



H & R PYE'S TAX SAVER

August 2009

Dear Clients,

This is an extra newsletter—you will not see your tax appointment here and you will not have your checkoff lists in this newsletter—those will be in the next newsletter we send you which will be in November.

We are sending out this early newsletter because there are a lot of issues that we want to share with you. We hope that you will read this newsletter and get some good information to help you.

We hope that you are all having a safe and healthy year and that you have been able to enjoy the summer despite all of rain we have had this year.

Holly & Ron

NEW TAX BENEFITS AVAILABLE UNDER THE STIMULUS BILL

On February 17, 2009, President Obama signed into law H.R. 1, the American Recovery and Reinvestment Act of 2009, which was designed to give relief to struggling taxpayers and to stimulate certain sectors of the economy. This massive legislation extends and expands many of the tax changes enacted in the economic recovery act passed in late 2008. Below are highlights of the tax breaks contained in the new law.

TAX BREAKS FOR INDIVIDUALS

Making Work Pay Credit – The refundable credit is equal to 6.2 percent of a taxpayer's earned income with a maximum credit of \$800 for a married couple filing a joint return and \$400 for other taxpayers, but it is phased out for higher income taxpayers. The phase-out applies for those with adjusted gross income above \$75,000 for individuals and \$150,000 for married couples filing jointly. The credit is available for 2009 and 2010, but may be extended under President Obama's budget proposals. Ineligible individuals include nonresident aliens, those claimed as a dependent on another person's tax return and those who do not include a social security number on their tax return. For joint filers, only one social security number is required on the return.

The credit is being implemented through revised income tax withholding tables which employers were required to

start using by April 1 of this year. Employers and payroll companies will handle this change, so taxpayers do not need to fill out new W-4 withholding forms to have the credit amount reflected in their take-home pay.

Change in Federal Withholding May Lead to a Nasty Surprise at Tax Time. We are receiving calls from clients concerned about the change in federal withholding.

Frankly, we agree there is cause for concern about the changes in withholding

There are numerous situations that can cause problems with the withholding change and your 2009 tax return – for example:

A single worker with two jobs making \$20,000 a year at each job will get a \$400 boost in their take-home pay at each of them, for a total of \$800. That worker, however, is eligible for a maximum credit of \$400, so the remaining \$400 will have to be paid back at tax time –either thru a smaller refund or a payment to the IRS. **(WEJAM)**

The IRS recognized there could be a similar problem for married couples if both spouses work, so it adjusted the withholding tables. The fix, however, was not perfect.

A married couple with a combined income of \$50,000 is eligible for an \$800 credit. However, if both spouses work and make more than \$13,000, the new withholding tables give them each a \$600 boost—for a total of \$1200. The maximum credit is \$800.

A single college student with a part-time job making \$10,000 would get a \$400 boost in pay. However, if that student is claimed as a dependent on a parent's tax return, she doesn't qualify for the credit and would have to repay it when she files next year.

Some retirees face even bigger headaches.

The Social Security Administration sent out \$250 payments to more than 50 million retirees in May as part of the economic stimulus package. The payments were sent to people who receive Social Security, Supplemental Social Security Income, railroad retirement benefits or veteran's disability benefits.

The payments are meant to provide a boost for people who don't qualify for the tax credit. However, they will go to retirees even if they have earned income and receive the credit. Those retirees will have the \$250 payment deducted from their tax credit—but not until they file their tax returns next year, long have the money may have been spent.

Retirees who have federal income taxes withheld from pension benefits also are getting an income boost as a result of the new withholding tables. However, pension benefits are not earned income, so they don't qualify for the tax credit. That money will have to be paid back next year when tax returns are filed.

Our general recommendation is for anyone who is concerned, to file a new federal W-4 and keep their current filing status and exemptions and request additional federal withholding to offset the decrease in their federal withholding.

For example: If you were claiming M-0 and your federal withholding decreased by \$15 you would submit a new W-4 form and claim M-0 with \$15 extra withheld for the IRS

The key thing here, is to know what you are claiming for withholding so you do not accidentally undo that, but instead merely offset the decrease. **(WLHAN)**

We want to encourage you to review your paystub after you submit this change and verify that the federal withholding has indeed gone back up.

