

FINANCIAL MUSINGS

Gerri A Harrison CFP EA

Thanks for a great year!!

Gerri Harrison Financial Services had its best years ever in 2009! Thank you to all the clients who referred new clients to us. Thank you to all current clients who trusted us enough to begin using some of our other services.

Financial education has become our primary mission. From tax planning to financial seminars. From this newsletter to our tax memos. From providing college financial aid assistance to our small business consulting. And do not forget our debt management and financial coaching services. Every area of our business has grown thanks to you.

We are still accepting new clients. If you would like to refer someone to use our services we would appreciate that. Or you could consider using one of our other services!

I would like to extend a special

thanks to employees— Gwen, Kathy, Jaye and Mike for sticking with it as we experienced our growing pains.

And another special thanks to my associate Faith Sigler with NY Life. She has added a whole new dimension to the financial planning portion of the business.

Because of the increase in our business we are looking for a new employee. Can you help? I am looking for someone that can work 10-15 hours per week. There is the possibility of the hours increasing in the fall when two employees head off to college. I want someone who is looking for permanent part-time work, not a temporary position until they find a full time job.

The primary skill needed is a working knowledge of Quickbooks. I am looking for someone who can do data input, bank reconciliations and adjusting entries. Ideally the individual would have worked with a variety of



What a great year!

companies using Quickbooks in the past.

In addition as the need arises this employee would assist with mailings, answering telephones, filing and many other receptionist-type tasks.

Hours are flexible. The expectation is that the 10-15 hours would be spread out over 4-5 days. Occasional nights and weekends hours may be necessary to fill in for sick or vacationing employees or if a deadline needs to be met.

If you or someone you know is looking for part-time work and knows how to use Quickbooks please mail a resume or stop in the office to fill out an application.

out the link to ING. The link to Debt Proof Living provides access to the Rapid Repayment calculator to help you figure out how to get out of debt quicker. There is a link for easy access to grocery coupons. And many more links.

All of these links are to websites that I use regularly. They are meant to provide you with ability to improve your financial situation.

Some, but not all, of the links do have affiliate programs. This means I could potentially earn a commission if you use a service or purchase product through the link.

The commission is secondary—I began using these sites and would recommend them without the affiliate program. I would ask however if you are going to use the information provided that you consider using the link on the website to help me pay for maintaining the site.

Check out what is listed and use what you can. If you have a site you believe would be of interest please send me the link and I will review it. If I find it beneficial, I may just add it to the site. And be sure to come back to see the new links we will add!

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My business works because of you and people like you. If you are happy with the service that I provide for you please consider referring me to your family, friends, co-workers and others. I am looking to expand all areas of my practice.

Where you will find :

www.FinancesForEveryday.com

www.GerriHarrison.com

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Check out our new website feature!

A new feature has been added to GerriHarrison.com. I am continually being asked where I get my information, how something can be done and what resources I use.

In an effort to provide these resources to you we have added a new link section to our website.

This section contains links that I use and that I think you might find useful. It includes a description of what the resource is for.

For example, there is a link to Upromise, a source of free funding for college costs. Interested in online banking services? Check

2009 Tax Law Changes!!

As is normal for this time of year we are going to devote a significant portion of this February newsletter to the tax law changes that are in place for the 2009 tax return we are about to prepare.

First—with so many individuals unemployed, you need to be aware of the tax benefits that can be claimed on your 2009 tax return.

If you are collecting unemployment, the first \$2400 received will be tax free. When you receive your Form 1099G from NYS Department of Labor it will contain the full amount. When your return is prepared we will be able to subtract \$2400.

If you are incurring job hunting costs, be sure to keep track of them if you are able to itemize. Job hunting costs are a miscellaneous deduction if they exceed 2% of your adjusted gross income. While you normally may not qualify due to a higher income, this year you might if your income is lower.

Costs that you can claim include the printing and mailing of resumes. Include preparing the resume, the paper to print it on, envelopes to mail it in and the postage. If you are traveling to look for work, you can claim a deduction for miles driven, airplane or train costs, and hotels and meals if traveling out of town. If you are using your cell phone and Internet for job hunting you can claim a prorated portion of those costs. Costs for an employment agency to find you work are deductible. Go back in your records and determine what you spent to bring in when your tax return is prepared.

