



CHUNOWITZ, TEITELBAUM & MANDEL, LTD.
Certified Public Accountants and Consultants

TAX TIPS

www.ctm-cpa.com

January, 2010 ©

WE THE PEOPLE...MORPHED INTO WE THE GOVERNMENT...

The ongoing circus in Congress is scary on more than one level. The debate (if you can call it that) on Health Care Reform is being carried on behind closed doors. Our elected representatives seemed to have forgotten that they were elected to represent us – we the people – not to connive, manipulate, and ram their opinions down our throats. In the face of growing opposition from all areas (including organized labor), they persist in maneuvering to fill their own coffers at the cost of “we the people”.

If something needs to be fixed, and our current health care system does need fixing, simply changing one bad system to some other bad system isn't “reform”. Adding taxes on businesses and on We The People will not spur the economy nor will it create jobs. Which successful business person do you know who would increase hiring in the face of larger payroll taxes, excise taxes, and penalties imposed on mostly everyone with a private insurance plan (through the 40% excise tax on so called “Cadillac” plans) and/or an 8% of payroll tax to be paid if they cannot provide health insurance to all employees? Who do you think will suffer by limiting the Section 125 flexible spending accounts to \$2,500? Certainly not the executives at Goldman Sachs. These accounts are used by middle-America (who earn way less than \$100,000 per year) to hold down their health care costs. What about all those out there who choose not to buy health insurance? No way, Jose. It would be a

“must” not a choice. Next thing you know, we'll be told what else we are required to buy. And most important of all – who wants some bureaucrats in Washington deciding what type of health care treatment you can get, and what type is verboten as not “cost effective”. Those of you who “pooh-pooh” this statement should read the bill. And yes, contrary to the claims of We The Government, cutting \$500 billion from Medicare will put Grandma at risk. To repeat – read the bill.

If the bill is so wonderful – why the secrecy? What happened to the promised transparency? What happened to representing the will of We The People? The people are not pleased with the buying and selling of votes going on in Congress. The government doesn't care if the people are pleased or not. Just FYI, Senator Nelson of Nebraska sold his vote in return for an exemption *in perpetuity* from the increased costs of Medicaid expansion for his state. Other states pay more so Nebraska can have a free ride. Nice touch.

We The People are being told that Social Security and Medicare are broke. The Post Office is going broke. Fannie and Freddie Mac are broke. (In case you didn't know – Congress recently lifted the limit on the amount Fannie and Freddie could borrow. So now – the sky's the only limit. Get your wallet ready.).

Billions of dollars are flying out the door faster than a speeding bullet. Where is all this money coming from? Where else but from your wallets! Wait! Stop! You say there isn't enough money in your wallets to pay for all of this? No problemo. The answer is spelled "b-o-r-r-o-w"!

As a Chicago newspaper said recently, the formula is simple: "splurge, borrow, repeat". We the Government are acting exactly like someone who can't control his credit card spending. The only difference is the person using his credit card has to pay with his own money. We the Government pays with your money. However, there's a hitch. Eventually you're going to run out of money.

Next question...What happens when the amount of cash you need just to pay the interest on your debt is more than you earn? Answer – you're belly-up, big time! So – what happens when We the Government doesn't take in enough money to pay the interest (no principal...just interest) due on its' debt? Same answer. It's belly up – reallllly big time! Just FYI, the interest alone owed by We the People, thanks to We the Government is several billion dollars A WEEK! Think about it. Then, write/email your senators and congressional representatives. NOW!

NEWS FLASH...HOT OFF THE PRESS

As of Tuesday, January 12, the Democrats are considering applying the Medicare tax to investment income. Talk about taxing middle Americans! I guess anyone who has a savings account or some small dividends or other non-earned (wage) income is to be considered fair game. To explain, the Medicare tax is part of the Social Security/FICA withholding on everyone's paycheck. It is currently set at 1.45% of wages from

both the employee and the employer. The Senate health care bill seeks to increase the tax from 1.45% to 2.35% for those making over \$200,000 per year (\$250,000 on a joint return). Now – they want to expand this even further by applying the Medicare tax to all investment (non-earned) income.