Special Tax Break for Purchasing New Car. If you purchase a new car after February 16, 2009 and before January 1, 2010 you will qualify to deduct the sales tax and excise taxes on the front of your tax return. In other words, you get the deduction for these 2 taxes without having to itemize your tax deductions. Please make sure you bring your Sales Contract and Registration with you to your tax appointment.

To qualify: You must be the first owner to register the vehicle.

Has to be a car, light truck, motor home or motorcycle (gross vehicle weight of 8,500 pounds or less).

Only purchase price up to \$49,500 qualifies (if your purchase is more than the \$49,500 then you only count the taxes on the first \$49,500).

The deduction is phased out for singles whose income is between \$125,000 and \$135,000; and for married couples whose income is between \$250,000 and \$260,000.

Cash for Clunkers Program has been on the news a lot lately but still worthwhile for us to mention here. If you are driving a vehicle whose EPA mileage rating was 18 mpg or less when it was new, then you may qualify for the Cash for Clunkers Program. You can check on the internet to see if your vehicle qualifies or you can go to your new car dealership to see if your vehicle qualifies for this program. Basically if it qualifies on the 18mpg or less and it's trade-in value is less than \$3500 or \$4500 and you want to trade it towards a more energy efficient vehicle—you need to get to your new car dealership as soon as possible. Make sure you negotiate your best price before the Cash for Clunkers Program kicks in. Also, this program is for a limited time only so if you are interested we recommend that you move fast so that you don't lose out.

Education Credit Changes for the Better. The American Opportunity Credit will change the Hope Education Credit for the next 2 years.

The credit will be available for 4 school years after high school. You will be able to count the cost of books and course materials.

The maximum credit per student per year will be \$2500. The full credit will be available for single and head of household with modified adjusted gross income of \$80,000 or less. And for married couples whose modified adjusted gross income of \$160,000 or less.

The credit will also be refundable, so you will benefit from the credit even if you do not owe any taxes.

Computer Equipment Qualifies as College Expense – Taxpayers may use funds from tax-qualified 529 accounts for purchases of computer hardware, software, internet access or related services used by a college student. The purchases must take place in 2009 or 2010. Software designed for sports, games, or hobbies does not qualify unless it is mainly educational in nature.

Child Tax Credit has also been improved. In the past, this credit was only refundable if your earned income exceeded \$10,000. For 2009 and 2010, the credit will be at least partially refundable for people with earned income of at least \$3000. This change will help a lot more parents.

Earned Income Credit Increases and Open to More Tax Payers. The American Recovery and Reinvestment Act (ARRA) is providing a temporary increase in the earned income tax credit for taxpayers with three or more

qualifying children The maximum EITC for this new category is \$5657.

More people will qualify for more credit. The refundable credit will be available up to the following cut offs:

Earned income up to:

\$18,440 for married couples with no children

\$40,463 for families with one child

\$45,295 for families with two children

\$48,279 for families with three or more children.

Remember, the earned income credit starts at \$0 goes to a high at approximately at the middle of the range, and then starts to decrease until it reaches \$0 at the highest income allowed.

Required Minimum Distributions Suspended for 2009—Because of the depressed Stock Market, the government has suspended the required minimum distribution for tax year 2009. This means that you do not have to take your distribution if you do not wish to and you will not be subject to a penalty. This applies to taxpayers who are at least 70 1/2 as of December 31, 2009. If you are getting a distribution and you don't want one for 2009 you must contact the administrator of the plan to let them know you don't want the 2009 distribution.

This will hold true with whatever form of retirement plan you have whether it is a 401K- Regular IRA- Solo 401K- Simple IRA- 403B- SEP- or 457.