And if you are claiming miscellaneous deductions you also get to include expenses you incurred as an employee before getting laid off such as uniforms, union dues, job related education, mileage and travel expenses not reimbursed by your employer.

You can include IRA maintenance fees paid out of pocket, investment management fees or other investment expenses such as magazines or software. You cannot claim commissions on trades; they must be added to the cost of the stock or mutual fund.

Your tax preparation and any tax planning costs paid during 2009 are a miscellaneous deduction.



Because of the lower income you may find yourself in the position of being able to claim medical expenses, especially if you are paying COBRA insurance premiums.

With a lower income you may qualify for credits that you normally would not have because of a high income. For example, the child tax credit, earned income credit, retirement saver's credit and the education credits are all available if you qualify.

And—the education credits have changed. The Hope Credit has been replaced with the American Opportunity Credit. This credit is 100% of the first \$2000 of tuition, books and fees and 25% of the next \$2000. The maximum credit available is \$2500. Note—it does include books that the Hope Credit had excluded.

The income levels for being able to claim the American Opportunity Credit are higher than the previous credit. The credit can be claimed for a maximum of four years. A student must be enrolled at least half time and in a degree or certificate program to qualify.

Another new feature of the American Opportunities Credit is that it is partially refundable. So even if you owe no taxes you will want to file to get up to 40% of the credit back as a refund.

To prepare your returns I will need not only the Form 1098T you receive from the education institution but also the tuition bill and book bill since NYS did not follow all of the same changes.

Be aware too that the only one eligible to claim the education credit is the taxpayer who is claiming the dependency exemption. Even if the tuition was paid by the other parent, paid by the student or paid by student loans, it is the parent claiming the dependency exemption who can claim the tuition as a credit. You should think twice about giving up that right to claim the dependency exemption in situations where children are near college age.

And as a final caution—be sure to review how much your child is receiving in financial aid either in the form of grants or student loans in the child's name. There is the possibility if this amount is large enough that you will not qualify to take a dependency exemption for your child since you will not be providing more than 1/2 of

the support.

While on the subject of education it seems appropriate to mention that there are new repayment methods available for student loans. If you have lost your job, have been unable to find a job after graduation or have not been able to find a job at a pay level that can support your student loan payment you may be eligible for a reduced payment.



Changes are here!!

The reduced payment option allows you to make payments based on your income. Each year your payment is recalculated as your income changes. If after twenty-five years you have not paid the balance in full, the remainder is forgiven. That twenty-five year time frame is reduced to ten years for teachers and those working for non-profits.

Call your lending institution if you are having trouble making your student loan payments to see if you qualify for the new programs.

The deduction does still exist for student loan interest paid of up to \$2500.

A credit that has made a reappearance and been expanded is the Energy Efficient credit. The credit is now 30% of cost for a maximum of \$1500 in 2009 and 2010. You are eligible even if you took the previous \$500 credit.

The credit is limited to insulation, exterior doors and windows, furnaces and metal roofs purchased during 2009 or 2010. Not all doors, windows and furnaces qualify. Your installer or retailer should be able to tell if your purchase meets the criteria. Go to irs.gov to find out if your purchase qualifies if you are unable to find out from your installer.

There is also a credit available for solar, wind and geothermal purchases which is not subject to the \$1500 limitation

The Energy Efficient Credit is nonrefundable and can be carried forward to use in a future year if not all used this year.

In preparing your tax return I will need a receipt and documentation that shows your purchase qualifies for the credit.

Look for an Energy Efficient Appliance Credit in 2010! Congress is working on this already.

There are several new tax related changes available if you purchased a new vehicle in 2009. Hopefully if you purchased a new vehicle you were able to take advantage of the "Cash for Clunkers" program offered this summer.

If you purchased your new vehicle after February 17th and before January 1st you can take a deduction for the sales tax paid. It must be a NEW vehicle, not a used one. The deduction is for up to the first \$45000 of cost.

