



4th Quarter 2008

Document Those Deductions!

Tips for keeping accurate tax-deduction records the easy way

Taking certain deductions is your right as a taxpayer... as long as you have the records to substantiate them. Here's a helpful guide to make sure all your tax deductions are easily and properly documented for your maximum benefit (and to pass IRS guidelines).

The simple deductions

Some tax deductions are simple to report because they're already documented with "authorities" and you get an official statement. These types of deductions include mortgage interest, real estate taxes, taxes paid through your paycheck and other items reported by your employer, government entities or other organizations.

At the end of each year, you'll receive summary statements that include exactly what you can list as deductions. Simple enough. All we ask is that you send us those statements.

The more complicated deductions

Many kinds of tax deductions, such as employee business expenses, home office deductions, business meals, entertainment, charitable contributions and mileage, need detailed records and receipts that you track yourself.

Most legitimate business expenses will qualify as deductible if they comply with the following guidelines.

Ordinary and necessary business expenses: All business expenses must meet the general deductibility requirement of being "ordinary and necessary" in carrying on the business. These terms have been defined to mean customary or usual, and appropriate or helpful. Office supplies, conference fees, phone bills, stationery printing, etc. are ordinary and necessary expenses. If it's reasonable in your business to entertain clients, those related costs should also qualify.

"Directly related" or "associated with": Business meals, travel or entertainment must be either "directly related to" or "associated with" the business. "Directly related" means a specific, concrete business benefit is expected to be derived, not just general client goodwill, the

Document Deductions - Continued on Page 2

Important Dates for Tax Year 2008

- **Fourth payment of 2008 estimated tax by 1/15/09.** This is if you're not paying your income tax for the year through withholding (or will not pay enough tax that way).
- **File 1099s by 1/31/2009.** A 1099 form must be filed if:
 - Your business paid \$600 or more to individual vendors for non-employee services
 - Your business paid a land-lord rent totaling \$600 or more
 - You made payments to attorneys
- **Send W-2 Forms and Year-End Payroll Statements to Employees by 1/31/2009.** Each of your employees (and the IRS) must receive a year-end statement of their total wages and deductions. This includes payments made for personal use of a business car, shareholders' health insurance premiums (if you're an S Corporation), etc. Your payroll service can prepare these statements for you. If you don't use a payroll service, we can help.
- **Report Sales and Use Tax.** If your business purchased business items in tax-free New Hampshire or through a catalog, you're required to report these purchases on the Maine Sales & Use Tax Form. Call us for more details.
- **OPTIONAL: Pre-pay part of your tax prep fee for a 2008 deduction.** Honeck•O'Toole will mail you a 75% pre-bill of your estimated 2008 tax preparation fee. If you pay this before December 31, 2008, you may be able to deduct it as a business expense or miscellaneous deduction on your 2008 tax return.

It's not too late for Honeck•O'Toole to help you with your 2008 year-end tax planning. Call us immediately if you have questions about your situation at 207-774-0882. ■

Isn't it appropriate that the month of the tax begins with April Fool's Day and ends with cries of 'May Day!'

Rob Knauerhase

◀ DOCUMENT DEDUCTIONS ...continued from page 1

principal purpose for the event must be business, and you must have engaged actively during the event, via a meeting, discussion, etc. Or, the expense may qualify as “associated with” the active conduct of business if the meal or entertainment event immediately precedes or follows a substantial and bona fide business discussion. “Goodwill” entertainment at shows, sporting events, night clubs, etc. can qualify.

Substantiation: To qualify for a deduction, you must have proof of the expense. A receipt is the most important record, but you’ll also need to document the business purpose and the business relationship of the individuals involved. For expenses of \$75 or more, documentary proof (receipt, etc.) is required, but it makes sense to keep organized receipts for EVERY business related expense regardless of the amount.

Charitable contributions: While all contributions must be substantiated (a cancelled check for example), cash contributions of \$250 or more require a written receipt from the charity. If you donate property valued at more than \$500, additional requirements apply. In general, if the total charitable deduction you claim for non-cash property is more than \$500, you must attach a completed Form 8283 (Noncash Charitable Contributions) to your return or the deduction is not allowed. In general, you are required to obtain a qualified appraisal for donated property with a value of more than \$5,000, and to attach an appraisal summary to the tax return.



