

## AW Business Solutions

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# Tax Tips

## How to Find Free Tax Services

The IRS provides free publications, forms and other tax material and information to help taxpayers meet their tax obligations. Free help is available on the IRS Web site, by phone, at local IRS offices and at many community locations.

## To File or Not To File

You must file a tax return if your income is above a certain level. The amount varies depending on filing status, age and the type of income you receive.

For example, a married couple both under age 65 generally is not required to file until their joint income reaches \$17,900. However, self-employed individuals generally must file a tax return if their net income from self employment was at least \$400.

Check the "Individuals" section of the IRS Web site at [IRS.gov](http://IRS.gov) or consult the instructions for form 1040, 1040A, or 1040EZ for specific details that may affect your need to file a tax return with IRS this year.

## Six Reasons Why You May Want To File:

- 1. Federal Income Tax Withheld.** If you are not required to file, you should file to get money back if Federal Income Tax was withheld from your pay, if you made estimated tax payments, or had a prior year overpayment applied to this year's tax.
- 2. Recovery Rebate Credit.** If you did not qualify or did not receive the maximum amount for the 2008 Economic Stimulus Payment, you may be entitled to a Recovery Rebate Credit when you file your 2008 tax return.
- 3. Earned Income Tax Credit.** You may qualify for the Earned Income Tax Credit, or EITC, if you worked, but did not earn a lot of money. EITC is a refundable tax credit meaning you could qualify for a tax refund.
- 4. Additional Child Tax Credit.** This 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. First time Homebuyer Credit.** If you bought a main home after April 8, 2008, and before July 1, 2009 and did not own a main home during the prior 3 years, you may be able to take this refundable credit.
- 6. Health Coverage Tax Credit.** Certain individuals, who are receiving certain Trade Adjustment Assistance, Alternative Trade Adjustment Assistance, or pension benefit payments from the Pension Benefit Guaranty Corporation, may be eligible for a Health Coverage Tax Credit when you file your 2008 tax return.

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## **Does the IRS Owe You Money?**

Who couldn't use a little extra cash this summer! The IRS may have some money for you.

If you have not filed a prior year tax return and are due a refund, you should consider filing the return to claim that refund. If you are missing a refund for a previously filed tax return, you should contact the IRS to check the status of your refund and confirm your current address.

### **Unclaimed Refunds**

Some people may have had taxes withheld from their wages but were not required to file a tax return because they had too little income. Others may not have had any tax withheld but would be eligible for the refundable Earned Income Tax Credit.

- To collect this money a return must be filed with the IRS no later than three years from the due date of the return.
- If no return is filed to claim the refund within three years, the money becomes the property of the U.S. Treasury.
- There is no penalty assessed by the IRS for filing a late return qualifying for a refund.
- Current and prior year tax forms and instructions are available on the Forms and Publications web page of IRS.gov or by calling 800-TAX-FORM (800-829-3676).
- Information about the Earned Income Tax Credit and how to claim it is also available on IRS.gov.

### **Undeliverable Refunds**

Were you expecting a refund check but didn't get it?

- Refund checks are mailed to your last known address. Checks are returned to the IRS if you move without notifying the IRS or the U.S. Postal Service.
- You may be able to update your address with the IRS on the "Where's My Refund?" feature available on IRS.gov. You will be prompted to provide an updated address if there is an undeliverable check outstanding within the last 12 months.
- You can also ensure the IRS has your correct address by filing Form 8822, Change of Address, which is available on IRS.gov or can be ordered by calling 800-TAX-FORM (800-829-3676).
- If you do not have access to the Internet and think you may be missing a refund, you should first check your records or contact your tax preparer. If your refund information appears correct, call the IRS toll-free assistance line at 800-829-1040 to check the status of your refund and confirm your address.

## **Owe the IRS Money?**

### **Eight Things to Know If You Receive an IRS Notice**

Every year, the IRS sends millions of letters and notices to taxpayers. Many taxpayers will receive this correspondence during the late summer and fall. Here are eight things every taxpayer should know about IRS notices – just in case one shows up in your mailbox.

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1. Don't panic. Many of these letters can be dealt with simply and painlessly.
2. There are number of reasons the IRS sends notices to taxpayers. The notice may request payment of taxes, notify you of a change to your account or request additional information. The notice you receive normally covers a very specific issue about your account or tax return.
3. Each letter and notice offers specific instructions on what you are asked to do to satisfy the inquiry.
4. 4. If you receive a correction notice, you should review the correspondence and compare it with the information on your return.
5. If you agree with the correction to your account, usually no reply is necessary unless a payment is due.
6. If you do not agree with the correction the IRS made, it is important that you respond as requested. Write to explain why you disagree. Include any documents and information you wish the IRS to consider, along with the bottom tear-off portion of the notice. Mail the information to the IRS address shown in the upper left-hand corner of the notice. Allow at least 30 days for a response.
7. Most correspondence can be handled without calling or visiting an IRS office. However, if you have questions, call the telephone number in the upper right-hand corner of the notice. Have a copy of your tax return and the correspondence available when you call to help us respond to your inquiry.
8. It's important that you keep copies of any correspondence with your records

## **Eight Tips for Taxpayers Who Owe Money to the IRS**

The vast majority of Americans get a tax refund from the IRS each spring, but what do you do if you are one of those who received a tax bill? Here are eight tips for taxpayers who owe money to the IRS.

1. If you get a bill this summer for late taxes, you are expected to promptly pay the tax owed including any additional penalties and interest. If you are unable to pay the amount due, it is often in your best interest to get a loan to pay the bill in full rather than to make installment payments to the IRS.
2. You can also pay the bill with your credit card. To pay by credit card contact either Official Payments Corporation at 800-2PAYTAX (also [www.officialpayments.com](http://www.officialpayments.com)) or Link2Gov at 888-PAY-1040 (also [www.pay1040.com](http://www.pay1040.com)).
3. The interest rate on a credit card or bank loan may be lower than the combination of interest and penalties imposed by the Internal Revenue Code.
4. You can also pay the balance owed by electronic funds transfer, check, money order, cashier's check or cash. To pay using electronic funds transfer you can take advantage of the Electronic Federal Tax Payment System by calling 800-555-4477 or 800-945-8400 or online at [www.eftps.gov](http://www.eftps.gov).
5. An installment agreement may be requested if you cannot pay the liability in full. This is an agreement between you and the IRS for the collection of the amount due in monthly installment payments. To be eligible for an installment agreement, you must first file all returns that are required and be current with estimated tax payments.
6. If you owe \$25,000 or less in combined tax, penalties and interest, you can request an installment agreement using the web-based application called Online Payment Agreement found at IRS.gov.

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7. You can also complete and mail an IRS Form 9465, Installment Agreement Request, along with your bill in the envelope that you have received from the IRS. The IRS will inform you usually within 30 days whether your request is approved, denied, or if additional information is needed. If the amount you owe is \$25,000 or less, provide the monthly amount you wish to pay with your request. At a minimum, the monthly amount you will be allowed to pay without completing a Collection Information Statement, Form 433, is an amount that will full pay the total balance owed within 60 months.

You may still qualify for an installment agreement if you owe more than \$25,000, but a Form 433F, Collection Information Statement, is required to be completed before an installment agreement can be considered. If your balance is over \$25,000, consider your financial situation and propose the highest amount possible, as that is how the IRS will arrive at your payment amount based upon your financial information.

9. If an agreement is approved, a one-time user fee will be charged. The user fee for a new agreement is \$105 or \$52 for agreements where payments are deducted directly from your bank account. For eligible individuals with incomes at or below certain levels, a reduced fee of \$43 will be charged, and is automatically figured based on your income.

## Payment Options

If you cannot pay the full amount of taxes you owe by the April deadline, you should still file your return by the deadline and pay as much as you can to avoid penalties and interest. There are also alternative payment options to consider:

- **Additional Time to Pay** Based on your circumstances, you may be granted a short additional time to pay your tax in full. The IRS is sometimes able to allow a brief additional amount of time to pay in order to facilitate tax debt repayment. A brief additional amount of time to pay can be requested through the Online Payment Agreement application at [IRS.gov](http://IRS.gov) or by calling 800-829-1040. Taxpayers who request and are granted an additional 30 to 120 days to pay the tax in full generally will pay less in penalties and interest than if the debt were repaid through an installment agreement over a greater period of time.
- **Installment Agreement** You can apply for an IRS installment agreement using our Web-based OPA application on [IRS.gov](http://IRS.gov). This Web-based application allows taxpayers who owe \$25,000 or less in combined tax, penalties and interest to self-qualify, apply for, and receive immediate notification of approval. You can also request an installment agreement before your current tax liabilities are actually assessed by using OPA. The OPA option provides you with a simple and convenient way to establish an installment agreement and eliminates the need for personal interaction with IRS and reduces paper processing.
- **Pay by Credit Card or Debit Card** You can charge your taxes on your American Express, MasterCard, Visa or Discover credit cards. Additionally, you can pay by using your debit card. However, the debit card must be a Visa Consumer Debit Card, or a NYCE, Pulse or Star Debit Card. To pay by credit card or debit card, contact one of the service providers at its telephone number or Web site listed below and follow the instructions. There is no IRS fee for credit or debit card payments, but the processing companies charge a convenience fee or flat fee. If you are paying by credit card, the service providers charge a convenience fee based on the amount you are paying. If you are paying by debit card the service providers charge a flat fee of \$3.95, do not add the convenience fee or flat fee to your tax payment.

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## **Six Important Facts about Your Appeal Rights**

The IRS has an appeals system for people who do not agree with the results of an examination of their tax returns or with other adjustments to their tax liability. Here are the top six things to know when it comes to your appeal rights.

1. When the IRS makes an adjustment to your tax return, they will send you a report or a letter explaining the proposed adjustments. This letter will alert you of your right to request a conference with an Appeals office and how to put in a request for such a conference.
2. In addition to examinations, many other things can be appealed. You can also appeal penalties, interest, trust fund recovery penalties, and offers in compromise, liens and levies.
3. If you request an Appeals conference, be prepared with records and documentation to support your position.
4. Appeals conferences are informal meetings. You may represent yourself or have someone else represent you. Those allowed to represent taxpayers include attorneys, accountants or individual enrolled to practice before the IRS.
5. If you do not reach agreement with IRS Appeals or if you do not wish to appeal within the IRS, you may appeal certain actions through the courts.
6. For further information on the appeals process, refer to Publication 5, Your Appeal Rights and How to Prepare a Protest if you don't agree. This publication, along with more information about IRS appeals, is available on the IRS Web site at [IRS.gov](http://IRS.gov).

## **Seven Important Points about Penalties**

Taxpayers who do not file their return and pay their tax by the due date may have to pay a penalty. Here are seven things you should know about failure-to-file and failure-to-pay penalties.

1. The failure-to-file penalty is generally more than the failure-to-pay penalty. So if you cannot pay all the taxes you owe, you should still file your tax return and explore other payment options in the meantime.
2. The penalty for filing late is usually 5 percent of the unpaid taxes for each month of part of a month that a return is late. This penalty will not exceed 25 percent of the taxpayer's unpaid taxes.
3. If you file your return more than 60 days after the due date or extended due date, the minimum penalty is the smaller of \$135 or 100 percent of the unpaid tax.
4. You will not have to pay a failure-to-file penalty if you can show that you failed to file on time because of reasonable cause and not because of willful neglect.
5. You will have to pay a failure-to-pay penalty of ½ of 1 percent of your unpaid taxes for each month or part of a month after the due date that the taxes are not paid.
6. If you filed an extension and you paid at least 90 percent of your actual tax liability by the due date, you will not be faced with a failure-to-pay penalty.
7. If both the failure-to-file penalty and the failure-to-pay penalty apply in any month, the 5 percent failure-to-file penalty is reduced by the failure-to-pay penalty. However, if you file your return more than 60 days after the due date or extended due date, the minimum penalty is the smaller of \$135 or 100% of the unpaid tax.

## **Top Ten Things You Need to Know About Making Federal Tax Payments**

Will you be making a payment with your federal tax return this year? If so, here is what you need to know about making tax payments correctly.