You can claim this deduction as part of your itemized deductions or as an addition to your standard deduction.

Credits exist for the purchase of a hybrid vehicle and there is a new credit for the purchase of an electric vehicle.

The credit for a hybrid vehicle is limited to the first 60,000 cars of each model sold by a manufacturer. The amount of your credit is determined by the purchase date and the model until that model no longer qualifies. The maximum credit for a hybrid vehicle is \$3000.

Credits exist for the electric vehicles that are full size vehicles and the new low speed, two wheel or three wheel vehicles.

For the full size vehicle the credit is up to \$15000 and is available through the year 2012. For the smaller vehicles the credit is a maximum of \$2500 and ended January 1, 2010.

There is still the mileage deduction if you are using your vehicle for business, medical or charitable purposes.

The 2009 rate for business miles is 55 cents per mile. In 2010 it will drop to 50 cents per mile. Medical miles are 24 cents for 2009 and will drop to 16 1/2 cents per mile in 2010. The charitable mileage rate for both years is 14 cents.

Most taxpayers are aware of the new homeowner buyer's credit but have you heard about the long term homeowner's credit?

First—the new homeowner's credit has been extended until April 30, 2010. You must be under contract by that date and close by June 30th. To be considered a new homeowner you cannot have owned a primary residence for the last three years. For a married couple, both spouses must qualify.

For two or more unmarried individuals to

qualify when purchasing a house jointly, each one is looked at separately to determine if they meet the requirements. If one or more does meet the criteria the taxpayers can elect to split the credit as they wish.

There are income limitations depending on your filing status. The credit is 10% of the purchase price for a maximum of \$8000. This credit does not have to be paid back as long as you continue using the home as your primary residence for at least five years.

The long term homeowner's credit went into effect for primary residences purchased after November 9, 2009. Like the new homeowner's credit you must be under contract by April 30, 2010 and close by June 30th.

To qualify for this credit you must have used your current home as your primary residence for 5 of the last 8 years. Again, for a married couple both taxpayers must qualify.

Depending on your filing status there are income limitations. The credit is 10% of purchase price for a maximum of \$6500. Additionally the purchase price of the home must be less than \$800,000.

If you purchased your home in 2009, you can elect to claim either credit by amending your 2008 tax return or by claiming the credit on your 2009 tax return.

If you elect to claim the credit on your 2009 tax return you will not be able to electronically file your return. You must file a paper return and attach a copy of the statement of sale to the return.

If you purchase your new house in 2010, you can elect to amend your 2009 tax return, claim it on an originally filed 2009 tax return or wait and claim it on your 2010 tax return. In all three cases you will not be able to electronically file since you must attach a copy of the statement of sale to your tax return.

If you have purchased a new home in 2009 or early in 2010, please bring your statement of sale with you to your tax appointment. We will need it to claim the deduction for property taxes and interest paid at closing and to attach a copy to the tax return if you are eligible for one of the credits.

If you sold a house, please be sure you bring

the statement of sale from the house sold so we can pick up the amount of reimbursed property taxes at closing.

A final note about purchasing a new house—NYS has begun a program whereby they will lend you interest free the federal credit amount of up to \$8000 so that you have the funds available to use for a down payment or for closing costs. You will need to repay the loan when the federal credit refund is received.



Time to get moving!!

To qualify you must be purchasing the home through a NYS Mortgage Agency. Check the NYS website at www.tax.state.ny.us for qualifications.

IRS is offering a new option this year. You can use your refund to purchase I-bonds rather than receiving it in cash. These I-bonds can only be purchased in your name this year, but beginning in 2010 you will be able to purchase them in the names of your children and grandchildren.

Bonds must be purchased in increments of \$50 and no more than \$1500 can be purchased in a given year.

If you would like to purchase I-bonds with your refund, please let me know at the time your tax return is prepared. The information to purchase the bonds must be inputted before the return is electronically filed or you will not be able to do so.

Do you own E-bonds?

And one more note about bonds—as of June 30, 2010 all Series E bonds will have reached full maturity and will no longer be earning interest. If you have old bonds that you are holding onto it is time to consider cashing them in and moving to something that will be earning you income.

