

## Tax Tips for All Taxpayers

- 1) A person who files a joint return (other than a return filed solely to claim a refund) cannot be claimed as a dependent.
- 2) An American Opportunity tax credit (\$2,500 maximum) is available on a per-student, per-year basis for the first four years of post-secondary tuition, fees, books, supplies and equipment.

A lifetime learning credit (maximum \$2,000 per return) is available for post-secondary educational expenses (tuition and fees, plus books, supplies and equipment that must be paid to the institution as a condition of enrollment or attendance). It is available for an unlimited number of years for undergraduate, graduate, professional degree and other students acquiring or improving job skills enrolled in one or more courses.

The education credits phase out at higher levels of adjusted gross income (AGI). Also, special rules apply to students in schools in the Midwestern Disaster Area. Ask your tax advisor.
- 3) You can also deduct up to \$2,500 of interest on qualified education loans for college or vocational school expenses, or up to \$4,000 of post-secondary tuition and fees, even if you do not itemize deductions. Deductions are phased out based on AGI.
- 4) Nondeductible contributions up to \$5,000 (\$6,000 if 50 or older) can be made to a Roth IRA. Distributions, including earnings, are tax-free when certain requirements are met. The contribution limit is subject to an AGI-based phase-out.
- 5) An IRA deduction up to \$5,000 (\$6,000 if 50 or older) is available to all taxpayers who are not covered by an employer-sponsored retirement plan. Taxpayers covered by an employer plan may be eligible for a full or partial deduction, depending on their AGI.
- 6) If only one spouse has compensation, a spousal IRA can be set up for the nonworking spouse. Each spouse (working and nonworking) may contribute up to \$5,000 or \$6,000 (if age 50 or older).
- 7) Exceptions apply to the 10% penalty for early withdrawals from an IRA if the funds are used for: (1) medical expenses in excess of 7.5% of AGI, (2) certain qualified educational expenses, (3) a first-time home purchase for distributions of up to \$10,000 or (4) medical insurance for those who are unemployed for at least 12 weeks. **Note:** IRA withdrawals are still subject to regular income tax.
- 8) A gain exclusion up to \$250,000 (\$500,000 if married and filing jointly or certain surviving spouses) is available for a sale of a principal residence if the taxpayer(s) owned and occupied the residence for two years of the five-year period ending on date of sale. The five-year period is extended for certain military, foreign service and intelligence personnel. If the home was used other than as your principal residence any time after 2008, some of the gain may be taxable.
- 9) Interest on certain Series EE savings bonds issued after 1989 is tax-exempt if proceeds are used for qualified educational expenses of a taxpayer, spouse or dependent, subject to AGI-based phase-out.
- 10) Keep receipts supporting tax deductions at least four years.
- 11) Improvement costs may reduce taxable profit upon sale of property. Keep records of improvement costs made to all real property at least four years after the property is sold.
- 12) If stock or mutual fund dividends are automatically reinvested instead of received in cash, maintain good records of all reinvested dividends each year. These reinvestments increase cost basis, and reduce gain or increase loss upon sale.
- 13) If "allocated tips" are listed on year-end Form W-2, the amount will be subject to both Social Security and income tax unless records (tip log) verify that a lesser amount was actually received.
- 14) Child care expense credit allows up to a 35% tax credit on up to \$3,000 of child care costs paid for one dependent or \$6,000 for two or more dependents.
- 15) Taxpayers born before 1936 who receive a lump-sum distribution from a pension plan or profit-sharing plan may utilize a tax-saving method with 10-year averaging. Ask your tax advisor.

- 16) Taxpayers investing in certain types of passive activities (such as limited partnerships) are limited in the amount of loss they can claim to offset other types of income. However, a taxpayer who actively participates in a rental real estate activity can apply up to \$25,000 in rental losses against other sources of income—subject to phase-out based on AGI.
- 17) Purchasers of qualifying alternative fueled vehicles (such as hybrids) and plug-in electric vehicles are eligible for a tax credit. Ask your tax advisor.
- 18) Taxpayers can exclude \$2 million (\$1 million if MFS) of certain mortgages cancelled because of their financial condition or decline in the home's value. To qualify, the loan must have been to buy or improve the principal residence (or a loan refinancing such loans).
- 19) Taxpayers who purchase a new vehicle (car, light truck, motorcycle or motor home) after 2/16/09 and before 2010 can deduct the state and local taxes paid on the purchase whether they claim the standard deduction or itemize deductions.

## Tax Tips for Taxpayers Itemizing

- 20) Insurance premiums on policies that cover medical costs are deductible. Premiums on disability and loss of income insurance are not deductible.
- 21) Qualified long-term care insurance premiums are deductible subject to age and dollar limits: Age 40 or less, \$320; ages 41 to 50, \$600; ages 51 to 60, \$1,190; ages 61 to 70, \$3,180 and ages 71 and up, \$3,980.
- 22) Special assessments paid on your property are normally not allowed as a deduction. But, the interest portion of the special assessments can be deducted as a tax.
- 23) Loan origination fees (points) are deductible as interest by a buyer of a new principal residence. Homebuyers are also allowed to deduct seller-paid points. Points paid on refinancing an existing residence must be deducted over the life of the mortgage.
- 24) Charitable contributions of \$250 or more in any one day to any one organization must have written substantiation from the organization. A bank record, such as a cancelled check is not sufficient.
- 25) When making contributions of used furniture, appliances and clothing to nonprofit organizations, request a receipt from the organization. Attach a record of the items donated to the receipt for proof of this deductible contribution. Contributions must be in good or better condition to be deductible.
- 26) Taxpayers who own appreciated stocks or bonds can take advantage of certain tax-saving methods by donating the securities to churches or other nonprofit organizations.
- 27) If you experienced a casualty loss (flood, fire, theft, etc.) that exceeds 10% of AGI, your tax preparer will explain what information is required to determine your deductible loss, if any. Net casualty losses from a federally declared disaster are not subject to this limitation.
- 28) Expenses incurred for education for improving your skills for your present job or maintaining your job may be deducted. Seminars, tuition, books and some travel expenses can be deducted. Travel as a "form of education" is not deductible. *Example:* French teacher travels to France to maintain general familiarity with the French language and culture—not deductible. However, see Tax Tip 2 for education costs that qualify for a credit even when not job-related.
- 29) Job-seeking costs in the same field of employment are deductible. Successful job placement is not necessary.
- 30) Part of a legal fee incurred in a divorce or an estate plan may be deductible if it is for advice on the tax consequences. Have your attorney clearly indicate how much of the fee is for tax advice.
- 31) Expenses incurred for attending conventions, seminars or other meetings that give investment advice to taxpayers are not deductible.
- 32) Investment interest (land, margin account, etc.) is deductible only to the extent of net investment income for the year. Net investment income includes dividends, interest, royalties and short-term capital gains.