1. Never send cash!
2. If you file electronically, you can file and pay in a single step by authorizing an electronic funds withdrawal via tax preparation software or a tax professional.
3. You can pay by phone or online using a credit or debit card whether you file a paper return or electronically.
4. Electronic payment options provide an alternative to paying taxes or user fees by check or money order. You can make payments 24 hours a day, seven days a week. Visit IRS.gov and search e-pay, or refer to Publication 3611, e-File Electronic Payments for more details.
5. If you itemize, you may be able to deduct the convenience fee charged for paying individual income taxes with a credit or debit card as a miscellaneous itemized deduction. The deduction is subject to the 2 percent limit on Form 1040, Schedule A, Itemized Deductions.
6. Enclose your payment with your return, but do not staple it to the form.
7. If you pay by check or money order, make sure it is payable to the "United States Treasury."
8. Always provide your correct name, address, Social Security number listed first on the tax form, daytime telephone number, and tax year and form number on the front of your check or money order.
9. Complete and include Form 1040-V, Payment Voucher, when sending your payment and tax return to the IRS. This will help the IRS process your payment accurately and efficiently.
10. For more information, call 800-829-4477 for TeleTax Topic 158, "Ensuring Proper Credit of Payments." You can also find out more in Publication 17, Your Federal Income Tax and Form 1040-V, both available at IRS.gov.

## **Credit and Debit Card Fees Related to Tax Payment are Deductible**

WASHINGTON — Credit or debit card convenience fees charged for paying federal individual income taxes electronically are deductible for some taxpayers who itemize, the Internal Revenue Service announced today.

Federal law bars the IRS from paying any fees associated with these credit or debit transactions. Card processors normally charge taxpayers for convenience fees when they use their credit or debit card to pay taxes. Fees vary but average about 2.5 percent of the tax payment.

In reassessing a previous position, the IRS decided that the convenience fees associated with the payment of federal tax, including payment of estimated tax, can be included as a miscellaneous itemized deduction. However, only those miscellaneous expenses that exceeded 2 percent of the taxpayer's adjusted gross income can be deducted.

Not everyone who pays the fees will be able to deduct them. Taxpayers first must be eligible to file a Form 1040 Schedule A to itemize their expenses. And, taxpayers must have enough miscellaneous expenses to exceed the 2 percent threshold. These expenses include items such as tax preparation costs, job search expenses and unreimbursed employee expenses.

## Ten Last Minute Filing Tips

With the tax filing deadline close at hand, the IRS offers ten tips for those still working on their tax returns:

1. **File Electronically** - Consider filing electronically instead of using paper tax forms. If you file electronically and choose direct deposit, you can receive your refund in as few as 10 days.
2. **Check the Identification Numbers** - When filing a paper return carefully check the identification numbers — usually Social Security numbers — for each person listed. This includes you, your spouse, dependents and persons listed in relation to claims for the Child and Dependent Care Credit or Earned Income Tax Credit. Missing, incorrect or illegible Social Security Numbers can delay or reduce a tax refund.
3. **Double-Check Your Figures** - If you are filing a paper return, you should double-check that you have correctly figured the refund or balance due.
4. **Check the Tax Tables** - If you are filing using the Free File Fill able Forms or a paper return you should double-check that you have used the right figure from the tax table.
5. **Sign your form** - Taxpayers must sign and date their returns. Both spouses must sign a joint return, even if only one had income. Anyone paid to prepare a return must also sign it.
6. **Mailing Your Return** - Use the coded envelope included with your tax package to mail your return. If you did not receive an envelope, check the section called "Where Do You File?" in the tax instruction booklet.
7. **Mailing a Payment** - People sending a payment should make the check out to "United States Treasury" and should enclose it with, but not attach it to the tax return or the Form 1040-V, Payment Voucher, if used. The check should include the taxpayer's Social Security number, daytime phone number, the tax year and the type of form filed.
8. **Electronic Payments** - Electronic payment options are convenient, safe and secure methods for paying taxes. You can authorize an electronic funds withdrawal, or use a credit card or a debit card. For more information on electronic payment options, visit [IRS.gov](http://IRS.gov).
9. **Extension to File** - By the April due date, taxpayers should either file a return or request an extension of time to file. Remember, the extension of time to file is not an extension of time to pay.
10. **IRS.gov** - Forms and publications and helpful information on a variety of tax subjects are available around the clock on the IRS Web site at [IRS.gov](http://IRS.gov).

## Five Tips to Avoid Tax Time Stress

Are you looking for ways to avoid the last-minute rush for doing your taxes? Here are some stress-relieving tips to help you.

1. **Don't Procrastinate** – Resist the temptation to put off your taxes until the very last minute. Your haste to meet the filing deadline may cause you to overlook potential sources of tax savings and will likely increase your risk of making an error.
2. **Visit the IRS Online** – In 2008, there were more than 330 million visits to [IRS.gov](http://IRS.gov). Anyone with Internet access can find tax law information and answers to frequently asked tax questions.
3. **File Your Return Electronically** – Nearly 90 million taxpayers filed their returns electronically in 2008. Aside from ease of filing, IRS e-file is the fastest and most accurate way to file a tax return. If you're due a refund, the waiting time for e-filers is half that of paper filers.

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4. **Don't Panic if You Can't Pay** – If you cannot pay the full amount of taxes you owe by the April deadline, you should still file your return by the deadline and pay as much as you can to avoid penalties and interest. You also should contact the IRS to discuss your payment options at 1-800-829-1040. The agency may be able to provide some relief such as a short-term extension to pay, an installment agreement or an offer in compromise. More than 75 percent of taxpayers eligible for an Installment Agreement can apply using the Web-based Online Payment Agreement application available on IRS.gov. To find out more about this simple and convenient process type "Online Payment Agreement" in the search box on the IRS.gov homepage.
5. **Request an Extension of Time to File** – But Pay on Time If the clock runs out, you can get an automatic six month extension of time to file to October 15. However, this extension of time to file does not give you more time to pay any taxes due. You will owe interest on any amount not paid by the April deadline, plus a late payment penalty if you have not paid at least 90 percent of your total tax by that date. See IRS Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return for a variety of easy ways to apply for an extension. Form 4868 is available at IRS.gov or by calling 800-TAX-FORM (800-829-3676). Taxpayers needing Form 4868 should act soon to be sure they have the item in time to meet the April deadline.

## Standard or Itemized Deductions

Whether to itemize deductions on your tax return depends on how much you spent on certain expenses last year. Money paid for medical care, mortgage interest, taxes, charitable contributions, casualty losses and miscellaneous deductions can reduce your taxes. If the total amount spent on those categories is more than the standard deduction, you can usually benefit by itemizing.

The standard deduction amounts are based on your filing status and are subject to inflation adjustments each year. For 2008, they are:

Single \$5,450  
Married Filing Jointly \$10,900  
Head of Household \$8,000  
Married Filing Separately \$5,450

- **Some taxpayers have different standard deductions.** The standard deduction amount depends on your filing status, whether you are 65 or older or blind, whether an exemption can be claimed for you by another taxpayer, whether you plan to claim the additional standard deduction for state and local real estate taxes, and whether you have a net disaster loss from a federally declared disaster. If any of these apply, you must use the Standard Deduction Worksheet in the Form 1040EZ, 1040A or 1040 instructions.
- **Limited itemized deductions.** Your itemized deductions may be limited if your adjusted gross income is more than \$159,950 (\$79,975 if you are married filing separately). This limit applies to all itemized deductions except medical and dental expenses, casualty and theft losses, gambling losses, investment interest and certain qualified cash contributions for relief efforts in a Midwestern disaster area.
- **Married Filing Separately.** When a married couple files separate returns and one spouse itemizes deductions, the other spouse cannot claim the standard deduction and should itemize their deductions.
- **Some taxpayers are not eligible for the standard deduction.** They include nonresident aliens, dual-status aliens and individuals who file returns for periods of less than 12 months.
- **Forms to use.** To itemize your deductions, use Form 1040, U.S. Individual Income Tax Return, and Schedule A, Itemized Deductions.

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## Additional Standard Deduction for Real Estate Taxes

There is an additional standard deduction for those who don't qualify to itemize their tax deductions, but who do pay state or local real estate taxes. This deduction is available for the 2008 and 2009 tax years.

Here are six things you need to know about the additional standard deduction for real estate taxes:

1. The additional deduction amount is equal to the amount of real estate taxes paid. The amount can be up to \$500 for single filers or up to \$1,000 for joint filers.
2. The taxes must be imposed on you.
3. You must have paid the taxes during your tax year.
4. The taxes must be charged uniformly against all property in the jurisdiction and must be based on the assessed value. Many states and counties also impose local benefit taxes for improvements to property, such as assessments for streets, sidewalks and sewer lines. These taxes usually cannot be deducted.
5. Real estate taxes paid on foreign or business property do not qualify for the increased standard deduction.
6. You must file a Form 1040 or 1040A to claim the additional deduction. When claiming the additional standard deduction for real estate taxes, be sure to check the box on line 39c of Form 1040 or line 23c of Form 1040A.

## Five Important Tax Credits

Check it out! You might be eligible for a tax credit. A tax credit is a dollar-for-dollar reduction of taxes owed. Some credits are even refundable. That means you might receive a refund rather than owe any taxes.

Here are five popular credits you should consider before filing your 2008 Federal Income Tax Return:

- 1. The Earned Income Tax Credit** is a refundable credit for low-income working individuals and families. Income and family size determine the amount of the credit. For more information, see IRS Publication 596, Earned Income Credit.
- 2. The Child and Dependent Care Credit** is for expenses paid for the care of your qualifying children under age 13, or for a disabled spouse or dependent, to enable you to work or look for work. For more information, see IRS Publication 503, Child and Dependent Care Expenses.
- 3. The Child Tax Credit** is for people who have a qualifying child. The maximum amount of the credit is \$1,000 for each qualifying child. This credit can be claimed in addition to the credit for child and dependent care expenses. For more information on the Child Tax Credit, see IRS Publication 972, Child Tax Credit.
- 4. The Retirement Savings Contributions Credit**, also known as the Saver's Credit, is designed to help low- and moderate-income workers save for retirement. You may qualify if your income is below a certain limit and you contribute to an IRA or workplace retirement plan, such as a 401(k) plan. The Saver's Credit is available in addition to any other tax savings that apply. For more information, see IRS Publication 590, Individual Retirement Arrangements (IRAs).

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**5. Health Coverage Tax Credit** Certain individuals, who are receiving certain Trade Adjustment Assistance, Alternative Trade Adjustment Assistance, or pension benefit payments from the Pension Benefit Guaranty Corporation, may be eligible for a Health Coverage Tax Credit when you file your 2008 tax return.

## Things You Need to Know About Tax Refunds

Are you expecting a refund from the IRS this year? Here are the top ten things you should know about your refund.

