

## **TAX LETTER**

### **2010 Form 1040 - New Items**

It is Tax Time again. Before you begin to prepare your tax returns, you should be aware of the changes made to the 2010 Form 1040. Here are some key changes.

#### **Due Date - the Due Date for 2010 Form 1040 is April 18**

Although April 15 is Friday this year, yet the deadline for your 2010 Form 1040 is postponed to Monday April 18. If you want to, you can extend the deadline all the way to October 17 by filing **Form 4868** on or before April 18. **NOTE:** Extension to file is not an extension to pay. Work with your accountant to get a good/close estimation and pay if necessary with the extension request.

#### **One-Time Break for Self-Employed Individuals**

Self-employed taxpayers can generally make an above the line deduction for their health insurance premiums. Further, at least for 2010, the self-employed can also deduct health insurance premiums for Self Employment Tax purpose (line 3 of Schedule SE ). In this way, the health insurance premium paid will reduce both income tax and SE tax. Unless Congress do something similar to the AMT annual patches, this SE tax break may not be available for subsequent years.

#### **No more \$2,400 break for Unemployment Benefits**

For calendar year 2009, the first \$2,400 of unemployment benefits was non taxable for federal purpose (California do not tax unemployment benefits). This was not allowed for 2010. Therefore, all unemployment benefits received in calendar year 2010 must be reported as income on line 19, Form 1040.

#### **Refundable “Adoption Tax Credit”**

For 2010, the maximum adoption credit was increased to \$13,170 (up from \$12,150 in 2009). This Credit was made refundable for the 2010 tax year for the first time. Use **Form 8839** to report your “Qualified Adoption Expenses”. Then, claim your credit on line 71, Form 1040 for 2010.

#### **First Time Homebuyer Credit Repayment**

If you are one of the early birds for the “first time home buyer” tax credit, you may have to repay part or all of the credit claimed for a home purchase in 2008. Beginning now, you have to repay 1/15 of the credit claimed via your 2010 Form 1040. If applicable, use **Form 5405** (First-Time Homebuyer Credit and Repayment) to indicate the repayment amount as an addition to your 2010 income tax (line 59, Form 1040).

### **Itemized Deductions & Personal Exemptions not longer subject to income phase-out**

For years, both the itemized deductions (including but not limited to home mortgage interest, state and local income and property taxes, and charitable donations) are subject to an income phase-out rule. A second set of income threshold will reduced or eliminated personal and dependent exemption deductions. For 2010, both itemized deductions and personal exemptions phase-out are completely repealed by the Bush-era tax cut. Now you can deduct the full amount of your itemized deductions and exemptions on your 2010 Form 1040. Better yet, the 2010 Tax Relief Act further repealed both phase-outs for two more years, 2011 and 2012.

### **Non Itemizer can no longer deduct all or part of Real Property Tax paid**

For taxable years 2008 & 2009, it is OK for individuals who do not itemize to separately claim up to \$1,000 (MFJ) or \$500 (Single) of state and local real property taxes paid as an increase to their Standard Deduction amount. This add-on standard deduction for real estate taxes paid was allowed to expire at the end of 2009 by Congress.

### **No more deductions for Sales Taxes on New Vehicle Purchases after 2009**

For taxable year 2009, a deduction for non-itemizers who paid state and local sales taxes on new vehicles purchased between 2/17/09 and 12/31/09. The write-off came in the form of an addition to the Standard Deduction amount. For taxpayers who itemize were allowed to claim an extra deduction for such taxes paid. As of now, this deduction was neither renewed nor extended.

### **Your Tax Preparer May be required to E-File Your Form 1040 beginning now.**

Over the past years, tax laws and regulations increasingly placing pressure on your professional return preparers to electronically file returns they prepared. As a result, your preparer may be required to e-file your 2010 Form 1040.

If you want to continue filing your own tax return in paper form, you have the right to opt-out of E-File. All you have to do is to sign/date an opt-out statement and give it to your preparer. Your preparer has no right or authority to E-File your return over your objection. Congress can not make any law to override your Constitutional Right to choose. In this case, the right is to choose **the method of delivery**. Please refer to IRS Notice 2010-85 and Proposed Regulation 100194-10.

Any questions and/or further discussion, please give us a call at 415-381-0681.

Sincerely

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