

Taxing Times

Tax information for clients and friends of Stambaugh Ness



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---- ASK KEVIN ----



Tax Supervisor
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By Tax Supervisor Kevin Eisenhart, CPA
Tax Advisor Colette Brownson
Tax Specialist Melissa J-L Myers

INDIVIDUAL TAX NEWS

TAX PLANNING SERIES

Over the next few monthly editions, we will provide you with some tips for tax planning in 2009. Since the school year will start in the very near future, this edition will focus on educational credits and credits for dependent taxpayers.



Tax Specialist
Melissa J-L Myers

Educational Credits and Deductions

Generally, educational assistance such as scholarships, fellowships, or employer-provided educational benefits are excludable from income. For education costs not covered by educational assistance, tax benefits include the Hope Scholarship Credit and the Lifetime Learning Credit. Alternatively, you may have the option of deducting qualified tuition and fees expenses. These credits and deductions are coordinated with the exclusion for distributions from education savings plans, such as, Coverdell Savings Accounts and qualified tuition programs. Additionally, for taxpayers who take out a loan to pay for their education, a deduction is available for the student loan interest.

Each education credit and the deduction have adjusted-gross-income phase out limitations. Because of the variety of tax benefits and variations as to the eligibility, some or all

Dear Kevin,

I've heard people discuss the "kiddie tax" before, but I never fully understood it. Over the years, I have set up several mutual fund accounts to ensure my child's future, and he has benefited every year with a check for interest or dividends. How do I know if I am subject to the "kiddie tax"?

Thanks,
Louise
Glen Rock, PA

Dear Louise,
First, the amount of unearned income that your child receives must exceed twice the amount of the limited standard deduction. For tax years beginning in 2009, the threshold amount is \$1,900. If the unearned income exceeds this threshold, and your child falls into one of the following categories, then you will be subject to the Kiddie Tax:

-- The child has not attained the age of 18 by the close of the tax year

-- The child has not attained the age of 19 by the close of the tax year, and the child's earned income is less than one-half of the child's support for the year, or

-- The child is a student

MELISSA'S COMMENTS: *"The IRS has currently changed the definition of qualified higher education expenses for tax-free distributions from a qualified tuition program. Qualified tuition program distributions may be used for the purchase of computer equipment, computer software, fiber optic cables related to computer use, and internet access costs paid or incurred during 2009 or 2010 by the beneficiary and the beneficiary's family if the beneficiary is enrolled at an eligible educational institution."*

American Opportunity Education Credit

In 2009 and 2010, eligible taxpayers may claim an American Opportunity Education Credit, formerly known as the Hope Scholarship Credit, up to \$2,500. The credit is determined as 100% of the first \$2,000, and 25% of the next \$2,000 of tuition and related expenses paid during the year. Forty percent of this credit is refundable. The American Opportunity Education Credit phases out for taxpayers with adjusted gross income in excess of \$80,000 (\$160,000 for married couples filing jointly).

MELISSA'S COMMENTS: *"Unlike the traditional Hope Credit, the American Opportunity Credit is not limited to the first two years of post-secondary education. Also, the American Opportunity Credit covers course materials such as text books."*

Tax Strategies for Dependent Children

Much like it is with raising a family, tax planning with dependent children can be both challenging and rewarding. There are many credits and deductions available to parents on their income tax returns. For example, you may be able to take a child and dependent care credit if your child is under the age of 13 at the end of the year. It is important to note that not all expenses may qualify for a credit or deduction.

At the other end of the spectrum, some expenses may qualify for both the dependent care credit and the deduction for medical expense depending on your circumstances. In addition, if your employer offers a flexible spending plan, you might consider whether or not participating in the plan saves you more money than claiming the credit.

who has not attained the age of 24 by the close of the tax year, and the child's earned income is less than one-half of the child's support for the year.

If your child meets the above criteria, the income will be taxed at the parent's marginal tax rate.

