

2009 Year End 1040 Client Letter

Dear Client,

We are surprised how quickly the year has passed! On the income tax scene Congress continues to work on last minute income tax bills as of the date of this letter, but you can be assured we stay abreast of all the latest changes as they occur! With the economic issues this year you can be sure that we will work more diligently than ever to keep your tax bill at the lowest legal amount.

We are once again making our tax organizers available, for free, to anyone who requests one-if you have not used one in the past please call the office to request one for 2009, as it is our attempt to be as thorough as possible in the preparation of your return. If you received an organizer last year we will mail this year's organizer to the same address. The tax organizer may not be enough however, and we wanted to bring some special items to your attention below.

Cash for Clunkers

Good news-if you traded in that old junk vehicle under the cash for clunkers bill you do not have to pay tax on the credit you received! No, we don't even need to know about it unless you use your car for business, and even then you don't pay tax on the credit.

1st Time Homebuyer Credit

If you (and spouse if married) bought your first home in 2009 please bring the HUD home closing statement with your income tax information. The new credit applies to anyone who has not owned a home in the United States in the last 3 years, and is available for homes purchased between January 1, 2009 and November 30, 2009. As we write this letter Congress is considering extending this credit, so make sure you talk with us if you are buying a home in the next year as well.

New Cars or Trucks

A special new tax deduction is available this year if you bought a brand new car or light truck during the year. If you bought a new car please bring us a copy of the invoice so that you get this deduction

Mortgage Interest

Recent IRS scrutiny of home mortgage interest deductions now require us to carefully track re-financings and the use of loan proceeds. Please provide us with any new home loan information, closing statements from any re-financings, and a summary of what any additional loan proceeds were used for.

Charity

A scary IRS court case in 2008 reminds us of the rules on charitable contributions. ALL deductions of any amount must have a receipt. Any individual contribution over \$250 must also have an acknowledgement letter from the charity, and the letter must be dated by the date we file your return. The letter should show the date and amount of any individual contribution over \$250, and should also state that no goods or services were received in return for the contribution.

Property Tax

There is a special property tax deduction available in 2009 for property tax paid on your personal residence. Even though we have not needed this amount in previous years for some people, everyone should provide us with this amount this year, if you paid any property tax in 2009.

Foreign Accounts

If you have read any news in the last year you know that the IRS is looking closely for offshore accounts. If you have an account with over \$10,000 in a foreign country, or a foreign business ownership (not through a mutual fund) please let us know as some special rules will apply to you.

Mileage Deductions

Deductible mileage rates changed during the year. Please provide us with the number of medical miles you drove during the year for this deduction. This includes trips to the doctor, dentist, pharmacy, dialysis, etc.

Education Credits

A major revision of college credits by President Obama has provided us with the new "American Opportunity Credit", a special credit for undergraduate college students. If you have children in college or near to college, please discuss some options with us to assure that you receive the best benefit for these costs.

Roth IRA Conversions

You will be hearing from lots of "experts" this year that you need to convert your retirement accounts to Roth IRAs. While there are a number of advantages to conversions, there are an equal number of disadvantages that carry some major tax consequences. Please do not convert your accounts in 2010 without coming in to see us for an appointment to discuss both the positives and negatives.

Gift Changes

Effective 1/1/2009 the amount you may give to one person in one year without any return filing requirements has been increased to \$13,000.

Energy Credits

The residential energy credit has been reinstated starting in January of 2009. If you added or are considering adding storm windows, doors, insulation or a furnace, the Federal credit is 30% of the cost of the product, plus installation fees, up to a maximum of \$1,500 for your home. There are also tremendous credits available for solar power, geothermal and wind energy that you should discuss with us if you are considering these changes. There is still a special tax credit for some new hybrid cars bought in 2009, so please bring that information to us as well.

Future Income Tax Rates

With record Federal deficits predicted for the next 10 years, it is a foregone conclusion that future tax rates will be substantially higher than today. If you are considering selling property or stock there is a good chance that 2009 will be the lowest capital gains rates any of us will ever see again, and the 2009 rates continue to be the lowest rates since before World War II. You might want to discuss some tax strategies with us if you are expecting a major asset sale in 2009 or 2010.

There are literally hundreds of other changes, extensions and deletions that we will consider this year while preparing your return. Because of these changes we are requesting everyone to try to have their tax information in to us at least two weeks earlier than normal, and no later than March 21, 2010. Please rest assured that we will utilize our best resources to once again provide you with timely, complete and accurate service while keeping your tax burden to the lowest legal amount. Thank you again for your continued support.

Sincerely,

VanderLugt, Mulder, DeVries & Elders