First \$2400 of 2009 Unemployment Benefits Tax Free The first \$2,400 of unemployment benefits received by taxpayers in 2009 are tax free. For a married couple, the exclusion applies to each spouse separately. Unemployed workers can choose to have income tax withheld from their unemployment benefit payments. Those who choose this option will have a flat 10 percent tax withheld from their benefits. The IRS has instructed taxpayers to use Form W-4V, Voluntary Withholding Request, or the equivalent form provided by the payer, to request withholding to begin or end.

First-Time Homebuyer Credit – Qualifying taxpayers who purchase a home before December 1, 2009 receive a credit of 10% of the cost of the home purchase up to \$8000 or \$4,000 for married individuals filing separately. You can qualify if you have not owned a home for the past three years. Taxpayers have the option of claiming the credit either on their 2008 tax returns or on their 2009 tax returns next year. The amount of the credit begins to phase out for taxpayers whose adjusted gross income is more than \$75,000, or \$150,000 for married couples filing jointly. Taxpayers buying the home after December 31,

2008 do not have to repay the credit. (Taxpayers who bought a home under the previous provision during calendar year 2008 have to repay the credit over 15 years.) Some filing options to consider are:

1) **Amend the 2008 tax return.** Taxpayers who buy a home after they filed their 2008 return can consider filing an amended tax return. The amended tax return will allow them to claim the homebuyer credit on the 2008 return without waiting until next year to claim it on their 2009 return.

2) **Claim the credit in 2009 rather than 2008.** For some taxpayers, it may make more financial sense to wait and claim the homebuyer credit next year when they file the 2009 tax return, rather than claiming it on the 2008 tax return. This could benefit taxpayers who might qualify for a higher credit on the 2009 tax return because they have less income in 2009 due to a job loss or a drop in investment income and, thus, will not be penalized by the phase-out provisions.

Employee Subsidy for COBRA Coverage and Tax Credit for Employers Who Provide COBRA Benefits Employees who lose their jobs after August 31, 2008 and before January 1, 2010 and who elect COBRA health continuation coverage are entitled to receive a 65 percent subsidy on their COBRA premiums. For periods of COBRA coverage beginning after February 16, 2009, the employee is covered by paying only 35 percent of the premium amount. The employer may recover the other 65 percent by taking the subsidy amount as a credit on their quarterly employment tax return. **(FCBIS)**

ALTERNATIVE ENERGY TAX BREAKS

Both individuals and business can take advantage of new or expanded tax benefits for costs associated with reducing energy use or creating new energy sources. One of the more useful credits for individuals is the new tax credit for making energy efficient improvements to your home. Here's a run down of some of the new provisions.

Residential Energy Property Credit – Taxpayers can now get a generous credit for making energy efficient improvements to their existing homes equal to 30 percent of the cost up to \$1,500 for 2009 and 2010. The credit applies to improvements such as adding insulation, energy efficient exterior windows and energy-efficient heating and air conditioning systems.

Note: For information on efficiency standards and what type of equipment qualifies for the credit, you can go to the government's information website at <http://www.energystar.gov>. Most manufacturers and installers also have information on which models qualify for the credit.

Residential Energy Efficient Property Credit -- This nonrefundable energy tax credit will help individual taxpayers pay for qualified residential alternative energy equipment, such as solar hot water heaters, geothermal heat pumps and wind turbines.

On A Lighter Note.....



A frog goes into a bank and approaches the teller. He can see from her nameplate that her name is Patricia Whack.

'Miss Whack, I'd like to get a \$30,000 loan to take a holiday.'

Patty looks at the frog in disbelief and asks his name. The frog says his name is Kermit Jagger, his dad is Mick Jagger, and that it's okay, he knows the bank manager.

Patty explains that he will need to secure the loan with some collateral.

The frog says, "Sure. I have this," and produces a tiny porcelain elephant about an inch tall, bright pink and perfectly formed.



Very confused, Patty explains that she'll have to consult with the bank manager and disappears into a back office.

She finds the manager and says, "There's a frog called Kermit Jagger out there who claims to know you and wants to borrow \$30,000, and he wants to use this as collateral.'

She holds up the tiny pink elephant. 'I mean, what in the world is this?'

