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Dear Clients and Friends:

Tax season is just around the corner and it is during this time of the year we begin gathering our tax information.

There are a few things I thought maybe of interest to you for year-end tax planning, and later in your process of gathering your tax information. Please consider the following:

- 1) **Capital gains and losses.** Capital gain tax is still capped at 15%. But if your circumstances allow, you may avoid even this innocuous tax rate. Please review your capital transactions, with your investment advisor if you have one, and determine if it would be appropriate to harvest your unrealized capital losses by the end of the year to offset already recognized capital gains. Don't forget to consider any prior years' capital loss carryovers and those "phantom" mutual fund capital gain distributions.

Moreover, if your taxable income is less than a specified amount (\$33,950 for singles and \$67,900 for joint filers), then the capital gains would be taxed at zero.

- 2) **Non-business energy credits.** A well-reformed non-business energy credit allows 30% of the cost of energy efficient improvements to your principal residence. Examples of expenditures that may qualify are: insulation systems, exterior windows and doors, metal and asphalt roofs, air circulating fans, furnaces, hot water heaters and central air conditioners. This energy credit, up to \$1,500, is not on an item by item basis but is calculated based on the aggregated amounts of the energy saving costs. There is no AGI limitation and yes, it can offset the dreaded AMT tax.
- 3) **Mortgage Interest.** Stemming from the refinancing frenzy, the IRS is now scrutinizing mortgage interest deductions. They want to make sure that the mortgage interest you deduct is from a debt, up to \$1 million, used (or their term "acquired") to purchase your primary home or for home improvements. As a bonus, they also allow interest on what they term home equity loans ("HE loan") up to \$100,000. An HE loan, by their definition, is a debt whose collateral is your primary home. To qualify as an allowable deduction, proceeds from an HE loan do not have to be used to acquire or improve your home. The HE loan could have been used for vacation, education, leisure or any other personal use.

In short, unless the loan proceeds were used as explained above, the interest on a home mortgage would not be tax deductible. Unless, of course, the proceeds were used for business-related activities, which is another matter.

- 4) **Interest on Reverse Mortgages.** The IRS clarifies that interest, when actually paid, on a reverse mortgage is subject to the regular mortgage interest deduction rules. It means that unless the proceeds of the reverse mortgage are used to acquire a home or for home improvements, the interest, when paid, would be limited under the HE loan rules. To stress the point again, accrued qualified interest is not deductible until actually paid.
- 5) **Sales Tax for Non-itemizers.** For each motor vehicle purchased from 02/17/2009 through 12/31/09, you can deduct sales tax paid on a new car or a motor home. This is in addition to the standard deduction you are already allowed. This deduction is available for unlimited number of cars per taxpayer but only to the extent of the \$49,500 on each one.

There is, however, an AGI limitation on high income taxpayers.

For itemizers, the rules are more or less the same as last year except this qualified motor vehicle sales tax deduction is also allowed for AMT purposes.

- 6) **Business License.** As governmental entities scramble to trim their spiraling deficits, the once overlooked miscellaneous revenues, such as business fees and permits, are now much sought after. Cities and counties, including San Diego, are now cross checking with the IRS and other state authorities, for clues of non-compliance or non-payment.

If you are self-employed, file a Schedule C, or receive a Form 1099, it may serve you well to double check with your city or county for its business license requirements. Yes, you may be among their targets even if you work from home, or are unincorporated.

- 7) **Unemployment Compensation.** For 2009 only, for federal tax purposes, you may exclude up to \$2,400 of unemployment received. The State of California has excluded unemployment benefits for many years, so this is NOT a change for state income tax purposes.

From all of us, we wish you good tidings during the Holidays. Merry Christmas!!!

With warm regards,

Matthew T Azares