

Iowa Income Tax Updates

Certain tax deductions which were extended by Congress in early 2009 which had previously been deductible in Iowa were NOT extended by the Iowa legislature. These deductions include the \$250 for teacher supplies and college tuition deduction. Check your 2008 Iowa income tax return to see if you claimed these deductions. We will NOT automatically be filing amended returns for clients who did claim these deductions. We expect that the Iowa Department of Revenue will be issuing notices to those taxpayers who claimed these deductions. However, if you want to amend your Iowa return before you receive a notice, contact our office.

The state legislature was not successful in changing Iowa law allowing a deduction on your Iowa return for the federal income taxes you pay. We suspect that this will resurface in the next legislative session and could become effective in 2010. If so, this will be a tax planning opportunity for 2009 that you may want to consider.

We'd Like to Hear From You

We would be happy to address any questions you may have regarding the topics discussed in this issue. If you have a topic that you would like addressed in a future edition of FOOTNOTES, please let us know. If you know of anyone who would like to receive our newsletter, have an address correction or would like to have a name removed from our mailing list, please contact us by email at w@hoganhansen.com or by mail at the address listed below.

This newsletter is issued quarterly to provide you with an informative summary of current business, financial and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details and/or professional assistance.

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FOOTNOTES

Financial ideas for today and tomorrow

Hogan - Hansen, P.C., Certified Public Accountants and Consultants

Summer 2009

***From the Pen of
A Partner...***



Steve is the firm's managing partner and is in our Waterloo office

The only constant when it comes to tax law seems to be change. Congress continues to be busy creating new opportunities and adjusting existing ones. Some are tax deductions while others are tax credits. But which ones are best for you? A tax deduction is an item you are allowed to deduct from your income in order to determine the amount of income that will be subject to income taxes. For example, your wages minus itemized deductions such as property taxes and home mortgage interest and your personal exemptions results in your taxable income which is then multiplied by the tax rates to determine the amount of tax you owe.

Tax credits are items that you use to reduce the amount of income tax you owe. So you generally prefer to have tax credits compared to tax deductions since they reduce dollar for dollar what you owe in taxes. One way to think of tax credits is like income tax withholding from your paycheck except it doesn't come from your paycheck - the government makes the payment for you.

On the next page we discuss a couple of significant tax credit opportunities that are available. Please contact one of our offices to learn more about how these and other opportunities can benefit your individual situation.

Sincerely,

Steven K. Duggan, CPA

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***"The Power of
Success is Within
Your Reach"***



Income Tax Savings Opportunities

One of the best income tax planning ideas we can share with you is one that probably most of you have not heard about. Student Tuition Organizations (STO's) are charitable organizations established by private schools in Iowa. Donations made to these organizations are used for tuition scholarships and assistance to families meeting the financial-need eligibility criteria of the STO. In most STO's you are allowed to designate up to 50% of your donation to a specific school that is part of the STO, with the remaining amount going into the general fund that then must be allocated back out by law to all of the schools covered by that STO (the STO cannot simply accept funds to build up a huge endowment and never pay it out to the schools for tuition assistance).

STO's are currently in force in the Archdiocese of Dubuque for the Catholic schools and there are Baptist and Lutheran STO's, as well. Funds contributed to an STO stay in that STO - they do not have to be shared with any other STO; it only has to be used within that school system for tuition scholarships and assistance.

Now for the exciting tax news - how would you feel about making a contribution to an STO and having it only cost you 10% or 20% of the amount of your gift. Sound too good to be true? How about if it didn't cost you anything? If your income is high enough, that very well could be the case.

Contributions to an STO are a charitable contribution for federal income tax purposes just like your normal church or United Way donations. The real benefit is in Iowa. Contributions to an STO receive a 65% tax credit toward your Iowa income taxes.

Let's assume you are in a 28% federal income tax bracket. If you were to contribute \$10,000 to an STO, you would be able to deduct that on your federal tax return, saving you 28% or \$2,800. Then in Iowa, you receive a tax credit of 65% or \$6,500. Combined, that \$10,000 cash contribution to the STO just saved you \$9,300 in federal and state income taxes. So for only \$700 out of your pocket, you are able to make a \$10,000 contribution to support private education in Iowa.