(folks, you're gonna luv this)

The bank manager looks back at her and says...

"It's a knickknack, Patty Whack. Give the frog a loan, His old man's a Rolling Stone.'

(You're singing it, aren't you? Yeah, I know you are.....)

Never take life too seriously! Come on now, you grinned, I know you did!!!

Thanks to my sister Cheryl for sharing this with us.

Tax Alert to All Parents With Children Who Work

H & R Pye's Tax Service is bringing you this tax alert that could save you headaches, lots of time, and yes hundreds even thousands in tax dollars.

We have mentioned this problem in about every newsletter we have done, but every year it gets worse. It will continue to get worse as costs keep going up and

money gets tighter and tighter. In January taxpayers need to set their children down and tell them that they shouldn't try to do their tax return by themselves or with the help of a friend.

There are many cases of children accidentally or mistakenly claiming themselves for an exemption when the parents are entitled to the exemption. The child has probably wasted the exemption because they do not have enough income to use the entire exemption. The child claiming themselves prevents the parents from being entitled to the Child Tax Credit or the Education Credit.

If your child claims themselves and their return is processed before your return, you will not be able to efile your tax return unless you do not claim your child. If you claim your child you will have to mail in your return—this will delay your tax refund. If you need your refund quicker, then you will have to efile it without claiming your child, and we will have to file an amended return to add your child back to your tax return—this will cost you an additional fee from us plus delay the rest of your refund by several months.

Then regardless how you handle your return, you will have to have amended returns filed for your child to unclaim them on their return. And in some cases, you will need to make a payment with the amended return in addition to our fee for filing the child's amended return.

Yes the problems can be corrected but it could take 8 to 15 weeks or more. There is no way to get it corrected faster because of the volume of returns the IRS have to process. And there could also be a problem with your and/or your child's state return that will require corrections as well. **(CMARC)**

Just to give you an example of things going astray. We have a family that were getting ready to mail in their financial aid papers to a college in Maine. Their daughter had a friend that helped her complete her tax return. The college contacted the parents to tell them that their daughter had been double claimed.

We had to take the exemption off the daughter's returns. This had to be done before the financial aid paperwork could be done. It got done just in the nick of time. There is still one problem with the return that has not been corrected by the IRS.

The problem started March 31, 2009 it is now August 15, 2009. That's 137 days. So words to the wise if you want your return for a special project or event ask your children to wait until you get your return done.

Save Money On Your Property Taxes



Are you or your spouse a veteran and at least 62 years old?

Have you owned your home for at least 12 months? If you answer yes to either or both of these questions, you may be qualified for the Veterans Exemption and/or the Homestead Exemption—call your town office today and ask about them.

Both of these exemptions only have to be applied for once and thereafter you will receive the reduction automatically. They are not a rebate instead they reduce the amount of taxes you pay. **They are for everyone regardless of your income.** Any questions call your town office.

If you move to a new home, you need to request that they transfer these exemptions to your new home.

Scam Alerts

Beware of email scams. The IRS does NOT send unsolicited email and never asks taxpayers for PIN numbers, passwords or similar secret access information for credit card, bank or other financial accounts.

If you receive an e-mail that claims to come from the IRS, it is a fraud. The IRS would like you to forward that e-mail to their new mailbox, phishing@irs.gov. The IRS can use the information, URLs and links in the suspicious e-mails to trace the hosting Web site and alert authorities to help shut down the fraudulent sites.

Avoid mortgage scams. If you are having trouble making your house payment call the National Foundation for Credit Counseling at 800-388-2227. If you are 62 or older, own your own home and are having trouble meeting monthly living expenses, a reverse mortgage may help you. If you expect to sell your home within 5 years or want to leave your home to your children this may not be the best idea for you. Otherwise talk to your bank or financial institution and see if a reverse mortgage may be for you.



2008 Contest Winners!!

Make Sure You Look For Your Client Code - You Have Now have 6 Chances to Win!

There were 6 client codes in the January TAXSAVER. We had only 1 client call in to claim their prize—Katie & Scott Anderson (ksand on page 2) of Topsham called in and won \$50 off the cost of their 2008 tax return fee.

