will not be accepted to transfer real estate and if you are using a Power of Attorney to transfer real estate, it must be acknowledged by a Notary. A Living Will is generally OK if it is a copy but you should make sure that your family can find these documents even if you are still alive. It is not a bad idea to give out your Living Will to all of your children in case you are visiting them and something happens.
9. <u>Sales Tax and Real Estate Tax as a Deduction Directly Against AGI and Not as an Itemized Deduction</u> – There is a special provision just recently put into Law that permits a deduction for sales tax on items such as motorcycles, boats, planes, cars and RV's and real estate taxes to be deducted directly against the adjusted gross income in addition to the regular standard deduction. This would be beneficial to you who have no mortgage and income between $50,000 and $100,000. Even if we have not itemized deductions in the past, be sure to give me these items with your tax information so I can determine the appropriateness for something along these lines.

10. <u>Cancellation of Debt/Forgiveness of Indebtedness</u> – I must get a call at least once a week from a client who is trying to negotiate with a mortgage company or credit card company to get a reduction of the balance due. They were told by someone, either a bankruptcy lawyer or their friendly barber that they are going to have to pay tax on the amount of any debt that is cancelled or forgiven. That statement is true but my experience so far is that some of the exceptions to this reporting of income almost always apply. One exception is the forgiveness of debt on a primary residence is excluded and any cancellation of debt is excluded if you are insolvent. Insolvency means that your liabilities exceed your assets and most of the time that is generally the case. For example, if your net worth is $1 million and you negotiate a credit card on which you owe $25,000 and you are able to get the credit card company into taking $12,500, your cancellation of debt income is $12,500 and you have to pay taxes on it because you are not insolvent, either before or after. However, if your net worth is a negative $50,000, which means you may want to consider bankruptcy, and you negotiate a credit card down from $25,000 to $12,500, then you would qualify for the exclusion. However, the last credit card you negotiate with may result in a non-excludable portion because you may be solvent after you have negotiated down the last credit card so the timing of these negotiations is important. You should try to do the big ones first.
11. <u>Donation of Boat or Car to Charity</u> – If you are donating a boat or a car to charity, you must get a 1098c from the charity at the time of the donation which I should include with your tax return. Any charity that accepts a car for charity should know what a 1098c form is and if they don't, you should give me a call before you donate.
12. <u>Cash Donations</u> – Several years ago the rules were changed to totally eliminate any cash donations. Therefore, what we used to do in the old days of a church plate donation is no longer valid. If you put cash in the weekly collection, unless you get some type of receipt, it is not deductible. If you are going to put cash in, it is better if you use the envelopes you get or even better, write a check.
13. <u>Employers</u> – If you are an employer, it is imperative that you follow the rules for classification of an employee vs. an independent contractor very carefully. If you treat a person as an independent contractor and they are really an employee, the consequences can be substantial and particularly if that person does not report the income they receive from you and does not pay their taxes and the IRS cannot collect from them. If they determine they are an employee, it would be mandatory for you to withhold income tax, Social Security Tax and Medicade Taxes and if you did not and they cannot collect from the employee, then who do you think is responsible. They will try to collect from anyone they can and you will be the prime target. I am not trying to scare you but you must understand in advance what you need to do to make sure that a person is an independent contractor and not an employee. You can go to my website and look up the various factors.
14. <u>Mortgage Refinance Points</u> – I have told you in the past that mortgage refinance points are amortizable. If you are refinancing a mortgage that you have some points remaining unamortized from before, you are able to write the unamortized portion off entirely in the year of the refinance. Points on a new mortgage are amortized over the life of the mortgage and would be written off in whole if you ever refinance that mortgage again.

15. All Delaware County residents regardless of income or age, qualify for prescription discountcards. Go to my website or the county website www.trustscripts.com or call 1.800.340.0047 . Check your own County, it may have a similar program.