**Until Next Month,
Kevin**

If you have a general tax question you would like to have answered in a future edition, please email keisenhart@stambaughness.com.

deductions for dependent children can also become complicated. For instance, higher income taxpayers face a possible phase out of the total amount of exemptions they are allowed to deduct on their income tax return. If this situation occurs, arranging for wealthier taxpayers to avoid claiming dependency exemptions might yield in a great tax savings for the family."

CASH FOR CLUNKERS GETS A REFILL

CASH FOR CLUNKERS ...

COLETTE'S COMMENTS: *"If you've been contemplating getting rid of your old gas guzzler, now is an excellent time to take advantage of the incentives being offered to consumers through the Cash for Clunkers program."*

In last month's Taxing Times we gave you information relating to the Cash for Clunkers (also known as "CARS") program. This month, we are updating you on the status of this government-funded program.



Tax Advisor
Colette Brownson

On Friday, August 7, 2009, President Obama signed into law a measure that added an additional \$2 billion to the widely-used "CARS" program. The Senate had passed the legislation on Thursday extending the two-week-old program into Labor Day and preventing it from running out of money. If you were interested in taking advantage of this program, there are still funds available - so get out there and buy yourself the new car you've been wanting!

Under this program, passenger car owners may be eligible for a voucher worth \$3,500 if they trade in a drivable

vehicle with a combined city/highway mileage of 18 miles per gallon or less when it was new for a new car getting at least 22 mpg. Vouchers of \$4,500 may be available for owners who trade in a passenger car averaging 18 mpg or less combined for a model that gets at least 28 mpg. Owners of old SUVs, pickups and vans may be eligible to take advantage of similar benefits. Dealers ensure the traded-in vehicles are crushed and shredded.

BEWARE OF IDENTITY THEFT SCAMS

BEWARE OF IDENTITY THEFT SCAMS ...

COLETTE'S

COMMENTS: *"If you receive a suspicious e-mail claiming to come from the IRS, take the following steps:*

-- Do not open any attachments to the e-mail, in case they contain malicious code that will infect your computer.

-- Do not click on any links, for the same reason.

-- Contact the IRS at 1-800-829-1040 to determine whether the IRS is trying to contact you.

-- Forward the suspicious e-mail or url address to the IRS mailbox phishing@irs.gov, then delete the e-mail from your inbox."

The Internal Revenue Service reminds consumers to avoid identity theft scams that use the IRS name, logo or Web site in an attempt to convince taxpayers that the scam is a genuine communication from the IRS. Scammers may use other federal agency names, such as the U.S. Department of the Treasury.

In an identity theft scam, a fraudster, often posing as a trusted government, financial or business institution or official, tries to trick a victim into revealing personal and financial information, such as credit card numbers and passwords, bank account numbers and passwords or Social Security numbers.

Generally, identity thieves use someone's personal data to steal his or her financial accounts, run up charges on the victim's existing credit cards, apply for new loans, credit cards, services or benefits in the victim's name and even file fraudulent tax returns. The scams may take place through e-mail, fax or phone. Scams conducted through e-mail are known as "phishing" scams.

There is a phishing email currently circulating that is related to the Making Work Pay Refund. This email, which appears to come from the IRS, references the president and the Making Work Pay provision of the 2009 economic recovery act. It states there is a refundable credit available to workers, consumers and retirees that can be paid into the recipients' bank account if the recipient registers their account information with the IRS. The e-mail contains a link to register the account and to claim the tax refund.

Another email scam claims to come from the IRS and tells

the recipient that he is eligible to receive a tax refund for a given amount. It instructs the recipient to click on a link contained in the e-mail to access and complete a form for the tax refund. The form requires the entry of personal and financial information. The refund scam is the most common one seen by the IRS.