Another tax credit opportunity to consider is the Endow Iowa tax credit which allows you to make a contribution to a qualified community foundation and receive an Iowa tax credit equal to 20% of your gift. Like the STO, the contribution is deductible as a charitable contribution on your federal return.

The total Iowa tax credits available under both of these plans is limited each year and are granted on a first come first served basis.

At the federal level, another credit to keep in mind is the residential energy credit. You are allowed a credit of up to 30% of the cost of installing energy-efficient windows, insulation, high-efficiency furnaces, air conditioners and water heaters and certain solar power equipment. The maximum total credit allowed is \$1,500 in each of the years 2009 and 2010. If you install certain geothermal heating and cooling systems, the credit is equal to 30% of the total cost, with no limit on the dollar amount of the credit.

Contact one of our professionals to discuss further these tax saving opportunities.

Notable Quotes

A turtle travels only when it sticks its neck out.
- Proverb

If a window of opportunity appears, don't pull down the shade.
- Tom Peters

An eye for an eye makes us all blind. - Gandhi

It's not whether you get knocked down, it's whether you get up.
- Vince Lombardi

Long-Term Care Insurance: What you need to know before you buy



Long-term care (LTC) insurance provides coverage for nursing and personal assistance costs related to chronic illness or disability. Such services are notoriously expensive, potentially wiping out one's life savings. If you want to hedge your long-term care future with insurance, here are some things to watch for.

Coverage. Some LTC plans pay only for nursing home expenses and others only for in-home care. A more expensive policy will cover both types of care, plus assisted living or adult day care expenses. Most LTC policies provide a monthly or daily benefit limit.

Policies also vary as to the timing of coverage. A plan might require you to pay the first few months of care out of your own pocket. Further, some policies will pay benefits only for a specific length of time, while others pay for life.

Cost. LTC insurance is expensive, but there are two ways you can help ease the burden. First, establish a policy long before you begin having health issues. The best time to buy a policy is probably many years before you are likely to need it.

Second, seek a "qualified" long-term care policy that is eligible for a tax deduction. If you can write off the premiums, the tax savings will help offset the costs. The rules for deducting long-term care insurance premiums are complex, so get details before you buy.

Company choice. The insurance company you choose can be as important as the coverage you buy. Research the financial soundness of potential insurance companies by reviewing their industry rating and ask for references.

Long-term care is not a pleasant issue to dwell on, but a sober review now could reap benefits down the road. For a complete analysis of this and other financial planning issues, give our firm a call today.

IRS Expands 2009 Homebuyer Credit



The IRS announced recently that taxpayers who qualify for the first-time homebuyer tax credit on a home purchased from January 1, 2009 through November 30, 2009 may claim the credit on either their 2008 income tax return which is filed this year or on their 2009 tax return due April 15, 2010.

This option makes it possible for qualifying taxpayers to put money in their pockets in 2009, rather than waiting until next year to benefit from this tax break. Those who buy a home after filing their 2008 tax return may amend the return if they wish to claim the credit for 2008.

The 2009 first-time homebuyer tax credit provides a refundable credit of 10% of the home's purchase price, up to a maximum credit of \$8,000. If the taxpayer lives in the home for at least three years, the credit does not have to be repaid. Income limits apply, with phase-out of the credit starting at \$75,000 for single taxpayers and \$150,000 for married couples filing jointly.

Where's My Refund!?

If you were expecting a refund of income tax and have not received it yet, below are two websites you can use to find the status of your refund.

For your federal return, you can go to <http://www.irs.gov>. Then click on "Where's my Refund?" You will need to enter your social security number, filing status from the return and the exact dollar amount of the refund you expected.

For your Iowa return, you can go to <https://eservices.idrf.state.ia.us/taxrefund/LogoffUser?view=logonUser>. You will need to enter your social security number, the tax year and the exact amount of the refund you expected.