1. **Refund Options** You have two options for receiving your individual federal income tax refund: a paper check or a direct deposit.
2. **Separate Accounts** You may use Form 8888, Direct Deposit of Refund to More Than One Account, to request that your refund be allocated by direct deposit among up to three separate accounts, such as checking or savings or retirement accounts.
3. **Paper Return Processing Time** If you file a complete and accurate paper tax return, your refund will usually be issued within six weeks from the received date.
4. **Returns Filed Electronically** If you filed electronically, your refund will normally be issued within three weeks after the acknowledgment date.
5. **Check the Status Online** The fastest and easiest way to find out about your current year refund is to go to the IRS.gov Web site and click on the "Where's My Refund?" link available from the home page. You will need your Social Security number, filing status and the exact whole dollar amount of your refund to check the status online.
6. **Check the Status By Phone** Call the IRS Refund Hotline at 800-829-1954. When you call, you will need to provide your Social Security number, your filing status, and the exact whole dollar amount of the refund shown on your return.
7. **Delayed Refund** There are several reasons for delayed refunds. For things that may delay the processing of your return, refer to Tax Topic 303 on IRS.gov, which includes a Checklist of Common Errors When Preparing Your Tax Return.
8. **Larger than Expected Refund** If you receive a refund to which you are not entitled, or one for an amount that is more than you expected, do not cash the check until you receive a notice explaining the difference. Follow the instructions on the notice.
9. **Smaller than Expected Refund** If you receive a refund for a smaller amount than you expected, you may cash the check, and, if it is determined that you should have received more, you will later receive a check for the difference. If you did not receive a notice and you have questions about the amount of your refund, wait two weeks after receiving the refund, then call 800-829-1040.
10. **Missing Refund** The IRS will assist you in obtaining a replacement check for a refund check that is verified as lost or stolen. If the IRS was unable to deliver your refund because you moved, you can change your address online. Once your address has been changed, the IRS can reissue the undelivered check. For more information, visit IRS.gov or call 800-829-1040

## Nine Common Errors Made on Tax Returns

Errors made on tax returns may delay the processing of your return and the arrival of your refund. Avoiding the common errors below will help ensure your refund arrives on time:

1. **Recovery Rebate Credit** - Many returns filed in 2009 have errors involving the Recovery Rebate Credit, a credit for people who did not receive a stimulus payment in 2008 or who did not receive the maximum amount. To avoid delays in tax refunds, it is critical that taxpayers know whether

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- they received a payment in 2008 and the correct amount of that stimulus payment. For people using a paper tax return, the stimulus payment amount will be required when completing the related worksheet. For people using tax software, the stimulus payment amount will be needed as part of the return preparation process.
2. **Incorrect or missing social security numbers** - When entering SSNs for anyone listed on your tax return, be sure they are entered exactly as they appear on the social security cards. Incorrect or transposed numbers will cause delays in the processing of your return.
  3. **Incorrect or misspelling of dependent's last name** - When entering dependent's last name on your tax return, ensure they are entered exactly as they appear on the social security cards. Incorrect or misspelling of dependent's last name will cause delays in processing of your return.
  4. **Filing status errors** - Make sure you choose the correct filing status for your situation.
  5. **Math errors** - When preparing paper returns you should review all addition and subtraction to ensure it is correct. Remember, when you file electronically, the software takes care of the math for you!
  6. **Computation errors** - Take your time. Many taxpayers are making mistakes when figuring the taxable income, withholding and estimated tax payments, Earned Income Credit, Standard Deduction for age 65 or over or blind, the taxable amount of social security benefits, and child and dependent care credit.
  7. **Incorrect bank account numbers for Direct Deposit** - If you are due a refund and requested direct deposit did you check your financial institution routing and account numbers?
  8. **Forgetting to sign and date the return** - An unsigned tax return is like an unsigned check – it is invalid.
  9. **Incorrect Adjusted Gross Income information** - Taxpayers filing electronically must sign the return electronically using a personal identification number. To verify their identity taxpayers will be prompted to enter their AGI from their originally filed 2007 federal income tax return or their prior year PIN if they used one to file electronically last year. Taxpayers should not use an AGI amount from an amended return, Form 1040X, or a math error correction made by IRS.

## Keeping Good Records Reduces Stress at Tax Time

Although most people won't be filing their tax returns for several months, the dog days of summer are actually a great time to start planning for the tax filing season by ensuring your records are organized. Whether you are an individual taxpayer or a business owner, you can avoid headaches at tax time with good records because they will help you remember transactions you made during the year.

Here are a few things the IRS wants you to know about recordkeeping.

Keeping well-organized records also ensures you can answer questions if your return is selected for examination or prepare a response if you are billed for additional tax. In most cases, the IRS does not require you to keep records in any special manner. Generally speaking, you should keep any and all documents that may have an impact on your federal tax return.

Individual taxpayers should usually keep the following records supporting items on their tax returns for at least three years:

- Bills
- Credit card and other receipts
- Invoices
- Mileage logs
- Canceled, imaged or substitute checks or any other proof of payment

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- Any other records to support deductions or credits you claim on your return

You should normally keep records relating to property until at least three years after you sell or otherwise dispose of the property. Examples include:

- A home purchase or improvement
- Stocks and other investments
- Individual Retirement Arrangement transactions
- Rental property records

If you are a small business owner, you must keep all your employment tax records for at least four years after the tax becomes due or is paid, whichever is later. Examples of important documents business owners should keep Include:

- Gross receipts: Cash register tapes, bank deposit slips, receipt books, invoices, credit card charge slips and Forms 1099-MISC
- Proof of purchases: Canceled checks, cash register tape receipts, credit card sales slips and invoices
- Expense documents: Canceled checks, cash register tapes, account statements, credit card sales slips, invoices and petty cash slips for small cash payments
- Documents to verify your assets: Purchase and sales invoices, real estate closing statements and canceled checks

## **Need More Time to File?**

If you can't meet the April filing deadline to file your tax return, you can get an automatic six month extension of time to file from the IRS.

Here is what you need to know about filing an extension:

1. An extension will give you extra time to get your paperwork to the IRS, but it does not extend the time you have to pay any tax due. You will owe interest on any amount not paid by the April deadline, plus a late payment penalty if you have not paid at least 90 percent of your total tax by that date.
2. If your return is completed but you are unable to pay the full amount of tax due, do not request an extension. File your return on time and pay as much as you can. The IRS will send you a bill or notice for the balance due. To apply online for a payment agreement, go to IRS.gov and use the pull-down menu under "I need to ..." and select "Set Up a Payment Plan." If you are unable to make payments, call the IRS at 800-829-1040 to discuss your payment options.
3. Request an extension to file by submitting Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return, with the IRS by the April 15, 2009, or make an extension-related electronic credit card payment. For more information about extension-related credit card payments, see Form 4868.
4. You can e-file an extension request using tax preparation software on your own computer or by going to a tax preparer that has the software. The IRS will acknowledge receipt of the extension request if you file by computer.
5. You can use Free File Fill-able Forms to file for an extension. You can access Free File Fill-able Forms via the IRS Web site at IRS.gov.

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6. If you ask for an extension via computer, you can also choose to pay any expected balance due by authorizing an electronic funds withdrawal from a checking or savings account. You will need the appropriate bank routing and account numbers and must also have available the adjusted gross income from your 2008 federal income tax return to verify your identity. For information on these and other methods of payment, visit [IRS.gov](http://IRS.gov) or call 800-TAX-1040 (800-829-1040).

## **Seven Facts about the Non-business Energy Property Credit**

Taxpayers who take energy saving steps this year may get bigger tax savings next year. The Non-business Energy Property Credit, a tax credit for making energy efficient improvements to homes has been increased as part of the American Recovery and Reinvestment Act of 2009.

Here are seven things the IRS wants you to know about the Non-business Energy Property Credit:

1. The new law increases the credit rate to 30 percent of the cost of all qualifying improvements and raises the maximum credit limit to \$1,500 claimed for 2009 and 2010 combined.
2. The credit applies to improvements such as adding insulation, energy-efficient exterior windows and energy-efficient heating and air conditioning systems.
3. To qualify as "energy efficient" for purposes of this tax credit, products generally must meet higher standards than the standards for the credit that was available in 2007.
4. Manufacturers must certify that their products meet new standards and they must provide a written statement to the taxpayer such as with the packaging of the product or in a printable format on the manufacturers' Website.
5. Qualifying improvements must be placed into service after December 31, 2008, and before January 1, 2011.
6. The improvements must be made to the taxpayer's principal residence located in the United States.
7. To claim the credit, attach Form 5695, Residential Energy Credits to either the 2009 or 2010 tax return. Taxpayers must claim the credit on the tax return for the year that the improvements are made.

Homeowners who have been considering some energy efficient home improvements may find these tax credits will get them bigger tax savings next year.

## **Six Facts About the American Opportunity Tax Credit**

Many parents and college students will be able to offset the cost of college over the next two years under the new American Opportunity Tax Credit. This tax credit is part of the American Recovery and Reinvestment Act of 2009.

Here are six important facts the IRS wants you to know about the new American Opportunity Tax Credit:

1. This credit, which expands and renames the existing Hope Credit, can be claimed for qualified tuition and related expenses that you pay for higher education in 2009 and 2010. Qualified tuition and related expenses include tuition, related fees, books and other required course Materials.
2. The credit is equal to 100 percent of the first \$2,000 spent and 25 percent of the next \$2,000 per student each year. Therefore, the full \$2,500 credit may be available to a taxpayer who pays \$4,000 or more in qualifying expenses for an eligible student.

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3. The full credit is generally available to eligible taxpayers who make less than \$80,000 or \$160,000 for married couples filing a joint return. The credit is gradually reduced, however, for taxpayers with incomes above these levels.
4. Forty percent of the credit is refundable, so even those who owe no tax can get up to \$1,000 of the credit for each eligible student as cash back.
5. The credit can be claimed for qualified expenses paid for any of the first four years of post-secondary education.
6. You cannot claim the tuition and fees tax deduction in the same year that you claim the American Opportunity Tax Credit or the Lifetime Learning Credit. You must choose to either take the credit or the deduction, whichever is more beneficial for you.

## **Ten Facts about the First-Time Homebuyer Credit**

Many taxpayers who purchase a home this year will qualify for an \$8,000 federal tax credit. The refundable first-time homebuyer credit is a major tax provision in the American Recovery and Reinvestment Act of 2009. But time is running out to qualify for this credit.

Here are ten things the IRS wants you to know about the first-time homebuyer credit:

1. To be considered a first-time homebuyer, you – and your spouse if you are married – must not have jointly or separately owned another principal residence during the three years prior to the date of purchase.
2. You cannot claim the credit before there is a completed sale and purchase of the residence. The sale and purchase are generally completed at the time of closing on the purchase.
3. To qualify for the credit, the completed purchase must occur before December 1, 2009.
4. The home must be located in the United States.
5. The credit is either 10 percent of the purchase price of the home or \$8,000, whichever is less.
6. The amount of the credit begins to phase out for taxpayers whose modified adjusted gross income is more than \$75,000 or \$150,000 for joint filers.
7. The credit is fully refundable. A homebuyer with no taxable income, who qualifies for the credit, may file for the sole purpose of claiming the credit and receive a refund. The credit will be paid out to eligible taxpayers, even if they owe no tax or the credit is more than the tax owed.
8. The credit is claimed on IRS Form 5405, First-Time Homebuyers Credit.
9. Taxpayers can claim the credit for a qualified 2009 purchase on either their 2008 or 2009 tax return. For those who have filed a 2008 return, a Form 1040X, Amended U.S. Individual Income Tax Return can be filed in order to get a refund in 2009.
10. The credit for qualified 2009 purchases does not have to be repaid, as long as the home remains your main home for 36 months after the purchase date.

## **Nine Facts about the New Vehicle Sales and Excise Tax Deduction**

Taxpayers who buy new motor vehicles this year may be entitled to a special tax deduction for the sales or excise taxes on those purchases when they file their 2009 federal tax returns next year. This tax break is part of the American Recovery and Reinvestment Act of 2009.

Taxpayers in states that do not have state sales taxes may be entitled to deduct other fees or taxes imposed by the state or local government.

Here are nine important facts the IRS wants you to know about the deduction.

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1. State and local sales and excise taxes paid on up to \$49,500 of the purchase price of each qualifying vehicle are deductible.
2. Qualified motor vehicles generally include new cars, light trucks, motor homes and motorcycles.
3. To qualify for the deduction, the new cars, light trucks and motorcycles must weigh 8,500 pounds or less. Motor homes are not subject to the weight limit.
4. Purchases must occur after Feb. 16, 2009, and before Jan. 1, 2010.
5. Taxpayers who purchase new motor vehicles in states that do not have state sales taxes may be entitled to deduct other fees or taxes assessed on the purchase of those vehicles. Fees or taxes that qualify must be based on the vehicles' sales price or as a per unit fee. These states include Alaska, Delaware, Hawaii, Montana, New Hampshire and Oregon.
6. Taxpayers who purchase qualified motor vehicles may claim the deduction when they file their 2009 tax return in 2010.
7. The deduction may not be taken on 2008 tax returns.
8. This deduction can be taken regardless of whether the buyers itemize their deductions or choose the standard deduction. Taxpayers who do not itemize will add this additional amount to the standard deduction on their 2009 tax return.
9. The amount of the deduction is phased out for taxpayers whose modified adjusted gross income is between \$125,000 and \$135,000 for individual filers and between \$250,000 and \$260,000 for joint filers.

## Six Recovery Tax Incentives for Individuals

The American Recovery and Reinvestment Act provides tax incentives for first-time homebuyers, people purchasing new cars, those interested in making their homes more energy efficient, and parents and students paying for college.

