

THIS MONTH:

- ◆ **Delayed Filing for Some Taxpayers**
- ◆ **Nondeductible Expenses**
- ◆ **Should I File a Return?**
- ◆ **Tax Refund Options**

Delayed Filing for Some Taxpayers

Due to Congressional action at year-end, taxpayers will need to wait to file until middle to late February if any of the following three categories apply:

Taxpayers claiming itemized deductions on Schedule A. Itemized deductions include mortgage interest, charitable deductions, medical and dental expenses, as well as, state and local taxes and the state and local general sales tax deduction. Because of late Congressional action to enact tax law changes, anyone who itemizes and files a Schedule A will need to wait to file.

Taxpayers claiming the Higher Education Tuition and Fees Deduction. This deduction is for parents and students — covering up to \$4,000 of tuition and fees paid to a post-secondary institution — is claimed on Form 8917. However, the IRS emphasized that there will be no delays for millions of parents and students who claim other education credits, including the American Opportunity Tax Credit and Lifetime Learning Credit.

Taxpayers claiming the Educator Expense Deduction. This deduction is for kindergarten through grade 12 educators with out-of-pocket classroom expenses of up to \$250. The educator expense deduction is claimed on Form 1040, Line 23, and Form 1040A, Line 16.

Nondeductible Expenses

As a small business owner, you have the opportunity to deduct certain expenses from your taxes. Don't let yourself get carried away though; there are some expenses that are not deductible, regardless of the situation. Just as a reminder, below are some common expenses that CANNOT be deducted as a business expense.

Clothing—Unless it is protective gear, or a uniform not to be worn during non-working hours, clothing cannot be deducted.

Commuting Expenses—The cost of transportation from your home to your main/regular place of work.

Life Insurance Premiums—If the business or the business owner is a direct or indirect beneficiary, the expense cannot be deducted.

Lunches with Co-workers—Meals with co-workers are nondeductible, unless traveling away from home on business.

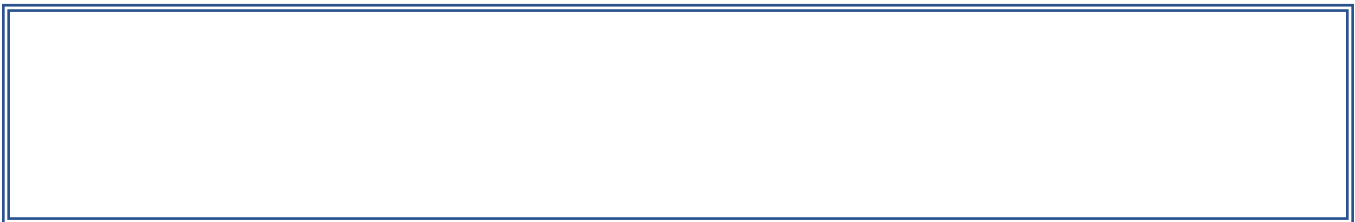
Personal Legal Expenses—For example, legal fees relating to custody of children, divorce, preparation of a will, and personal injury claims are nondeductible.

Political Contributions—Political donations and lobbying expenses to influence voters are not deductible.

Residential Telephone Service—The first telephone line to your residence is nondeductible even if used in a trade or business.

Health Club, Social Club or Country Club Dues—In general, club fees and weight loss programs are nondeductible, even if your job requires to you stay in shape. (Note: If certain conditions are met, the expense may qualify as a medical expense.)

Fines and Penalties—Traffic tickets, tax penalty payments, and violations of law are not deductible expenses.



Should I File a Return?

You do not have to file a tax return in all cases, but there are some instances in which you still should file, even if it is not expressly required. You should file if any of the following apply:

1. **Did you have Federal Income Tax withheld from your pay?** – You should file to get money back if Federal Income Tax was withheld from your pay, you made estimated tax payments, or had a prior year overpayment applied to this year's tax.
2. **Do you qualify for the Making Work Pay Credit?** – You may be able to take this credit if you had earned income from work. The maximum credit for a married couple filing a joint return is \$800 and \$400 for other taxpayers.
3. **Do you qualify for the Earned Income Tax Credit?** – You may qualify for EITC if you worked, but did not earn a lot of money. EITC is a refundable tax credit; which means you could qualify for a tax refund.
4. **Do you qualify for the Additional Child Tax Credit?** – This refundable credit may be available to you if you have at least one qualifying child and you did not get the full amount of the Child Tax Credit.
5. **Do you qualify for the American Opportunity Credit?** – The maximum credit per student is \$2,500 and the first four years of postsecondary education qualify.
6. **Did you buy your first home?** – If so, you could qualify for the First Time Home-Buyers Credit. The credit is a maximum of \$8,000, or \$4,000 if your filing status is married filing separately. To qualify for the credit, taxpayers must have bought, or entered into a binding contract to buy, a principal residence on or before April 30, 2010. If you entered into a binding contract by April 30, 2010, you must have closed on the home on or before September 30, 2010.

Tax Refund Options

In an effort to help individuals build their savings and retirement funds, a new direct deposit option in 2010 allows taxpayers to use their tax refunds to purchase U.S. Series I Savings Bonds. Additionally, a new debit card option has been added as well.

- **Using Direct Deposit**—You can deposit your entire refund into one account or split it into three different accounts. Starting this year, taxpayers may also use the split-refund option to purchase Treasury I Bonds using Form 8888, *Direct Deposit of Refund to More Than One Account*.
- **Buying Savings Bonds**—New for 2010, you can request a portion of your refund be used to buy up to \$5,000 in low-risk, liquid Treasury I Bonds, which earn interest and protect owners against inflation. Ask your Padgett office for more information.
- **Debit Card Program for Expedited Refunds**—This new pilot program is designed to provide 600,000 electronic refunds to low and moderate income taxpayers via MyAccountVisa Prepaid Debit Cards. The Treasury will mail letters to certain individuals inviting them to activate a card in time to have their 2010 refunds deposited to the card.

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PADGETT BUSINESS SERVICES® is dedicated to meeting the tax, government compliance, profit & financial reporting and payroll needs of businesses with fewer than 20 employees in the retail and service sector of the economy. This publication suggests general business planning concepts that may be appropriate in certain situations. It is designed to provide complete and accurate information to the reader. However, because of the complexities of the tax law and the necessity of determining whether the material discussed herein is appropriate to your business, it is important you seek advice from your Padgett office before implementing any of the concepts suggested in this newsletter.

PENALTY NOTICE: As required by U.S. Treasury regulations, you are advised that any written tax advice contained herein was not written or intended to be used (and cannot be used) by any taxpayer for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code.