Unfortunately, Daniel & Shirley Kavanaugh (dskav on page 1) of Brunswick, Talbert & Marie Williams (tmwil on page 3) of Topsham, James & Sally Hogan (jshog on page 4) of Bath, Harold & Kathy Dauphin (hkdaou on page 5) of Bath, and John & Elaine Desjardins (jedes on page 3) of Bath did not find their codes.

Remember all you have to do is read our newsletters - not only will you have a chance to win you also may learn something that may help lower your taxes.



Do You Need An Early Tax Appointment?

Do you need to have your return done early because you have a child that needs it for student loan information?

Are you a **self-employed fisherman** and earn 2/3 of more of your family's income from fishing? If you are you must file and pay your taxes on or before March 1, 2010.

Do you own a business? Remember we offer an Early Business Discount. If you have **ALL of your business records completed** and are just waiting for a few 1099s, W-2s and your bank documents then you are eligible for our Early Business Discount. To get the discount you need to have your tax appointment with us **by Friday January 22nd and get us the rest of your information by March 15th.** Remember, you should have all your information totalled by categories in order to minimize any accounting fees.

Call us at 443-6183 as soon as possible if any of the above situations apply to you—January and February appointments fill up fast.

How To Reach Us



If you have any questions about any of the articles in this newsletter (or any other tax matters) there are a number of ways to reach us:

- * Local callers (207) 443-6183
- * Long distance callers 1-877-pyestax (793-7829)
- * Fax us at (207) 443-8970
- * Email us at hollypye@pyestax.com or ronpye@pyestax.com
- * **Our website** is www.pyestax.com
- * Our office is located at: 46 Varney Mill Road Bath, ME 04530



**Ta Ta Taa!!!
And our Contest
Winners are.....**

Magic Kingdom Korps

We are pleased to announce the Contest Winners for our Preschedule and Confirm Your Appointment Contests for this past tax season.

Our Prescheduled Appointment Contest Winners: Merle & Melinda Chaney of Phippsburg have won the first place prize of \$25 credit memo. The following winners have each won a \$15 credit memo:

- David Brewster of Bath
- Dennis & Joanne Wheeler of Pownal
- David & Natalie Hodgdon of Wiscasset
- Gerald & Jean Giberson of Topsham
- Claudia Ritch-Smith of Falmouth

Our Confirm Your Appointment Contest Winners will each be receiving a check for \$100.00.

Congratulations to:

- Carolyn Aberg of Bath
- Kelly Holbrook of Wiscasset
- Roger & Donna St Amand of Litchfield

Congratulations to all of our winners!

2009/2010 Contest Prizes



Client Code Contest—August 2009 Newsletter: The first caller will receive a \$50 credit off their 2009 tax return preparation fee. The 2nd caller will receive a \$40 credit, the 3rd caller will receive a \$30 credit and the 4th thru 6th caller will receive a \$20 credit off their 2009 tax return preparation fee. You have a good chance to be a winner so don't give up because you could also get some good ideas - just by reading our newsletters.

The deadline for claiming your Client Code prize is Monday **October 5, 2009**. Good luck and we hope you enjoy our newsletter.

Prescheduled Appointment Contest: 1st prize: \$25 credit memo, 2nd thru 6th prize winners each get \$15 credit memo towards our services. Deadline is **Thursday January 23rd, 2010**.

H & R PYE'S TAX SAVER

Client Referral Rebates Contest: \$6 credit memo for each referral; Special drawing: 1 to 2 Referrals \$50 Credit Memo; 3 or more Referrals \$75 Credit Memo.

Confirm Your Appointment Contest: Call and confirm your tax appointment by **January 23rd, 2010** and be entered into a drawing for 3 separate \$100 cash prizes.



Maine Property Tax and Rent Rebate

The deadline is June 1, 2010 for this year's program. Unfortunately, the program has been changed so fewer Maine residents qualify. And the rebate will be 20% smaller than it has been in the past. **(KGMUG)**

You may qualify for this Rebate if:

- You are single without any dependents and your 2008 income was \$61,400 or less
- You have a spouse or dependent(s) and your 2008 household income was \$81,850 or less.