Many e-mail scams are fairly sophisticated and difficult to detect. However, there are signs to watch for, such as an e-mail that:

- Requests detailed personal and/or financial information, such as name, Social Security Number, bank or credit card account numbers or security-related information, such as mother's maiden name, either in the e-mail itself or on another site to which a link in the e-mail sends the recipient
- Dangles bait to get the recipient to respond to the e-mail, such as mentioning a tax refund or offering to pay the recipient to participate in an IRS survey
- Threatens a consequence for not responding to the e-mail, such as additional taxes or blocking access to the recipient's funds
- Gets the Internal Revenue Service or other federal agency names wrong
- Uses incorrect grammar or odd phrasing (many of the e-mail scams originate overseas and are written by non-native English speakers)
- Uses a very long address in any link contained in the e-mail message or one that does not start with the actual IRS Web site address (www.irs.gov). To see the actual link address, or url, move the mouse over the link included in the text of the e-mail.



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CORPORATE TAX NEWS

**MELISSA'S
COMMENTS:** "*Under
this amnesty program,*

TAX AMNESTY - IN MARYLAND

The Comptroller of Maryland has declared a tax amnesty period

the taxpayer will have up to December 31, 2010 to pay the full amount of the delinquent tax. The waiver of civil penalties and one-half the interest under this agreement will not apply to the interest accrued after October 30, 2009."

from September 1, 2009 – October 30, 2009. During this time, the Comptroller shall waive all civil penalties and one-half of the interest that would have been imposed on certain delinquent taxpayers for nonreporting of tax liability, underreporting of tax liability, and nonpayment of tax liability. This applies to all individual income tax, corporate income tax, withholding tax, sales and use tax, or admissions and amusement tax due to the state.

If a company meets any of the following criteria, it may be disqualified from Maryland's tax amnesty program:

- Any taxpayer that, as of September 1, 2009, has more than 500 employees in the United States or is a member of a corporate group that has more than 500 employees in the United States
- Any tax for which a taxpayer was granted amnesty under the 2001 Maryland tax amnesty program
- Any taxpayer who is eligible for the July 1, 2004 through November 1, 2004 Settlement Period, as provided in Chapter 557 of the Acts of 2004, regardless whether or not the taxpayer participated in the Settlement Period. This Act applied to corporate income tax only under certain conditions.

COLETTE'S COMMENTS: *"The election to take the investment tax credit in lieu of the production tax credit is available for facilities placed in service after December 31, 2008. The election must be made on a timely filed tax return."*

INVESTMENT TAX CREDIT ELECTION

The IRS has issued guidance concerning the procedures taxpayers are required to follow in making an election to claim the investment tax credit in lieu of the production tax credit for renewable energy facilities. In addition, the guidance describes the coordination of the investment and production credits with grants allowed under the American Recovery and Reinvestment Act of 2009, known as Section 1603 Grants.

The renewable electricity production credit can be claimed by taxpayers who produce electricity at a qualified facility from qualified energy resources, such as wind, geothermal energy, solar energy, small irrigation power, municipal solid waste, qualified hydropower production, and marine and hydrokinetic renewable energy from certain facilities. The amount of the credit is 1.5 cents (adjusted annually for inflation) for each kilowatt hour of electricity sold by the taxpayer during the tax year that it is produced from qualified resources at a qualified

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facility within a specified period (usually 5 or 10 years) after the facility is originally placed in service. However, phaseouts and restrictions may apply.

Alternatively, taxpayers may elect to take an investment tax credit for energy property as provided by the 2009 Recovery Act. The investment tax credit is composed of several separate credits including the energy credit. The energy credit is equal to 10 percent of the taxpayer's basis in energy property, including solar energy equipment, geothermal energy equipment, microturbines, cogeneration systems, and geothermal heat pumps. The energy credit is increased to 30 percent for certain solar, fuel cell and small wind energy property.

CONTACT US

For more information about any of these tax topics or other tax-related concerns, please contact Kevin Eisenhart or your own SNPC tax professional at 717-757-6999/800-745-8233. You may also visit [our website](#) or reply to this email. Links to [past issues of "Taxing Times"](#) can also be found on our website.