If this passes, it will hit the lowest bracket taxpayers. People on fixed incomes (no salaries) who might not have any taxable income otherwise, will now have to pay a 2.35% tax on their interest, dividends, and other "investment" income. People who are out of a job during this recession and who are living off their savings (aka "investments") will be paying a 2.35% tax on the income from those investments. The estimate is that this new tax would raise \$111 billion for government use over a 10 year period, and that's what this is really all about - where and from whom to get the money. It's always about the money. How much do you have? Send it in.

IRS HAVING PROBLEMS...

According to the National Taxpayer Advocate's 2009 report to Congress, the IRS is having difficulties administering "tax-based social programs" and will be facing additional burdens dealing with economic stimulus issues and all the various taxes currently associated with potential health care reform. As things stand now, the IRS was only able to answer about 3 in every 10 calls received from taxpayers. Now imagine what that's going to look like if the current health care bill becomes law.

Another FYI...The Treasury Inspector General for Tax Administration (TIGTA) stated that the IRS has been unable to verify taxpayer eligibility for the majority of 2009 economic recovery, legislation benefits, and credits. The ARRA – (American Recovery and Reinvestment Act) contains 56 tax provisions; 20 for individuals and 36 for businesses. TIGTA could not verify eligibility for 16 of the 20 individual provisions and 26 of the 36 business provisions. How they're going to deal with what's coming down the horn in the Health Care bill is unfathomable.

WHILE THE CATS ARE PLAYING WITH THE HEALTH CARE BILL...

While the cats in Congress are totally absorbed in changing life as we know it, the mice let the estate tax slip out the door. As of January 1, 2010, the estate tax (as we knew it) was repealed. Instead of taking a few minutes to pass at least a one year extension (the House did but the Senate was too busy), they let the Estate Tax die. Before you start counting your blessings..., the tax as we knew it may have died – but all sorts of new rules and major issues have floated to the top along with the body. We are now in "estate tax limbo". Do we have a carry-over basis? Do we need to re-draft all current estate planning documents? Do we un-plug Grampa so he dies before they can re-instate the tax? What happens under the new rules if inherited assets end up where the deceased had no intention of leaving them? It's quite possible that a spouse could end up with nothing while everything goes to some sort of credit-shelter/family trust. The new capital gains tax on the increase in value of inherited assets (albeit with some exemptions) is a sleeper on Main Street. The only people who understand

the mess this has created are those knowledgeable enough to maneuver through the legalese found in the tax law. To make matters worse – nobody is sure what to do about any of it. Congress released a statement several weeks ago that they would be issuing a letter of "intent" which would give aid and comfort to We The People when we were trying to put our affairs in order. They fibbed! (Actually, that word is not really strong enough.).

The current scoop is there will be no letter of intent. One might think that We the Government is way up there on the priority list while We The People don't really rate. This is probably one of the most egregious and irresponsible actions or non-actions that have come out of Congress in recent times. Wish we could tell you whether to pull the plug on Grampa or not. Nobody's sure whether your documents need to be revised or not. Your guess is as good as anyone else's.

NEW FOR 2010....

Deductible mileage rates for 2010:

- Business Miles: .50 cents per mile
- Medical/Moving Miles: 16.5 cents per mile
- Charitable Miles: 14 cents per mile

Never could figure the reasoning on the different costs to operate a vehicle depending on why you're using it. The car uses the same gas either way. Nothing's changed. Still doesn't make sense.

For 2010, the income limit for converting a regular IRA to a Roth IRA has been repealed. AND – if the conversion occurs in 2010, the tax liability can be paid over two years – 2011 and 2012. At first glance this may look like a no-brainer. Don't get fooled. It doesn't work for everybody. Age, other available assets, and other factors enter into the equation. If you're thinking about doing this – please contact our office. We can help

you project out some of the potential issues.

The IRS has mandated that most 2010 forms 1040 (individuals) and forms 1041 (fiduciary) returns must be electronically filed.

Stay tuned for more of "This is Your Life" as seen by Washington, D.C...

