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## DECEMBER TAX ALERTS

### ***CHARITABLE CONTRIBUTIONS TO IDA PROGRAM FUND***

Although many taxpayers already use charitable contributions as a means to decrease their tax burden, many Michigan taxpayers are unaware of a new tax credit in 2009 available for Individual Development Account (IDA) Program contributions. The credit allows .75¢ of every \$1.00 donated to the reserve fund of a qualified fiduciary organization to be credited back to the taxpayer.

Supported by individual and corporate donations, IDAs are a tool allowing low to moderate income families a means to increase financial self sufficiency. IDAs are accounts in the name of an eligible working family in which they deposit earned income that is then matched through the reserve fund of the qualified fiduciary organization. The family may use the fund to save for a first-time home purchase, qualified home improvements, college or trade school expenses, and small business development.

The taxpayer receives a substantial tax benefit for contributing to the IDA Program reserve fund. In addition to the tax credit from the state of Michigan, the taxpayer is also entitled to take a charitable contribution deduction on their federal tax return. For example, suppose a taxpayer in the 25% tax bracket donates \$1,000 to the reserve fund of a qualified fiduciary organization. The tax benefit received is calculated:

$$\begin{aligned} \$1,000 \times 25\% &= \$250 \text{ tax savings for Federal purposes} \\ \$1,000 \times 75\% &= \$750 \text{ tax credit from the State of Michigan} \end{aligned}$$

The taxpayer in this example would receive a tax benefit equal to their donation. Everyone wins! A worthwhile cause is supported and contributors receive a considerable tax benefit.

Please contact our office for more information on how you can take advantage of this or other tax savings strategies.

### ***Checklist of Things to Do Before the end of 2009***

Below is a list of some possible tax strategies to decrease your 2009 tax liability. Not all will apply to your particular situation. However, we have many tax savings strategies at our disposal. Please contact our office to discuss your particular circumstances.

1. Arrange with employer to defer bonus until 2010.
2. Increase basis in partnership or S corporation to deduct 2009 loss.
3. Use credit card to prepay business expenses.
4. Pay contested taxes to deduct them in 2009 while continuing to contest them in 2010.
5. Increase withholding to eliminate estimates tax payment.

6. Make gifts to take advantage of \$13,000 gift tax exclusion.
7. Consider deferring debt cancellation event until 2010.
8. Increase participation in business activity to meet material participation standard under passive loss rules.
9. Increase or decrease use of vacation home to have it treated as personal residence or passive activity, whichever yields the best tax result.
10. Dispose of passive activity to free up suspended losses.
11. Make an IRA contribution, remember the catch-up IRA contribution for age 50 or over is \$1,000 for 2009.
12. Avoid income tax on social security benefits.
13. Extend subscriptions to professional journals, pay union or professional dues, enroll in (and pay tuition for) job related courses to increase 2009 miscellaneous itemized deductions.
14. Make gifts to children who are 19 years of age, 25 years if full time student, to take advantage of expanded 10% rate bracket.
15. Consider treating business operated by a husband and wife as a disregarded entity.

### ***Tax Consequences for Self-Employed Individuals***

Owning your own business can be very rewarding, both personally and financially. Being the sole decision-maker for this important undertaking can also be overwhelming at times. There are many choices that have to be made with consequences that are not always foreseen. We can help you to minimize the tax burden on your hard-earned income by identifying and maximizing business deductions, providing guidance on substantiation of expenses, and pointing out tax planning alternatives that are uniquely available to the self-employed.

Some frequently overlooked business deductions that you may be able to take advantage of are moving expenses, travel away from home, entertainment expenses, and the home office deduction. First year bonus depreciation and Code Sec. 179 expense allowance on the purchase of new equipment can provide a significant deduction. In addition, there are multiple benefits when you employ your spouse, child, or other family member in the business.

You should be aware that when you adopt certain tax positions, such as the distinction between employee and independent contractor, you may face a thorough investigation by the IRS. As a self-employed individual, you must comply with these rules for yourself or for any workers that you hire. If you are an employer, you are required to withhold income and employment taxes from an employee's income. However, if your workers are independent contractors, you are only required to report payments of \$600 or more on a Form 1099-MISC, Miscellaneous Income. Failing to make the right classification could cost you money.

Complex rules and calculations are involved in many of the planning opportunities that are available to you. We will be happy to review your overall tax scenario in order to maximize your tax savings. Please contact our office at our earliest convenience to make an appointment.

#### Quickbooks Corner

**Audit Trail tracks deletions/modifications to transactions.** Using the audit trail feature in QuickBooks creates more data and larger files, but it is a great help in checking out who did what and when. QuickBooks users can turn on the audit trail from the Edit menu> choose Preference>click on Account in the left-hand scroll box>from the Company Preferences tab, select the "Use audit trail checkbox.", click OK. The audit trail feature will keep a record of all transactions entered, every transaction revision, date/time of revision, and the individual's name. Audit trail reports are available under "accountant & taxes" menu option within the reports menu.