If you need help in determining the tax implications of cashing in your bonds, please call us for an appointment. If you are looking for a way to have those proceeds earn interest without having to pay current taxes on it, contact the office for an appointment and we can explain some options.



On to something new

Along the same lines, I think it is appropriate to make mention of worthless securities. Do you own stocks or bonds in a company that has gone out of business or has declared bankruptcy? If so, you can claim a capital loss for the original cost of the securities. You are required to claim the loss in the year the securities are deemed worthless. If a stock is still trading even though it might be trading at a penny, it is not considered worthless.

The final change for 2009 to discuss affects the dependency exemption and the child tax credit.

For those parents of children not filing a joint return there is always the question of who gets to claim the dependency exemption when there is joint custody. What the custody decree says is not the definitive answer.

In regards to the where the child spent more time, the new definition now looks at where the child spent the night. You can count that day as a day spent with you if the child slept in your home that night.

If the child spent the night in the other parent's

home, it is that parent who gets to claim that as a day spent with them.

If a parent works nights, there is an exception to this rule.

This time issue comes into play when you have two individuals fighting over who gets to claim the dependency exemption, especially if you are dealing with a joint custody arrangement.

And the dependency exemption is worth a lot more if you factor in that the only one eligible to claim the child tax credit of \$1000 and the education credit of up to \$2500 is the individual who is claiming the dependency exemption.

With the changes to the amount of the child tax credit that is now refundable and the fact that 40% of the education credit is now refundable, you may have a parent who was willing to give up the dependency exemption in the past that might not be so willing now that they can get money back that was never paid in.



It becomes more important than ever to document what you are spending on support for a child or grandchild and to document the nights that a child is spending with you.

The IRS position has always been to give the exemption to the first person who claims it and then force the second person to prove they are eligible before issuing their refund. It is then the responsibility of IRS to get any overpaid refund back from the first party.

If a parent continually files with a dependency exemption that they are not eligible to claim, a block can be put on their return to prevent this. Sometimes it does take several years for this to happen.

These are the major changes for 2009. If you have any questions feel free to call or email me if you need an answer prior to your tax appointment.

The key this year is to bring the documentation proving that you are eligible to claim the various credits and deductions.

Have you been waiting?

The tax software that I use has come out with a new feature this year— E-collect.

E-collect gives me the ability to deduct your tax preparation fees out of your tax refund. Unlike the anticipation loans, this does not mean a fee of several hundred dollars!

E-collect allows you to receive your refund less tax preparation fees in the form of a VISA debit card, a check or the typical direct deposit. Fees will vary depending on which method you chose to receive your refund. All are at a cost of less than \$50. All fees will be taken out prior to you receiving your refund.

The VISA debit card is the cheapest option. If you use the VISA card at a store, ATM or cash it in at a participating bank there are no per transaction fees for using the card. There may be an ATM fee charged by the bank if they have a charge for non-member transactions. There is no monthly fee for carrying a balance on the card until after 12 months. The VISA debit card is reloadable, but I suggest you do not do that since additional fees will begin to apply.

If you elect to receive a refund in the form of a check you will be required to come to the office and present ID to pick up the check. If the tax return is a joint return, both taxpayers must present ID and be present to pick up the check.

You can elect to have your tax refund less the fees directly deposited into your bank account just as you have done in the past. This should generally occur on the same day that it would have normally occurred.

E-collect provides a good option for those who delay filing their tax return due to not having the funds to pay for the tax preparation. If you can afford to pay the fees out of pocket you are better off since no fees other than the tax preparation fees would be charged.

Please note this is not a refund loan. The refund is not issued until it is received by Drake, my software company from IRS.

As with normal electronic filing it will be 10-14 days before you receive your refund.

If you are on a payment plan for back taxes you will not be able to use this option since

the refund will not be received. If your refunds are being kept by IRS due to unpaid child support, student loans, obligations due to state governments or other government obligations you will not be able to use this option. If you do not have a refund coming back, you will not be able to use this option.