Here are six things the IRS wants you to know about ARRA tax incentives for individuals:

1. **First-Time Homebuyer Credit** Taxpayers who haven't owned a principal residence during the past three years prior to the purchase date of a home before Dec. 1 of this year may be eligible to receive a credit of up to \$8,000 on an original or amended 2008 tax return. They can also wait and claim the credit on their 2009 return.
2. **New Vehicle Purchase Incentive** Qualifying taxpayers can deduct the state and local sales and excise taxes paid on the purchase of new cars, light trucks, motor homes and motorcycles. The deduction per vehicle is limited to the tax on up to \$49,500 of the purchase price of each qualifying vehicle and phases out for taxpayers at higher income levels.
3. **Making Work Pay and Withholding** The Making Work Pay Credit lowered employees' tax withholding rates this year and has already put more money into the pockets of wage earners. Self-employed individuals will have an opportunity to claim this credit when they file their 2009 return. Taxpayers who fall into any of the following groups should review their tax withholding rates to ensure enough tax is currently being withheld: multiple job holders, families in which both spouses work, workers who can be claimed as dependents by other taxpayers, workers without a valid social security number, some social security recipients who work and pensioners. Failure to adjust your withholding in these situations could result in potentially smaller refunds or in limited instances may cause you to owe tax rather than receive a refund next year.
4. **Tax Credit for First Four Years of College** The American Opportunity Credit can help parents and students pay part of the cost of the first four years of college. The new credit modifies the existing Hope Credit for tax years 2009 and 2010, making it available to a broader range of taxpayers. Eligible taxpayers may qualify for the maximum annual credit of \$2,500 per student.

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5. **Certain Computer Technology Purchases** Allowed for 529 Plans ARRA adds computer technology to the list of college expenses that can be paid for by a qualified tuition program, commonly referred to as a 529 plan. For 2009 and 2010, the law expands the definition of qualified higher education expenses to include expenses for computer technology and equipment or Internet access and related services.
6. **Energy-Efficient Home Improvements** The credit for non-business energy-efficient improvements is increased for homeowners who make qualified improvements to existing homes. Qualifying improvements include the addition of insulation, energy-efficient exterior windows and energy-efficient heating and air conditioning systems.

## Credits

### American Opportunity Credit

Under the [American Recovery and Reinvestment Act](#) (ARRA), more parents and students will qualify over the next two years for a tax credit, the American opportunity credit, to pay for college expenses.

The American opportunity credit is not available on the 2008 returns taxpayers are filing during 2009. The new credit modifies the existing Hope credit for tax years 2009 and 2010, making it available to a broader range of taxpayers, including many with higher incomes and those who owe no tax. It also adds required course materials to the list of qualifying expenses and allows the credit to be claimed for four post-secondary education years instead of two. Many of those eligible will qualify for the maximum annual credit of \$2,500 per student.

The full credit is available to individuals, whose modified adjusted gross income is \$80,000 or less, or \$160,000 or less for married couples filing a joint return. The credit is phased out for taxpayers with incomes above these levels. These income limits are higher than under the existing Hope and lifetime learning credits.

Special rules apply to a student attending college in a Midwestern disaster area. For tax-year 2009, only, taxpayers can choose to claim either a special expanded Hope credit of up to \$3,600 for the student or the regular American opportunity credit.

If you have questions about the American opportunity credit, these [questions and answers](#) might help. For more information, see [American opportunity credit](#).

### Hope Credit

The Hope credit generally applies to 2008 and earlier tax years. It helps parents and students pay for post-secondary education. The Hope credit is a nonrefundable credit. This means that it can reduce your tax to zero, but if the credit is more than your tax the excess will not be refunded to you. The Hope credit you are allowed may be limited by the amount of your income and the amount of your tax.

The Hope credit is for the payment of the first two years of tuition and related expenses for an eligible student for whom the taxpayer claims an exemption on the tax return. Normally, you can claim tuition and required enrollment fees paid for your own, as well as your dependents' college education. The Hope credit targets the first two years of post-secondary education, and an eligible student must be enrolled at least half time.

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Generally, you can claim the Hope credit if all three of the following requirements are met:

- You pay qualified education expenses of higher education.
- You pay the education expenses for an eligible student.
- The eligible student is yourself, your spouse or a dependent for which you claim an exemption on your tax return.

You cannot take both an education credit and a deduction for tuition and fees (see Deductions, below) for the same student in the same year. In some cases, you may do better by claiming the tuition and fees deduction instead of the Hope credit.

Education credits are claimed on [Form 8863](#), Education Credits (Hope and Lifetime Learning Credits). For details on these and other education-related tax breaks, see IRS Publication 970, Tax Benefits of Education.

## **Lifetime Learning Credit**

The lifetime learning credit helps parents and students pay for post-secondary education.

For the tax year, you may be able to claim a lifetime learning credit of up to \$2,000 (\$4,000 for students in Midwestern disaster areas) for qualified education expenses paid for all students enrolled in eligible educational institutions. There is no limit on the number of years the lifetime learning credit can be claimed for each student. However, a taxpayer cannot claim both the Hope and American opportunity credit and lifetime learning credits for the same student in one year. Thus, the lifetime learning credit may be particularly helpful to graduate students, students who are only taking one course and those who are not pursuing a degree.

Generally, you can claim the lifetime learning credit if all three of the following requirements are met:

- You pay qualified education expenses of higher education.
- You pay the education expenses for an eligible student.
- The eligible student is yourself, your spouse or a dependent for which you claim an exemption on your tax return.

If you're eligible to claim the lifetime learning credit and are also eligible to claim the Hope or American opportunity credit for the same student in the same year, you can choose to claim either credit, but not both.

If you pay qualified education expenses for more than one student in the same year, you can choose to take credits on a per-student, per-year basis. This means that, for example, you can claim the Hope or American opportunity credit for one student and the lifetime learning credit for another student in the same year.

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## Deductions

### Tuition and Fees Deduction

You may be able to deduct qualified education expenses paid during the year for yourself, your spouse or your dependent. You cannot claim this deduction if your filing status is married filing separately or if another person can claim an exemption for you as a dependent on his or her tax return. The qualified expenses must be for higher education.

The tuition and fees deduction can reduce the amount of your income subject to tax by up to \$4,000. This deduction, reported on [Form 8917](#), Tuition and Fees Deduction, is taken as an adjustment to income. This means you can claim this deduction even if you do not itemize deductions on [Schedule A](#) (Form 1040). This deduction may be beneficial to you if, for example, you cannot take the lifetime learning credit because your income is too high.

You may be able to take one of the education credits for your education expenses instead of a tuition and fees deduction. You can choose the one that will give you the lower tax.

Generally, you can claim the tuition and fees deduction if all three of the following requirements are met:

- You pay qualified education expenses of higher education.
- You pay the education expenses for an eligible student.
- The eligible student is yourself, your spouse, or your dependent for whom you claim an exemption on your tax return.

You cannot claim the tuition and fees deduction if any of the following apply:

- Your filing status is married filing separately.
- Another person can claim an exemption for you as a dependent on his or her tax return. You cannot take the deduction even if the other person does not actually claim that exemption.
- Your modified adjusted gross income (MAGI) is more than \$80,000 (\$160,000 if filing a joint return).
- You were a nonresident alien for any part of the year and did not elect to be treated as a resident alien for tax purposes. More information on nonresident aliens can be found in [Publication 519](#), U.S. Tax Guide for Aliens.
- You or anyone else claims an education credit for expenses of the student for whom the qualified education expenses were paid.

Student-activity fees and expenses for course-related books, supplies and equipment are included in qualified education expenses only if the fees and expenses must be paid to the institution as a condition of enrollment or attendance.

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## **Student Loan Interest Deduction**

Generally, personal interest you pay, other than certain mortgage interest, is not deductible on your tax return. However, if your modified adjusted gross income (MAGI) is less than \$70,000 (\$145,000 if filing a joint return), there is a special deduction allowed for paying interest on a student loan (also known as an education loan) used for higher education. Student loan interest is interest you paid during the year on a qualified student loan. It includes both required and voluntary interest payments.

For most taxpayers, MAGI is the adjusted gross income as figured on their federal income tax return before subtracting any deduction for student loan interest. This deduction can reduce the amount of your income subject to tax by up to \$2,500 in 2008.

The student loan interest deduction is taken as an adjustment to income. This means you can claim this deduction even if you do not itemize deductions on [Schedule A](#) (Form 1040).

## **Qualified Student Loan**

This is a loan you took out solely to pay qualified education expenses (defined later) that were:

- For you, your spouse, or a person who was your dependent when you took out the loan.
- Paid or incurred within a reasonable period of time before or after you took out the loan.
- For education provided during an academic period for an eligible student.

Loans from the following sources are not qualified student loans:

- A related person.
- A qualified employer plan.

## **Qualified Education Expenses**

For purposes of the student loan interest deduction, these expenses are the total costs of attending an eligible educational institution, including graduate school. They include amounts paid for the following items:

- Tuition and fees.
- Room and board.
- Books, supplies and equipment.
- Other necessary expenses (such as transportation).

The cost of room and board qualifies only to the extent that it is not more than the greater of:

- The allowance for room and board, as determined by the eligible educational institution, that was included in the cost of attendance (for federal financial aid purposes) for a particular academic period and living arrangement of the student, or
- The actual amount charged if the student is residing in housing owned or operated by the eligible educational institution.

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## **Business Deduction for Work-Related Education**

If you are an employee and can itemize your deductions, you may be able to claim a deduction for the expenses you pay for your work-related education. Your deduction will be the amount by which your qualifying work-related education expenses plus other job and certain miscellaneous expenses is greater than 2% of your adjusted gross income. An itemized deduction may reduce the amount of your income subject to tax.

If you are self-employed, you deduct your expenses for qualifying work-related education directly from your self-employment income. This may reduce the amount of your income subject to both income tax and self-employment tax.

Your work-related education expenses may also qualify you for other tax benefits, such as the tuition and fees deduction and the Hope and lifetime learning credits. You may qualify for these other benefits even if you do not meet the requirements listed above.

### **To claim a business deduction for work-related education, you must:**

- Be working.
- Itemize your deductions on Schedule A (Form 1040 or 1040NR) if you are an employee.
- File Schedule C (Form 1040), Schedule C-EZ (Form 1040), or Schedule F (Form 1040) if you are self-employed.
- Have expenses for education that meet the requirements discussed under *Qualifying Work-Related Education*, below.

### **Qualifying Work-Related Education**

You can deduct the costs of qualifying work-related education as business expenses. This is education that meets at least one of the following two tests:

- The education is required by your employer or the law to keep your present salary, status or job. The required education must serve a bona fide business purpose of your employer.
- The education maintains or improves skills needed in your present work.

However, even if the education meets one or both of the above tests, it is not qualifying work-related education if it:

- Is needed to meet the minimum educational requirements of your present trade or business or
- Is part of a program of study that will qualify you for a new trade or business?

You can deduct the costs of qualifying work-related education as a business expense even if the education could lead to a degree.

### **Education Required by Employer or by Law**

Education you need to meet the minimum educational requirements for your present trade or business is not qualifying work-related education. Once you have met the minimum educational requirements for your job,

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your employer or the law may require you to get more education. This additional education is qualifying work-related education if all three of the following requirements are met.

- It is required for you to keep your present salary, status or job.
- The requirement serves a business purpose of your employer.
- The education is not part of a program that will qualify you for a new trade or business.

When you get more education than your employer or the law requires, the additional education can be qualifying work-related education only if it maintains or improves skills required in your present work.

### **Education to Maintain or Improve Skills**

If your education is not required by your employer or the law, it can be qualifying work-related education only if it maintains or improves skills needed in your present work. This could include refresher courses, courses on current developments and academic or vocational courses.

## **Savings Plans**

### **529 Plans Expanded**

Tax-free college savings plans and prepaid tuition programs can be used to buy computer equipment and services for an eligible student during 2009 and 2010. These 529 plans — qualified tuition programs authorized under section 529 of the Internal Revenue Code — have, in recent years, become a popular way for parents and other family members to save for a child's college education. Though contributions to 529 plans are not deductible, there is also no income limit for contributors.

529 plan distributions are tax-free as long as they are used to pay qualified higher education expenses for a designated beneficiary. Qualified expenses include tuition, required fees, books, supplies, equipment and special needs services. For someone who is at least a half-time student, room and boards also qualify.