And

- Your 2008 property tax was more than 4% of your 2008 household income; or,
- The rent you paid in 2008 was more than 20% of your 2008 household income.

We have been helping a lot of our clients get this rebate and if you would like our help please bring in your information and we will get this rebate done for you before tax season.

If you decide to apply for this rebate yourself, please read the instructions carefully because there are a number of items that need to be added into your income to calculate household income.

Maine Tax Law Changes

Maine has made Income Tax Changes that effect 2009 and 2010.

Unemployment Compensation. Any Unemployment compensation benefits received that you were able to deduct on your federal return, have to be added back on your Maine return.

Standard Deduction – additional federal amounts for property tax and sales/excise tax on purchase of new vehicle will not be allowed as deductions

Earned Income Tax Credit. The Maine earned income tax credit, for tax years beginning in 2009 and 2010, is reduced from 5% of the federal credit to 4% of the federal credit

Maine has passed major Income Tax Reform that is supposed to be in effect for your 2010 Tax Return that you will file in 2011. There are people who are trying to repeal or delay these changes so we won't know the final results until later. Because these changes do not effect your 2009 Tax Return, we are only going to give you a summary of what you could see for your 2010 Tax Return.

The current tax rates are to be replaced with a flat tax rate of 6.5% of Maine taxable income. If your taxable income is greater than \$250,000 you will have to pay a surcharge of .35% of Maine taxable income in excess of \$250,000.

The Maine standard and itemized deductions are repealed and replaced with several new tax credits. **(SNRIC)**

Refundable household credit:

- Only resident individuals qualify; nonresidents and part-year residents do not qualify
- The base credit amount is \$700 for single tax return filers; \$1,050 for head of household (HH) filers; \$1,200 for married joint (MJ) filers; and \$600 for married, but filing separate (MS) filers
- The base credit amount is increased by \$250 for each exemption allowed to be claimed on federal income tax returns
- The credit is phased out by \$1.50 for every \$100 that Maine taxable income exceeds \$27,500 for single filers; \$41,250 for MS and HH filers; and \$ 55,000 for M J filers
- The credit is refundable up to \$70 for MJ returns and \$50 for all other returns

Alternative refundable household credit:

- A taxpayer who has federal itemized deductions may elect to use this credit instead of the regular household credit
- Only resident individuals qualify; nonresidents and part-year residents do not qualify
- The base credit amount for the alternative household credit is 5.5% of adjusted federal itemized deductions plus \$400 for single filers; \$600 for MS and HH filers; \$800 for MJ filers. (The adjusted federal itemized deductions amount is calculated using Maine Form 1040ME, Schedule 2 adjustments)
- The maximum base credit amount allowed is \$1,150 for single and MS filers; \$1,750 for HH filers; and \$2,300 for MJ filers
- The base credit is increased by \$250 for each exemption claimed
- The credit is phased out by \$1.50 for every \$100 that Maine taxable income exceeds \$27,500 for single and MS filers; \$41,250 for HH filers; and \$55,000 for MJ filers
- The credit is refundable up to \$70 for MJ returns and \$50 for all other returns.

The Maine earned income tax credit (EITC) is made refundable for tax years beginning after 2009. The maximum refundable amount for both the household credit and the EITC together is limited to \$150 for MJ returns and \$125 for all other returns.

Alternative Taxes & Additional Taxes Repealed

The alternative minimum tax (AMT) and alternative minimum tax credit for individuals are repealed. (The corporate AMT and corporate AMT credit are retained.)

The additional Maine tax on lump-sum retirement plan distributions and early distributions from qualified plans is repealed.

Tax Credits Repealed

- The retirement and disability credit is repealed.
- The low-income tax credit is repealed. .
- The alternative minimum tax credit for individuals is repealed.

H & R PYE'S TAX
& ACCOUNTING SERVICE
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**This is NOT your Year-end
Newsletter**