Since the option exists to have the tax preparation fees taken out of your refund, I am now requiring payment for all individual tax returns prior to them being electronically filed unless you have chosen the option to have the fees withheld from the refund. If you have a balance due on your tax return, you will be required to pay the tax preparation fees before they will be filed. If for some reason the IRS keeps your refund, you are responsible for paying the tax preparation fees to us.

This policy is being instituted for two reasons. I had to send more clients to collections for non-payment this year than ever before and have still not received payment for some, a sign of the economy for sure. E-collect is a reasonable alternative to me having to deal with waiting 2, 3, or 6 months for payment and spending my time and money generating invoices and chasing people for payment.



Paying your fees

Once again we are going to talk Roth conversions!

You may feel that I am beating this horse to death, but I think it is important that you understand the possibilities of a Roth conversion.

First—if you make a contribution to a traditional IRA, 401(k), or 403(b) you receive a current tax deduction. So—if you put \$5000 into one of these accounts and you are in the 25% federal tax bracket and the 7% NYS tax bracket you will save \$1600 in taxes on your current tax return.

Now lets wait many years until retirement and say that \$5000 has now grown to \$20,000. If you are still in the same tax brackets of 25% and 7% you would pay \$6400 to liquidate the account if you are over 59 1/2. At age 70 1/2 you will be required to start liquidating the account and paying taxes. The longer it remains tax deferred, the larger the value will be and the more taxes you will pay.

Now instead, take that same \$5000 and put it into a Roth IRA. You will receive no current tax deduction which means your current year's tax liability will be \$1600 higher.

Many years later at retirement the account will still be worth the same \$20,000 if you make the same investments. This time when you liquidate the account you will pay no taxes on the distribution. The full \$20,000 is yours!

Worthwhile things to mention:

First—what you do think the chances are with the current level of government spending, the problems with Social Security and Medicare, the cost of the wars and the health care issues currently being discussed that tax rates will remain at the levels where they are today? There is already talk of the maximum tax rate going to 50%. That means on your \$20000 distribution you would owe \$10000 in taxes!

Second—contributing to the Roth gives you the ability to access money earlier without it being subject to the early distribution penalty. Since according to the IRS ordering rules you access contributions first, you could take out everything you contributed after 5 years with no tax or penalty. If you take the earnings out before 59/12 you will be subject to tax and penalties unless you



What is going to look like?

meet one of the exceptions.

Three—I hear all the time I would be better off taking the deduction to save on the taxes now. Then I can take the tax savings, invest it and end up with more money after taxes. Lets be realistic. What are the chances that you are really going to take that \$1600, invest it and then not touch it for 10 or 20 years until retirement happens? If you put it into a taxable account you will have to pay taxes on the earnings each year. If you add it to your retirement account, you will have to pay taxes on the distributions. Potentially at a higher tax rate than today!

Four— lets not just talk one \$5000 contribution. What if you did \$5000 each year for 10 years? We are now talking a total tax savings if you remain in the same tax bracket of \$16000. If that account has now grown to \$150,000 you will owe \$48000 in taxes at the same rate or \$75,000 if tax rates go to 50%!

Do yourself a favor, find out the value of your current IRA, 401(k)s and 403(b)s from previous employers. If you are 10 years from retirement, double the value. If you are 15 years from retirement, multiply the value by 3. If you are more than 20 years from retirement then multiple by 4. Now take the new value and figure out what 50% or half of it would be. How would you like to be paying that in taxes at retirement? And this is assuming you make no more contributions!

So if I have your attention now, why is it important to consider a Roth conversion right now? 2010 has some special rules coming into play.

First— starting in 2010, you can do a Roth conversion regardless of your adjusted gross income. In previous years, your AGI had to be below \$100,000 in order to be able to do a Roth conversion.

Second—a special rule has been put into place that if you do a Roth conversion in 2010, you can pay 1/2 the tax when you file your 2011 tax return and 1/2 half the tax when you file your 2012 return. That means you have over a year to start saving before the tax is due.

Caution—you do not want to be pay the tax out

of the retirement account you are converting. Doing so if you are under 59 1/2 means an early distribution subject to a 10% penalty. As well as you would have less money in the account to grow.