For 2009 and 2010, the ARRA change adds to this list expenses for computer technology and equipment or Internet access and related services to be used by the student while enrolled at an eligible educational institution. Software designed for sports, games or hobbies does not qualify, unless it is predominantly educational in nature. In general, expenses for computer technology are not qualified expenses for the American opportunity credit, Hope credit, lifetime learning credit or tuition and fees deduction.

States sponsor 529 plans that allow taxpayers to either prepay or contribute to an account for paying a student's qualified higher education expenses. Similarly, colleges and groups of colleges sponsor 529 plans that allow them to prepay a student's qualified education expenses.

### **Coverdell Education Savings Account**

This account was created as an incentive to help parents and students save for education expenses. Unlike a 529 plan, a Coverdell ESA can be used to pay a student's eligible k-12 expenses, as well as post-secondary expenses. On the other hand, income limits apply to contributors, and the total contributions for the

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beneficiary of this account cannot be more than \$2,000 in any year, no matter how many accounts have been established. A beneficiary is someone who is under age 18 or is a special needs beneficiary.

Contributions to a Coverdell ESA are not deductible, but amounts deposited in the account grow tax free until distributed. The beneficiary will not owe tax on the distributions if they are less than a beneficiary's qualified education expenses at an eligible institution. This benefit applies to qualified higher education expenses as well as to qualified elementary and secondary education expenses.

Here are some things to remember about distributions from Coverdell accounts:

- Distributions are tax-free as long as they are used for qualified education expenses, such as tuition and fees, required books, supplies and equipment and qualified expenses for room and board.
  - There is no tax on distributions if they are for enrollment or attendance at an eligible educational institution. This includes any public, private or religious school that provides elementary or secondary education as determined under state law. Virtually all accredited public, nonprofit and proprietary (privately owned profit-making) post-secondary institutions are eligible.
  - Education tax credits can be claimed in the same year the beneficiary takes a tax-free distribution from a Coverdell ESA, as long as the same expenses are not used for both benefits.
  
  - If the distribution exceeds qualified education expenses, a portion will be taxable to the beneficiary and will usually be subject to an additional 10% tax. Exceptions to the additional 10% tax include the death or disability of the beneficiary or if the beneficiary receives a qualified scholarship.
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## **Scholarships and Fellowships**

A scholarship is generally an amount paid or allowed to, or for the benefit of, a student at an educational institution to aid in the pursuit of studies. The student may be either an undergraduate or a graduate. A fellowship is generally an amount paid for the benefit of an individual to aid in the pursuit of study or research. Generally, whether the amount is tax free or taxable depends on the expense paid with the amount and whether you are a degree candidate.

A scholarship or fellowship is tax free only if you meet the following conditions:

- You are a candidate for a degree at an eligible educational institution.
- You use the scholarship or fellowship to pay qualified education expenses.

## **Qualified Education Expenses**

For purposes of tax-free scholarships and fellowships, these are expenses for:

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- Tuition and fees required to enroll at or attend an eligible educational institution.
- Course-related expenses, such as fees, books, supplies, and equipment that are required for the courses at the eligible educational institution. These items must be required of all students in your course of instruction.

However, in order for these to be qualified education expenses, the terms of the scholarship or fellowship cannot require that it be used for other purposes, such as room and board, or specify that it cannot be used for tuition or course-related expenses.

### **Expenses that Don't Qualify**

Qualified education expenses do not include the cost of:

- Room and board.
- Travel.
- Research.
- Clerical help.
- Equipment and other expenses that are not required for enrollment in or attendance at an eligible educational institution.

This is true even if the fee must be paid to the institution as a condition of enrollment or attendance. Scholarship or fellowship amounts used to pay these costs are taxable.

### **Exclusions from Income**

You may exclude certain educational assistance benefits from your income. That means that you won't have to pay any tax on them. However, it also means that you can't use any of the tax-free education expenses as the basis for any other deduction or credit, including the Hope credit and the lifetime learning credit.

### **Employer-Provided Educational Assistance**

If you receive educational assistance benefits from your employer under an educational assistance program, you can exclude up to \$5,250 of those benefits each year. This means your employer should not include the benefits with your wages, tips, and other compensation shown in box 1 of your Form W-2.

### **Educational Assistance Program**

To qualify as an educational assistance program, the plan must be written and must meet certain other requirements. Your employer can tell you whether there is a qualified program where you work.

### **Educational Assistance Benefits**

Tax-free educational assistance benefits include payments for tuition, fees and similar expenses, books, supplies, and equipment. The payments may be for either undergraduate- or graduate-level courses. The

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payments do not have to be for work-related courses. Educational assistance benefits do not include payments for the following items.

- Meals, lodging, or transportation.
- Tools or supplies (other than textbooks) that you can keep after completing the course of instruction.
- Courses involving sports, games, or hobbies unless they:
  - Have a reasonable relationship to the business of your employer, or
  - Are required as part of a degree program.

## **Benefits over \$5,250**

If your employer pays more than \$5,250 for educational benefits for you during the year, you must generally pay tax on the amount over \$5,250. Your employer should include in your wages (Form W-2, box 1) the amount that you must include in income.

## **Working Condition Fringe Benefit**

However, if the benefits over \$5,250 also qualify as a working condition fringe benefit, your employer does not have to include them in your wages. A working condition fringe benefit is a benefit which, had you paid for it, you could deduct as an employee business expense. For more information on working condition fringe benefits, see *Working Condition Benefits* in chapter 2 of Publication 15-B, Employer's Tax Guide to Fringe Benefits.

## **Technology Expenses Make the Grade for Qualified Tuition Programs**

Taxpayers who purchase computer technology for higher education purposes may be eligible for a special tax break. The American Recovery and Reinvestment Act of 2009 added computer equipment and technology to the list of college expenses that can be paid for by a qualified tuition program commonly referred to as a 529 plan.

A qualified, nontaxable distribution from a 529 plan during 2009 or 2010 now includes the cost of the purchase of any computer technology, equipment or Internet access and related services. To qualify the beneficiary must use the technology, equipment or services while enrolled at an eligible educational institution.

### Here are some things the IRS wants you to know about 529 plans.

- A 529 plan is an educational savings plan designed to provide tax-free earnings for the benefit of a student. Withdrawals must be used for qualified higher education expenses at an eligible educational institution.
- Qualified higher education expenses include tuition, reasonable costs of room and board, mandatory fees, computer technology, supplies and books.
- An eligible educational institution includes any college, university, vocational school or other postsecondary educational institution eligible to participate in a student aid program administered by the Department of Education.
- Contributions to a 529 plan cannot be more than the amount necessary to provide for a student's qualified education expenses

## **Five Facts about the Making Work Pay Tax Credit**

Working taxpayers may be eligible for the Making Work Pay tax credit, a significant tax provision of the American Recovery and Reinvestment Act of 2009. This tax credit means more take-home pay for millions of American workers. Here are five things the IRS wants every taxpayer to know about the Making Work Pay tax credit:

1. This credit -- available for tax years 2009 and 2010 -- equals 6.2 percent of a taxpayer's earned income. The maximum credit for a married couple filing a joint return is \$800 and \$400 for other taxpayers. Most wage earners have been enjoying a boost in their paychecks from this credit since April.
2. Eligible self-employed taxpayers can also benefit from the credit by evaluating their expected income tax liability. If eligible, self-employed taxpayers can make the appropriate adjustments to the amounts of their upcoming estimated tax payments in September and January.
3. Taxpayers who fall into any of the following groups should review their tax withholding to ensure enough tax is being withheld. Those who should pay particular attention to their withholding include:
  - Married couples with two incomes
  - Individuals with multiple jobs
  - Dependents
  - Pensioners
  - Social Security recipients who also work
  - Workers without valid Social Security numbers

Having too little tax withheld could result in potentially smaller refunds or – in limited instances – small balance due rather than an expected refund.

4. The Making Work Pay tax credit is either phased out or unavailable for higher-income taxpayers. The phase out begins at \$75,000 for single taxpayers and \$150,000 for couples filing a joint return.
5. For those who believe their current withholding is not right for their personal situation, a quick withholding check using the IRS withholding calculator on IRS.gov may be helpful. Taxpayers can also do this by using the worksheets in IRS Publication 919, How Do I Adjust My Withholding? Adjustments can be made by filing a revised Form W-4, Employee's Withholding Allowance Certificate. Pensioners can adjust their withholding by filing Form W-4P, Withholding Certificate for Pension or Annuity Payments.

## **Ten Tips for Taxpayers Making Charitable Donations**

Every year, millions of taxpayers itemize their deductions on their federal tax return. One of the most common itemized deductions is a donation made to a charitable organization.

Here are the top ten things the IRS wants every taxpayer to know before deducting charitable donations.

1. Charitable contributions must be made to qualified organizations to be deductible. You can ask any organization whether it is a qualified organization and most will be able to tell you. You can

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- also check IRS Publication 78, which lists most qualified organizations. IRS Publication 78 is available at [IRS.gov](http://IRS.gov).
2. Charitable contributions are deductible only if you itemize deductions using Form 1040, Schedule A.
  3. You generally can deduct your cash contributions and the fair market value of most property you donate to a qualified organization. Special rules apply to several types of donated property, including clothing or household items, cars and boats.
  4. If your contribution entitles you to receive merchandise, goods, or services in return – such as admission to a charity banquet or sporting event – you can deduct only the amount that exceeds the fair market value of the benefit received.
  5. Be sure to keep good records of any contribution you make, regardless of the amount. For any contribution made in cash, you must maintain a record of the contribution such as a bank record – including a cancelled check or a bank or credit card statement – a written record from the charity containing the date and amount of the contribution and the donor’s name, or a payroll deduction record.
  6. Only contributions actually made during the tax year are deductible. For example, if you pledged \$500 in September but paid the charity only \$200 by Dec. 31, your deduction would be \$200.
  7. Include credit card charges and payments by check in the year they are given to the charity, even though you may not pay the credit card bill or have your bank account debited until the next year.
  8. For any contribution of \$250 or more, you must have written acknowledgment from the organization to substantiate your donation. This written proof must include the amount of cash and a description of any property you contributed, and whether the organization provided any goods or services in exchange for the gift.
  9. To deduct charitable contributions of items valued at \$500 or more you must complete a Form 8283, Noncash Charitable Contributions, and attached the form to your return.
  10. An appraisal generally must be obtained if you claim a deduction for a contribution of noncash property worth more than \$5,000. In that case, you must also fill out Section B of Form 8283 and attach the form to your return

## **Five Tax Facts about Summertime Child Care Expenses**

Many parents who work or are looking for work must arrange for care of their children under 13 years of age during the school vacation.

Here are five facts the IRS wants you to know about a tax credit available for child care expenses. The Child and Dependent Care Credit is available for expenses incurred during the lazy hazy days of summer and throughout the rest of the year.

1. The cost of day camp can count as an expense towards the child and dependent care credit.
2. Expenses for overnight camps do not qualify.
3. If your childcare provider is a sitter at your home or a daycare facility outside the home, you'll get some tax benefit if you qualify for the credit.
4. The actual credit can be up to 35 percent of your qualifying expenses, depending upon your income.
5. You may use up to \$3,000 of the unreimbursed expenses paid in a year for one qualifying individual or \$6,000 for two or more qualifying individuals to figure the credit.

## **Top Ten Tips for Taxpayers Deducting Casualty and Theft Losses**

Taxpayers who find themselves the victim of a natural disaster or theft this summer should know the rules for deducting their casualty losses next year when they file their federal tax return. Generally, you may deduct losses to your home, household items and vehicles on your federal income tax return.

Here are ten things the IRS wants you to know about deducting casualty or theft losses.

