Tax Update for 2010

By Kathleen Crawford, EA

Another new year and another set of tax laws to affect our lives. Most people are affected by the new laws in some way. This article will discuss the annual update of mileage rates and exemptions. It will cover the stimulus credit, capital gains, and touch on “cancellation of debt” income.

The first changes to note are the mileage rates for 2010. The business mileage rate is set at 50 cents per mile, down from 55 cents in 2009. The 2010 medical and moving rate is 16.5 cents per mile. The charitable rate is still 14 cents per mile because this has been set by Congress and cannot be adjusted by the IRS. In addition, the personal exemption for the taxpayer and each dependent is $3650 for 2009 returns.

The 2009 stimulus credit will be accounted for on the 2009 return. As some know, wage withholding tables were lowered mid year to give wage earners a little extra money in each paycheck. In theory, the decrease in withholding will be matched by a credit on the 2009 tax return. The credit is up to $400 per family. In multi-job families (a person with two or more jobs or two working spouses), the lower withholding may have doubled up causing too little withholding. That issue could cause a higher tax bill or a lower refund on the 2009 return.

The next change is a three year change that started in 2008. It has been a great deal for the middle class. For 2009, the long term capital gains rate that was 5% in 2007 is 0%, that is zero percent. For people in the lower income tax brackets, that means that some or all money made on the sale of long-term capital assets, like stocks or rentals, is free of tax within limits. The highest tax rate on long-term capital gains for any taxpayer is only 15%. The lower rates are set to expire after 2010 unless Congress changes its mind and the law. Of course the fall in stock and housing prices makes gains a rarer event and losses are handled the same way as always, that is, the losses cancel gains and then only $3000 per year can be subtracted against other income. If you are thinking of selling an investment with a lot of capital gain, but have held back because the price is down, you may want to rethink your decision. The tax savings may make up for the depressed price.

The last subject will come as a shock to many taxpayers. It is a true “kick-you-while-you’re-down” law. Taxpayers who, in hard times, have had credit card or other debt forgiven or written off or have lost a car or house to foreclosure, can receive a form called a “Cancellation of debt” 1099C. The most basic explanation is that the cancelled debt becomes a “bonus” to the taxpayer. It must be reported as income on the taxpayer’s return, increasing the tax due. There are can be exceptions and modifications to this income, depending on the circumstances. Sometimes these forms do not show up for several years after the taxpayer has forgotten about the ordeal. This area of tax law is quite complicated, so taxpayers should seek professional help to complete returns with 1099C’s.

It is time again for tax returns. Your Uncle Sam is waiting to hear from you.

The Jacksonville Tax Lady, LLC can be reached at 541-899-7926 and is located in beautiful, historic Jacksonville at 610 N. Fifth Street across from the Pony Espresso.

The fine print is that this article is for information only. Please call Kathy or a tax professional for questions about your individual tax situation. The Jacksonville Tax Lady can be reached at 541-899-7926 or at 610 North Fifth Street.