It can be very confusing!

If you are invested in the stock market and you believe the market is going to continue to climb this year, the earlier you do your Roth conversion the better. Earlier means the balance to convert will be lower and the taxes due will be lower.

What if the market drops after you convert to a Roth? You are allowed a one-time re-characterization to convert from the Roth back to a traditional. Then you can reconvert again to pay taxes on the lower value.

You are only able to convert retirement accounts that you have access to. You probably do not have access to the plan where you currently work. If you have traditional IRAs or have old 401(k)s or 403(b)s from previous employers that you can access, these are the accounts that you want to look at converting.

Even if you cannot convert the entire amount due to the tax that needs to be paid, you can convert a partial amount. You can convert 50%, 25% or even 1% of the IRA balance.

The key is to start saving the tax money. If you do not feel you can save it on your own, then have extra taxes withheld from your paycheck. When you do your 2010 tax return and you have a refund, apply it to the following year rather than receiving it. This would give you two years of extra withholding paid in towards the 2011 tax liability. You obviously would be better saving it on your own, but if you cannot this would be an option.

Not sure what the tax implications would be? Not sure if converting is appropriate for you? Call and schedule an appointment with me. We can determine the taxes and we can look at ways for you to be able to pay the taxes. Do not let this golden opportunity pass you by!! It could be the difference between an OK retirement and a great retirement!

You should also consider whether it is more tax efficient to contribute to a current Roth IRA rather than your 401(k) or 403(b) through work!

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Relax, Gerri is here to help

I hope you are enjoying Financial Musings. Please feel free to pass it onto a family member or friend. Or if you want give me a call with their names and addresses and I will add them to my mailing list to receive their own copy.

Gerri Harrison Financial Services provides financial and tax preparation services to individuals and small businesses. "I want to be part of the family. There for the good and the bad. Everyone has a job and purpose in the family. My job is to assist you in achieving your financial dreams and aspirations as well as meeting your financial obligations and concerns. I want to be there to pack your child off to college or pack you off to retirement. I want to be there through the christenings, weddings, illnesses and deaths. Whenever there is a financial matter you have a question about I want the first thing you think of to be "Gerri will know how to handle it.".

Great News for you the Consumer!

I just received news that a comprehensive bill has passed that will begin regulating and licensing tax preparers. This is great news for consumers!

At this point any one who wants can hang out a shingle and claim to be capable of preparing taxes—whether they have any formal training or not. You could do it if you wanted! Since taxes are a mystery to many, the taxpayer often does not know if he is getting all the deductions he is entitled to. He often does not know if the tax return has been prepared correctly and just needs to “trust” the preparer.

Sometimes these preparers are not even signing returns so IRS is unable to track them.

The new ruling requires anyone preparing tax returns other than his own to register and obtain a preparer identification number.

All registered preparers other than CPAs, attorneys and EAs

will be required to take a licensing test that certifies them to prepare just individual returns or individual and business returns.

All licensed preparers other than those with the above designations will be required to take 15 credits of continuing education credits per year.

This should provide some protection for taxpayers. The concern is of course that some of these “tabletop” preparers as they are known will just be driven underground and fail to fulfill the requirements. If the testing and continuing education are instituted, it means that you should better be able to trust the person preparing your tax return has at least a basic understanding of tax laws.

The registration will also provide IRS with the means to track continuing problems with a particular preparer. If IRS discovers a pattern of abuse

they can take action against it.

Why are CPAs, attorneys and EAs excluded? Because they already have requirements to keep their designations.

For example, as an EA I am required to register every three years. I am required to take a minimum of 24 continuing education credits a year. I often take in excess of 100 a year to insure that my knowledge remains current!

How can you help? Mention the new requirements to friends, family, associates and co-workers. Make sure they are not using one of these non-licensed preparers.

If we can get tax returns prepared accurately and everyone is paying their fair share of taxes, it means those that are being honest right now will probably have to pay less.

Protect your friends, family and co-workers against unscrupulous tax preparers. Give them my name and number if they find themselves in need of a new, knowledgeable tax preparer.



We have been waiting for this!