1. You may not deduct casualty and theft losses covered by insurance unless you file a timely claim for reimbursement. You must reduce your loss by the amount of the reimbursement.
2. A casualty does not include normal wear and tear or progressive deterioration from age or termite damage.
3. The damage must be caused by a sudden, unexpected or unusual event like a car accident, fire, earthquake, flood or vandalism.
4. If your property is not completely destroyed or if it is personal-use property, the amount of your casualty or theft loss is the lesser of the adjusted basis of your property, or the decrease in fair market value of your property as a result of the casualty or theft, reduced by any insurance or other reimbursement you receive or expect to receive.
5. If business or income-producing property, such as rental property, is completely destroyed, the amount of your loss is your adjusted basis in the property minus any salvage value, and minus any insurance or other reimbursement you receive or expect to receive.
6. To claim a casualty or theft loss, you must complete Form 4684, Casualties and Thefts, and attach it to your return. Generally, you may claim casualty or theft loss of personal use property only if you itemize deductions on Form 1040, Schedule A. However, you can deduct a 2008 or 2009 net disaster loss from a federally-declared disaster even if you do not itemize your deductions.
7. If the property was held by you for personal use, you must further reduce your loss by \$100. This \$100 reduction for losses of personal-use property applies to each casualty or theft event that occurred during the year other than 2009. For 2009, individuals must reduce their casualty and theft losses for personal-use property by \$500 instead of \$100. This \$500 reduction for losses of personal-use property applies to each casualty or theft event.
8. The total of all your casualty and theft losses of personal-use property usually must be further reduced by 10 percent of your adjusted gross income. The 10 percent AGI limitation does not apply to net disaster losses resulting from federally declared disasters in 2008 and 2009.
9. In figuring your loss, do not consider the loss of future profits or income due to the casualty.
10. Casualty losses are normally deductible only in the year the casualty occurred. But if you have a deductible loss from a federally declared disaster you can choose to deduct that loss on your tax return for the previous year. If you have already filed your return for the preceding year, you can claim the loss on the previous year tax return by filing an amended return.

## **Employee vs. Independent Contractor – Ten Tips for Business Owners**

If you are a small business owner, whether you hire people as independent contractors or as employees will impact how much taxes you pay and the amount of taxes you withhold from their paychecks. Additionally, it will affect how much additional cost your business must bear, what documents and information they must provide to you, and what tax documents you must give to them.

Here are the top ten things every business owner should know about hiring people as independent contractors versus hiring them as employees.

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1. Three characteristics are used by the IRS to determine the relationship between businesses and workers: Behavioral Control, Financial Control, and the Type of Relationship.
2. Behavioral Control covers facts that show whether the business has a right to direct or control how the work is done through instructions, training or other means.
3. Financial Control covers facts that show whether the business has a right to direct or control the financial and business aspects of the worker's job.
4. The Type of Relationship factor relates to how the workers and the business owner perceive their relationship.
5. If you have the right to control or direct not only what is to be done, but also how it is to be done, then your workers are most likely employees.
6. If you can direct or control only the result of the work done -- and not the means and methods of accomplishing the result -- then your workers are probably independent contractors.
7. Employers who misclassify workers as independent contractors can end up with substantial tax bills. Additionally, they can face penalties for failing to pay employment taxes and for failing to file required tax forms.
8. Workers can avoid higher tax bills and lost benefits if they know their proper status.
9. Both employers and workers can ask the IRS to make a determination on whether a specific individual is an independent contractor or an employee by filing a Form SS-8 – Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding – with the IRS.
10. You can learn more about the critical determination of a worker's status as an Independent Contractor or Employee at IRS.gov by selecting the Small Business link. Additional resources include IRS Publication 15-A, Employer's Supplemental Tax Guide, Publication 1779, Independent Contractor or Employee, and Publication 1976, Do You Qualify for Relief under Section 530? These publications and Form SS-8 are available on the IRS Web site or by calling the IRS at 800-829-3676 (800-TAX-FORM).

## Eight Important Questions for Hobbyists

Summer is a time many Americans take their fishing poles and gardening tools out of storage. Hobbies – such as woodworking, stamp collecting and scrapbooking – are often done for pleasure, but can result in a profit.

If your favorite activity does make a profit every year or so, there may be tax implications. You must report income to the IRS from almost all sources, including hobbies.

Here are eight questions that will help determine if your activity is a hobby or a business.

1. **Is the purpose of your activity to make a profit?** Generally, your activity is considered a business if it is carried on with the reasonable expectation of earning a profit.
2. **Do you participate in your activity just for fun?** Hobbies – also called not-for-profit activities – are those activities that are not pursued for profit.
3. **Do you depend on income from the activity?** If so, your activity is likely considered a business.
4. **Have you changed methods of operation to improve profitability?** If so, your hobby may actually be a business.
5. **Do you have the knowledge needed to carry on the activity as a successful business?** People, who carry out hobbies just for fun, often don't have the business acumen to turn their not-for-profit activity into a profitable business venture.
6. **Have you made a profit in similar activities in the past?** This may indicate your activity is a business rather than a not-for-profit hobby. An activity is presumed carried on for profit if it

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- makes a profit in at least three of the last five tax years, including the current year – or at least two of the last seven years for activities that consist primarily of breeding, showing, training or racing horses.
7. **Does the activity make a profit in some years?** Even if your activity does not make a profit every year, it still may be considered a business.
  8. **Do you expect to make a profit in the future from the appreciation of assets used in the activity?** This indicates your activity may be a business rather than a hobby.

## Five Facts about the Home Office Deduction

With technology making it easier than ever for people to operate a business out of their house, many taxpayers may be able to take a home office deduction when filing their 2009 federal tax return next year.

Here are five important things the IRS wants you to know about claiming the home office deduction.

1. Generally, in order to claim a business deduction for your home, you must use part of your home exclusively and regularly:

- As your principal place of business, or
- As a place to meet or deal with patients, clients or customers in the normal course of your business, or
- In the case of a separate structure which is not attached to your home, it must be used in connection with your trade or business

For certain storage use, rental use or daycare-facility use, you are required to use the property regularly but not exclusively.

1. Generally, the amount you can deduct depends on the percentage of your home that you used for business. Your deduction for certain expenses will be limited if your gross income from your business is less than your total business expenses.

2. There are special rules for qualified daycare providers and for persons storing business inventory or product samples.

3. If you are self-employed, use Form 8829, Expenses for Business Use of Your Home, to figure your home office deduction. Report the deduction on line 30 of Schedule C, Form 1040.

4. Different rules apply to claiming the home office deduction if you are an employee. For example, the regular and exclusive business use must be for the convenience of your employer.

## Do You Need to Amend Your Return?

You've discovered an error or determined that you are entitled to a previously unclaimed credit or deduction, after your tax return has been filed. Do you need to amend your tax return?

The IRS usually corrects math errors or requests missing forms – such as W-2s or schedules – when processing an original return. In these instances, do not amend your return.

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However, you should file an amended return if any of the following were reported incorrectly:

- Your filing status
- Your dependents
- Your total income
- Your deductions or credits

You may also elect to amend your 2008 return if you are eligible to claim the new first-time homebuyer credit of up to \$8,000 for a qualified 2009 home purchase. The amended tax return will allow you to claim the homebuyer credit on your 2008 return without waiting until next year to claim it on the 2009 return.

Use Form 1040X, Amended U.S. Individual Income Tax Return, to correct a previously filed Form 1040, 1040A or 1040EZ submitted electronically or by mail. Be sure to enter the year of the return you are amending at the top of Form 1040X. If you are amending more than one tax return, prepare a 1040X for each return and mail them in separate envelopes to the IRS processing center for the area in which you live. The 1040X instructions list the addresses for the centers.

The Form 1040X has three columns. Column A is used to show original or adjusted figures from the original return. Column C is used to show the corrected figures. The difference between the figures in Columns A and C is shown in Column B. There is an area on the back of the form where you explain the specific changes being made to the return and the reason for each change.

If the changes involve other schedules or forms, attach them to the Form 1040X. For example, if you are filing a 1040X because you have a qualifying child and now want to claim the Earned Income Credit, you must attach a Schedule EIC to show the qualifying person's name, year of birth and Social Security number.

If you are filing to claim an additional refund, wait until you have received your original refund before filing Form 1040X. You may cash that check while waiting for any additional refund. If you owe additional tax for 2008, you should file Form 1040X and pay the tax as soon as possible to limit interest and penalty charges. Interest is charged on any tax not paid by the due date of the original return, without regard to extensions.

Generally, to claim a refund, you must file Form 1040X within three years from the date you filed your original return or within two years from the date you paid the tax, whichever is later.

## **Top Ten Facts about Amended Returns**

Taxpayers who need to make a change or adjustment on a return they already filed can do so by filing an amended return. Here are the top 10 things every taxpayer should know about amending your federal tax return.

1. Taxpayers needing to amend their return use Form 1040X, Amended U.S. Individual Income Tax Return.
2. Taxpayers can use Form 1040X to correct previously filed Forms 1040, 1040A or 1040EZ. The 1040X can also be used to correct a return filed electronically.
3. Taxpayers should file an amended return if they discover any of the following items were reported incorrectly: filing status, dependents, total income, deductions or credits.
4. Generally, you do not need to file an amended return for math errors as the IRS will be able to make the correction for you.

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5. You also do not usually need to file an amended return because you forgot to include forms – such as W-2s or schedules – when you filed; the IRS normally requests those forms from you.
6. Be sure to enter the year of the return you are amending at the top of Form 1040X. Generally, you must file Form 1040X within three years from the date you filed your original return or within two years from the date you paid the tax, whichever is later.
7. If you are amending more than one tax return, prepare a 1040X for each return and mail them in separate envelopes to the IRS processing center for the area in which you live. The 1040X instructions list the addresses for the centers.
8. If the changes involve another schedule or form, attach it to the 1040X.
9. If you are filing to claim an additional refund, wait until you have received your original refund before filing Form 1040X. You may cash that check while waiting for any additional refund.
10. If you owe additional tax for 2008, you should file Form 1040X and pay the tax as soon as possible to limit interest and penalty charges. Interest is charged on any tax not paid by the due date of the original return, without regard to extensions.

## Tax Tips for Recently Married Taxpayers

If you have recently gotten married or plan to get married in the near future, the IRS has some tips to help you avoid stress at tax time.

1. Notify the Social Security Administration Report any name change to the Social Security Administration, so your name and SSN will match when you file your next tax return. Informing the SSA of a name change is quite simple. File a Form SS-5, Application for a Social Security card at your local SSA office. The form is available on SSA's Web site at [www.socialsecurity.gov](http://www.socialsecurity.gov), by calling 800-772-1213 or at local offices.
2. Notify the IRS If you have a new address you should notify the IRS by sending Form 8822, Change of Address. You may download Form 8822 from the IRS website IRS.gov or order it by calling 800-TAX-FORM (800-829-3676).
3. Notify the U.S. Postal Service You should also notify the U.S. Postal Service when you move so it can forward any IRS correspondence.
4. Notify Your Employer Report any name and address changes to your employer(s) to ensure receipt of your Form W-2, Wage and Tax Statement after the end of the year.
5. Check Your Withholding If both you and your spouse work, your combined income may place you in a higher tax bracket. You can use the IRS Withholding Calculator available on IRS.gov to assist you in determining the correct amount of withholding needed for your new filing status. The IRS Withholding Calculator will even provide you with a new Form W-4, Employee's Withholding Allowance Certificate you can print out and give it to your employer so they can withhold the correct amount from your pay.

## Check Withholding to Avoid a Tax Surprise

With 2009 nearly over, the Internal Revenue Service reminds individual taxpayers there is no better time to check their 2009 federal income tax withholding levels to make sure they do not face any surprises when returns are due next spring.

The Making Work Pay Credit lowered tax withholding rates this year for 120 million American households. However, particular taxpayers who fall into any of the following groups should review their tax withholding rates to ensure enough tax is withheld: multiple job holders, families in which both spouses work, workers who can be claimed as dependents by other taxpayers and pensioners.

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Failure to adjust your withholding could result in potentially smaller refunds or may cause you to owe tax rather than receive a refund next year. So far in 2009, the average refund amount is \$2,675 and 79 percent of all returns received a refund.

Because retirees typically have withholding from their pension payments, pension plan administrators or pension payors should be aware of the optional adjustment procedure for pension withholding announced in Notice 1036-P, Additional Withholding for Pensions for 2009.

Social security beneficiaries, supplemental security income recipients, disabled veterans and railroad retirees that receive this year's one-time \$250 economic recovery payment should be aware that the Making Work Pay credit will be reduced by the \$250 payment amount. They may also want to review their withholding.

The IRS withholding calculator on IRS.gov can help a taxpayer compute the proper tax withholding. The worksheets in Publication 919, How Do I Adjust My Withholding?, can also be used to do the calculation. If the result suggests an adjustment is necessary, the taxpayer should submit a new Form W-4, Withholding Allowance Certificate, to his or her employer or adjust the amount of quarterly tax paid.

In addition, the IRS reminds unemployed workers that the first \$2,400 of unemployment benefits they receive during 2009 are tax-free for federal income tax purposes. People who expect to receive more than that should consider having tax withheld from their benefit payments in excess of \$2,400. Use Form W-4V, Voluntary Withholding Request, or the equivalent form provided by the payer to request withholding to begin or end.

## Safeguarding Tax Records

**Create a Backup Set of Records Electronically** : Taxpayers should keep a set of backup records in a safe place. The backup should be stored away from the original set. Keeping a backup set of records — including, for example, bank statements, tax returns, insurance policies home, etc. — is easier now that many financial institutions provide statements and documents electronically, and much financial information is available on the Internet. Even if the original records are provided only on paper, they can be scanned into an electronic format. With documents in electronic form, taxpayers can download them to a backup storage device, like an external hard drive, or burn them to a CD or DVD.

**Document Valuables** : Another step a taxpayer can take to prepare for disaster is to photograph or videotape the contents of his or her home, especially items of higher value. The IRS has a disaster loss workbook, [Publication 584](#), which can help taxpayers compile a room-by-room list of belongings. A photographic record can help an individual prove the market value of items for insurance and casualty loss claims. Photos should be stored with a friend or family member who lives outside the area.

**Update Emergency Plans** : Emergency plans should be reviewed annually. Personal and business situations change over time as do preparedness needs. When employers hire new employees or when a company or organization changes functions, plans should be updated accordingly and employees should be informed of the changes.

**Check on Fiduciary Bonds** : Employers who use payroll service providers should ask the provider if it has a fiduciary bond in place. The bond could protect the employer in the event of default by the payroll service provider.

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## **Faster Write-Offs for Certain Capital Expenditures**

Many small businesses that invest in new property and equipment will be able to write off most or all of these purchases on their 2009 returns. The new law extends through 2009 the special 50 percent depreciation allowance, also known as bonus depreciation, and increased limits on the section 179 deduction, named for the relevant section of the Internal Revenue Code. Normally, businesses recover these capital investments through annual depreciation deductions spread over several years. Both of these provisions encourage these investments by enabling businesses to write them off more quickly.

The bonus depreciation provision generally enables businesses to deduct half the cost of qualifying property in the year it is placed in service.

The section 179 deduction enables small businesses to deduct up to \$250,000 of the cost of machinery, equipment, vehicles, furniture and other qualifying property placed in service during 2009. Without the new law, the limit would have dropped to \$133,000. The existing \$25,000 limit still applies to sport utility vehicles. A special phase-out provision effectively targets the section 179 deduction to small businesses and generally eliminates it for most larger businesses.

Bonus depreciation and the section 179 deduction are claimed on Form 4562. Further details are in the instructions for this form.

## **Expanded Net Operating Loss Carry back**

Many small businesses that had expenses exceeding their incomes for 2008 can choose to carry those losses back for up to five years, instead of the usual two. For small businesses that were profitable in the past but lost money in 2008, this could mean a special tax refund. The option is available for a small business that has no more than an average of \$15 million in gross receipts over a three-year period.

This option is still available for most eligible taxpayers, but only for a limited time. A corporation that operates on a calendar-year basis, for example, must file a claim by Sept. 15, 2009. For eligible individuals, the deadline is Oct. 15, 2009.

Eligible individuals should file a claim using Form 1045, and corporations should use Form 1139. Details can be found in the instructions for each of these forms, and answers to frequently-asked questions are posted on IRS.gov.

## **Exclusion of Gain on the Sale of Certain Small Business Stock**

The new law provides an extra incentive for individuals who invest in small businesses. Investors in qualified small business stock can exclude 75 percent of the gain upon sale of the stock. This increased exclusion applies only if the qualified small business stock is acquired after Feb. 17, 2009 and before Jan. 1, 2011, and held for more than five years. For previously-acquired stock, the exclusion rate remains at 50 percent in most cases.

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## **Estimated Tax Requirement Modified**

Many individual small business taxpayers may be able to defer, until the end of the year, paying a larger part of their 2009 tax obligations. For 2009, eligible individuals can make quarterly estimated tax payments equal to 90 percent of their 2009 tax or 90 percent of their 2008 tax, whichever is less. Individuals qualify if they received more than half of their gross income from their small businesses in 2008 and meet other requirements. For details, see Publication 505.

## **COBRA Credit**

Employers that provide the 65 percent COBRA premium subsidy under ARRA to eligible former employees claim credit for this subsidy on their quarterly or annual employment tax returns. To help avoid imposing an unnecessary cash-flow burden, affected employers can reduce their employment tax deposits by the amount of the credit. For details, see Form 941. Answers to frequently-asked questions are posted on IRS.gov.

## **Tax Breaks Available for Taxpayers Who Purchase Qualified Plug-In Electric Vehicles**

The Emergency Economic Stabilization Act of 2008 (EESA) and the American Recovery and Reinvestment Act of 2009 (ARRA) created two new tax credits for various types of electric vehicles, which may include what are commonly referred to as neighborhood electric vehicles.

ARRA creates a tax credit for low-speed or two- or three-wheel electric vehicles, such as motor scooters, purchased after Feb. 17, 2009, and before Jan. 1, 2012. The amount of the credit is 10 percent of the cost of the vehicle, up to a maximum credit of \$2,500. To qualify, a vehicle must be either a low-speed vehicle that is propelled to a significant extent by a rechargeable battery with a capacity of at least 4 kilowatt hours or be a two- or three-wheeled vehicle that is propelled to a significant extent by a rechargeable battery with a capacity of at least 2.5 kilowatt hours.

EESA created a tax credit for vehicles that have at least four wheels and draw propulsion using a rechargeable traction battery with at least four kilowatt hours of capacity. For 2009, the minimum credit is \$2,500 and the credit tops out at \$7,500 to \$15,000, depending on the weight of the vehicle and the capacity of the battery.

During 2009, low-speed, four-wheeled vehicles manufactured primarily for use on public streets, roads and highways (neighborhood electric vehicles) may qualify both for the EESA credit and, if purchased after February 17, 2009, for the ARRA credit for low-speed electric vehicles. A taxpayer may not claim both credits for the same vehicle. Vehicles manufactured primarily for off-road use, such as for use on a golf course, do not qualify for either credit.

The Internal Revenue Service is working on guidance regarding certification procedures for both of these credits.

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## **Seven Facts about the New Sales Tax Deduction for Vehicle Purchases**

Taxpayers who buy a new car or several other types of motor vehicles this year may be entitled to a special tax deduction when they file their 2009 federal tax returns next year. The tax break is part of the American Recovery and Reinvestment Act of 2009.

Here are seven things you should know about this new deduction:

1. State and local sales taxes paid on up to \$49,500 of the purchase price of qualifying vehicles are deductible.
2. Qualified motor vehicles generally include new (not used) cars, light trucks, motor homes and motorcycles.
3. Purchases must occur after Feb. 16, 2009, and before Jan. 1, 2010.
4. This deduction can be taken regardless of whether or not you itemize other deductions on your tax return.
5. Taxpayers will claim this deduction when filing their 2009 federal income tax return next year.
6. The amount of the deduction is phased out for taxpayers whose modified adjusted gross income is between \$125,000 and \$135,000 for individual filers and between \$250,000 and \$260,000 for joint filers.
7. The deduction may not be taken on 2008 tax returns.

Consumers who are considering buying a new car may find that this tax incentive means there may have never been a better time to buy.

## **Top Ten Tips about IRA Contributions**

There is still time to make contributions to your traditional Individual Retirement Arrangement, better known as an IRA. Below are the top ten things you should know about money you put aside for retirement in an IRA.

1. You may be able to deduct some or all of your contributions to your IRA and you also may be eligible for a tax credit equal to a percentage of your contribution.
2. Contributions can be made to your traditional IRA at any time during the year or by the due date for filing your return for that year, not including extensions. For most people, this means contributions for 2008 must be made by April 15, 2009.
3. The amount of funds in your IRA are generally not taxed until you receive distributions from that IRA.
4. To figure your deduction for IRA contributions, use the worksheets in the instructions for the form you are filing.
5. For 2008, the most that can be contributed to your traditional IRA generally is the smaller of the following amounts: \$5,000 or the amount of your taxable compensation for the year. Taxpayers who are 50 or older can contribute up to \$6,000.
6. Use Form 8880, Credit for Qualified Retirement Savings Contributions, to determine whether you are also eligible for a tax credit.
7. You cannot deduct an IRA contribution or claim the Credit for Qualified Retirement Saving Contributions on Form 1040EZ; you must use either Form 1040A or Form 1040.
8. To contribute to a traditional IRA, you must be under age 70 1/2 at the end of the tax year.
9. You must have taxable compensation, such as wages, salaries, commissions and tips. If you file a joint return, only one of you needs to have compensation.

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10. Refer to IRS Publication 590, Individual Retirement Arrangements, for information on the amounts you will be eligible to contribute to your IRA account.

## **Get Credit for Retirement Savings Contributions**

If you make eligible contributions to an employer-sponsored retirement plan or to an individual retirement arrangement, you may be able to take a tax credit.

The Savers Credit, formally known as the Retirement Savings Contributions Credit, applies to individuals with a filing status and income of:

- Single with income up to \$26,500
- Head of Household with income up to \$39,750
- Married Filing Jointly, with incomes up to \$53,000

To be eligible for the credit you must be at least age 18, not a full-time student, and cannot be claimed as a dependent on another person's return.

If you make eligible contributions to a qualified IRA, 401(k) and certain other retirement plans, you may be able to take a credit of up to \$1,000 or up to \$2,000 if filing jointly. The credit is a percentage of the qualifying contribution amount, with the highest rate for taxpayers with the least income.

When figuring this credit, you generally must subtract the amount of distributions you have received from your retirement plans from the contributions you have made. This rule applies for distributions starting two years before the year the credit is claimed and ending with the filing deadline for that tax return.

The Retirement Savings Contributions Credit is in addition to other tax benefits which may result from the retirement contributions. For example, most workers at these income levels may deduct all or part of their contributions to a traditional IRA. Contributions to a regular 401(k) plan are not subject to income tax until withdrawn from the plan.

## **Top Ten Facts about Taking Early Distributions from Retirement Plans**

If you took an early distribution from your retirement plan, here are some things you need to know:

1. Payments you receive from your Individual Retirement Arrangement before you reach age 59 ½ are generally considered early or premature distributions.
2. Early distributions are usually subject to an additional 10 percent tax.
3. Early distributions must also be reported to the IRS.
4. Distributions you rollover to another IRA or qualified retirement plan are not subject to the additional 10 percent tax. You must complete the rollover within 60 days after the day you received the distribution.
5. The amount you roll over is generally taxed when the new plan makes a distribution to you or your beneficiary.

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6. If you made nondeductible contributions to an IRA and later take early distributions from that same IRA, the portion of the distribution attributable to those contributions is not taxed.
7. If you received an early distribution from a Roth IRA the distribution attributable to contributions is not taxed.
8. If you received a distribution from any other qualified retirement plan, generally the entire distribution is taxable unless you made after-tax employee contributions to the plan.
9. There are several exceptions to the additional 10 percent early distribution, such as when the distributions are used for purchase of a first home, certain medical and educational expenses or if you become disabled. Other exceptions can be found in IRS Publication 590, Individual Retirement Arrangements (IRAs).
10. More information about early distributions from retirement plans and the additional 10 percent tax can be found in IRS Publication 575, Pension and Annuity Income and Publication 590, Individual Retirement Arrangements (IRAs). Both publications are available on IRS.gov or by calling 800-TAX-FORM (800-829-3676).

## Six Important Facts about Tax-Exempt Organizations

Every year, millions of taxpayers donate money to charitable organizations. Here are six things you should know about the tax treatment of tax-exempt organizations.

1. **Tax returns are made available to public.** Exempt organizations generally must make their tax return available for public inspection. This also includes the organization's application for exemption. These documents must be made available to any individual who requests them, and must be made available immediately when the request is made in person. If the request is made in writing, an organization has 30 days to provide a copy of the information.
2. **Donor lists generally are not public information.** The list of donors filed with Form 990 is specifically excluded from the information available for public inspection. There is an exception for donors to private foundations and political organizations, which must make their donor list available to the public.
3. **How to find tax-exempt organizations.** The easiest way to find out whether an organization is qualified to receive deductible contributions is to ask them, as most will be able to tell you. You can also search for organizations qualified to accept deductible contributions in IRS Publication 78, available online at IRS.gov.
4. **Which organizations may accept charitable contributions.** Not all exempt organizations are eligible to receive tax-deductible charitable contributions. Organizations that are eligible to receive deductible contributions include most charities described in section 501(c)(3) of the Internal Revenue Code and, in some circumstances, fraternal organizations described in section 501(c)(8) or section 501(c)(10), cemetery companies described in section 501(c)(13), volunteer fire departments described in section 501(c)(4), and veterans organizations described in section 501(c)(4) or 501(c)(19). For more general information on the rules for Charitable Contribution Deductions, you can go to the IRS Publication 78 Help page, Part II, which is linked from the Search for Charities page on IRS.gov.
5. **Requirement for organizations not able to accept deductible contributions.** If an exempt organization is ineligible to receive tax-deductible contributions, it must disclose that fact when soliciting contributions.

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6. **How to report inappropriate activities by a charity.** If you believe that the activities or operations of a tax-exempt organization are inconsistent with its tax-exempt status, you may file a complaint with the Exempt Organizations Examination Division by completing Form 13909, Tax-Exempt Organization Complaint (Referral) Form. The complaint should contain all relevant facts concerning the alleged violation of tax law. Form 13909 is available at [IRS.gov](http://IRS.gov) or by calling 800-TAX-FORM (800-829-3676).

## Do You Barter?

Bartering is the trading of one product or service for another. Usually there is no exchange of cash. Barter may take place on an informal one-on-one basis between individuals and businesses, or it can take place on a third party basis through a modern barter exchange company.

Bartering is the most ancient form of commerce. While our ancestors may have exchanged eggs for corn, today you can barter computer services for auto repair.

Another example of a one-on-one, non-barter exchange transaction is a plumber doing repair work for a dentist in exchange for dental services. The fair market value of the goods and services exchanged must be reported as income by both parties.

Here are a few things you should know about bartering:

- **Barter Exchange** A barter exchange functions primarily as the organizer of a marketplace where members buy and sell products and services among themselves. Whether this activity operates out of a physical office or is internet based, a barter exchange is generally required to issue Form 1099-B, Proceeds from Broker and Barter Exchange Transactions, annually to their clients or members and to the IRS.
- **Barter Income** Barter dollars or trade dollars are identical to real dollars for tax reporting. If you conduct any direct barter - barter for another's products or services - you will have to report the fair market value of the products or services you received on your tax return.
- **Taxes** Income from bartering is taxable in the year it is performed. You may be subject to liabilities for income tax, self-employment tax, employment tax, or excise tax. Your barter activities may result in ordinary business income, capital gains or capital losses, or you may have a nondeductible personal loss.
- **Reporting** The rules for reporting barter transactions may vary depending on which form of bartering takes place. Generally, you report this type of business income on Form 1040, Schedule C Profit or Loss from Business, or other business returns such as Form 1065 for Partnerships, Form 1120 for Corporations, or Form 1120-S for Small Business Corporations.

## Ten Things You May Not Know about Farm Income and Deductions

If you are in the business of farming, here are some things you may want to know before filing your federal tax return.

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1. **Crop Insurance Proceeds** You must include in income any crop insurance proceeds you receive as the result of crop damage. You generally include them in the year you receive them.
2. **Sales Caused by Weather-Related Condition** If you sell more livestock, including poultry, than you normally would in a year because of weather-related conditions, you may be able to choose to postpone reporting the gain from selling the additional animals until the next year.
3. **Farm Income Averaging** You may be able to average all or some of your current year's farm income and refiguring your tax over the three prior years. This may give you a lower tax if your current year income from farming is high, and your taxable income from one or more of the three prior years was low.
4. **Deductible Farm Expenses** The ordinary and necessary costs of operating a farm for profit are deductible business expenses. An ordinary expense is an expense that is common and accepted in the business. A necessary expense is one that is appropriate for the business.
5. **Employees** You can deduct reasonable wages paid for labor hired to perform your farming operations.
6. **Items Purchased for Resale** You may be able to deduct the cost of livestock and other items purchased for resale in the year of sale. This cost includes freight charges for transporting the livestock to the farm.
7. **Net Operating Losses** If your deductible loss from operating your farm is more than your other income for the year, you may have a net operating loss. If you have a net operating loss this year, you can carry it to other years and deduct it. You may be able to get a refund of all or part of the income tax you paid for past years, or you may be able to reduce your tax in future years.
8. **Repayment of Loans** You cannot deduct the repayment of a loan. However, if you use the proceeds of a loan for farm business expenses, you can deduct the interest you pay on the loan.
9. **Fuel and Road Use** You may be eligible to claim a credit or refund of excise taxes on fuel used on a farm for farming purposes.
10. **Farmers Tax Guide** More information about farm income and deductions can be found in IRS Publication 225, Farmer's Tax Guide, which can be obtained online at IRS.gov or by calling the IRS at 800-TAX-FORM (800-829-3676).

## Top Ten facts about the Tuition and Fees Deduction

The Tuition and Fees deduction of up to \$4,000 is available to help parents and students pay for post-secondary education. Below are ten important facts about this deduction every student and parent should know.

1. You do not have to itemize to take the Tuition and Fees deduction. You claim a tuition and fees deduction by completing Form 8917 and submitting it with your Form 1040 or Form 1040A.
2. You may be able to claim qualified tuition and fees expenses as either an adjustment to income, a Hope or Lifetime Learning credit, or – if applicable – as a business expense.
3. You cannot take the tuition and fees deduction on your income tax return if your filing status is married filing separately.
4. You cannot take the deduction if you are claimed, or can be claimed, as a dependent on someone else's return.
5. The deduction is reduced or eliminated if your modified adjusted gross income exceeds certain limits, based on your filing status.
6. You cannot claim the tuition and fees deduction if you or anyone else claims the Hope or Lifetime Learning credit for the same student in the same year.
7. If the educational expenses are also allowable as a business expense, the tuition and fees deduction may be claimed in conjunction with a business expense deduction, but the same expenses cannot be deducted twice.

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8. You cannot claim a deduction or credit based on expenses paid with tax-free scholarship, fellowship, grant, or education savings account funds such as a Coverdell education savings account, tax-free savings bond interest or employer-provided education assistance.
9. The same rule applies to expenses you pay with a tax-exempt distribution from a qualified tuition plan, except that you can deduct qualified expenses you pay only with that part of the distribution that is a return of your contribution to the plan.
10. IRS Publication 970, Tax Benefits for Education, can help eligible parents and students understand the special rules that apply and decide which tax break to claim. The publication is available at IRS.gov or by calling 800-TAX-FORM (800-829-3676).

## **Top Ten Facts About the Child and Dependent Care Credit**

If you paid someone to care for a child, spouse, or dependent, you may be able to reduce your tax by claiming the Child and Dependent Care Credit on your federal income tax return. Below are the top ten things you need to know about claiming a credit for child and dependent care expenses.

1. The care must have been provided for one or more qualifying persons. A qualifying person is your dependent child under age 13. Additionally, your spouse and certain other individuals who are physically or mentally incapable of self-care may also be qualifying persons. You must identify each qualifying person on your tax return.
2. The care must have been provided so you – and your spouse if you are married – could work or look for work.
3. You – and your spouse if you are married – must have earned income from wages, salaries, tips, other taxable employee compensation or net earnings from self-employment. One spouse may be considered as having earned income if they were a full-time student or they were physically or mentally unable to care for themselves.
4. The payments for care cannot be paid to your spouse, to someone you can claim as your dependent on your return, or to your child who is under age 19, even if he or she is not your dependent. You must identify the care provider on your tax return.
5. Your filing status must be single, married filing jointly, head of household or qualifying widow(er) with a dependent child.
  
6. The qualifying person must have lived with you for more than half of 2008.
7. The credit can be up to 35 percent of your qualifying expenses, depending upon your income.
8. For 2008, you may use up to \$3,000 of the expenses paid in a year for one qualifying individual or \$6,000 for two or more qualifying individuals.
9. The qualifying expenses must be reduced by the amount of any dependent care benefits provided by your employer that you exclude from your income.
10. If you pay someone to come to your home and care for your dependent or spouse, you may be a household employer. If you are a household employer, you may have to withhold and pay social security and Medicare tax and pay federal unemployment tax. For information, see Publication 926, Household Employer's Tax Guide.

## **Five Facts about the Foreign Earned Income Exclusion**

If you are living and working abroad you may be entitled to the Foreign Earned Income Exclusion. Here are some important facts about the exclusion:

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**1. The Foreign Earned Income Exclusion:** United States Citizens and resident aliens who live and work abroad may be able to exclude all or part of their foreign salary or wages from their income when filing their U.S. federal tax return. They may also qualify to exclude compensation for their personal services or certain foreign housing costs.

**2. The General Rules:** To qualify for the foreign earned income exclusion, a U.S. citizen or resident alien must have a tax home in a foreign country and income received for working in a foreign country, otherwise known as foreign earned income. The taxpayer must also meet one of two tests: the bona fide residence test or the physical presence test.

**3. The Exclusion Amount:** The foreign earned income exclusion is adjusted annually for inflation. For 2008, the maximum exclusion is up to \$87,600 per qualifying person.

**4. Claiming the Exclusion:** The foreign earned income exclusion and the foreign housing exclusion or deduction are claimed using Form 2555, which should be attached to the taxpayer's Form 1040. A shorter Form 2555-EZ is available to certain taxpayers claiming only the foreign income exclusion.

**5. Taking Other Credits or Deductions:** Once the foreign earned income exclusion is chosen, a foreign tax credit or deduction for taxes cannot be claimed on the excluded income. If a foreign tax credit or tax deduction is taken on any of the excluded income, the foreign earned income exclusion will be considered revoked

## Seven Facts to Help You Understand the Alternative Minimum Tax

1. Tax laws provide tax benefits for certain kinds of income and allow special deductions and credits for certain expenses. These benefits can drastically reduce some taxpayers' tax obligations. The Alternative Minimum Tax attempts to ensure that anyone who benefits from these tax advantages pays at least a minimum amount of tax.

2. Congress created the AMT in 1969, targeting a small number of high-income taxpayers who could claim so many deductions they owed little or no income tax.

3. Because the AMT is not indexed for inflation, a growing number of middle-income taxpayers are discovering they are subject to the AMT.

4. You may have to pay the AMT if your taxable income for regular tax purposes plus any adjustments and preference items that apply to you are more than the AMT exemption amount.

5. The AMT exemption amounts are set by law for each filing status.

6. For tax-year 2008, Congress raised the alternative minimum tax exemption to the following levels:

- \$69,950 for a married couple filing a joint return and qualifying widows and widowers
- \$46,200 for singles and heads of household
- \$34,975 for a married person filing separately

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7. Taxpayers may find more information about the Alternative Minimum Tax and how it impacts them by referring to IRS Form 6251, Alternative Minimum Tax —Individuals, available on IRS.gov or by calling 800-TAX-FORM (800-829-3676).

### **Are Your Social Security Benefits Taxable?**

How much, if any, of your social security benefits are taxable depends on your total income and marital status. Generally, if social security benefits were your only income for 2008, your benefits are not taxable and you probably do not need to file a federal income tax return.

If you received income from other sources, your benefits will not be taxed unless your modified adjusted gross income is more than the base amount for your filing status. Your taxable benefits and modified adjusted gross income are figured in a worksheet in the Form 1040A or Form 1040 Instruction booklet.

Before you go to the instruction book, do the following quick computation to determine whether some of your benefits may be taxable:

- First, add one-half of the total social security you received to all your other income, including any tax exempt interest and other exclusions from income.
- Then, compare this total to the base amount for your filing status. If the total is more than your base amount, some of your benefits may be taxable.

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