Mileage:

You have two options for deducting automobile expenses. For both, you’ll need to keep an annual log tracking business miles separately from the personal use of your car.

- Your deduction can be computed using a standard mileage rate (for 2008, 50.5 cents per business mile driven through June, and 58.5 cents per business mile driven thereafter), plus tolls and parking.
- Or, you can track actual expenses (including depreciation, subject to limitations) for the portion of car use allocable to the business. For this method, you need to keep track of all costs for gas, repairs and maintenance, insurance, interest on a car loan, and any other car-related cost.

If your deductible trip is by taxi or public transportation, save a receipt if possible or make a notation of the expense in a logbook, and record the date, amount spent, destination, and business purpose. ■



ALL OF US AT
HONECK•O'TOOLE
WISH YOU
A WARM HOLIDAY SEASON
AND
A PROSPEROUS 2009

ORGANIZE YOUR RECEIPTS ALL YEAR

There’s nothing worse than gathering a year’s worth of loose receipts in early April and trying to sort through them for the tax deadline. Not only is it a nightmare to sift through receipts, it’s more likely that you’ll miss a deduction – and pay more in taxes. Sometimes during an audit, we discover that our clients forgot items they should have deducted.

How can you avoid missing legitimate deductions?

There’s no way around it. If you want to deduct every single business expense you’re qualified to deduct, you’ll need to set up careful and detailed record-keeping procedures to keep track of expenses and justify their business connection. You could use a paper spreadsheet itemizing the receipts throughout the year, but it’s much easier to use business software for these purposes. Make all your purchases using bank accounts

and a credit card tied to QuickBooks® or Quicken® software, so you can enter your expenses all year and then have a complete annual list with just a mouse click.

These software programs make it super-easy to set up expense categories, such as office supplies, tolls, parking, meals, postage, entertainment, printing, professional services, bank charges and so on. Then at the end of the year, you can provide us with an itemized list, by category. This helps us ensure that we capture every single deduction you’re allowed to take.

If you’d like help setting up a new QuickBooks account, give us a call. Jane Honeck is a Certified QuickBooks Consultant. She, as well as the rest of our staff, have years of experience helping clients get the most out of QuickBooks. ■

GOOD NEWS!

The Emergency Economic Stabilization Act of 2008 may help with your tax deductions

Isn't it time you heard some GOOD financial news? When Law H.R. 1424 (P.L. 110-343, the Act) was signed on October 3, 2008, it extended many tax breaks. There's also a new temporary tax deduction for homeowners who don't currently itemize their tax returns.

This measure was designed for the \$700 billion financial industry bailout plan, but to increase the odds of its passage, it was amended at the last minute to include a series of standalone tax bills considered earlier by Congress. Here are the highlights of tax changes that may affect you as an individual or business owner:

Extended tax breaks. More than 30 tax breaks that either expired at the end of 2007 or are soon to expire have been extended by the Act.

For example, the following individual tax breaks are retroactively revived to apply to the 2008 tax year and are extended to apply to the 2009 tax year as well:

- the election to deduct state and local general sales tax
- the above-the-line deduction for higher education expenses
- the above-the-line deduction for educator expenses
- the ability of taxpayers age 70 1/2; or older to make nontaxable IRA transfers to eligible charities.

Business tax breaks extended by the Act include:

- the research credit (which is also modified)
- the 15-year write-off for qualified leasehold improvements and qualified restaurant property (which is also liberalized)
- enhanced deductions for certain charitable contributions (which is also liberalized for farmers)

New tax relief measures. These include:

- relaxed write-off rules for film and TV productions
- quick 5-year depreciation for many types of farm property
- mental health parity rules
- liberalized rules for the refundable child tax credit.

Property tax deduction

A new, temporary property-tax deduction is available to homeowners who don't usually itemize on their returns... up to \$500 for single filers and up to \$1,000 for joint filers.

Energy incentives. These include:

- extensions for the alternative energy credit
- the residential energy efficient property credit
- the energy efficient buildings deduction
- the credit for energy efficient improvements to new homes
- a new credit for plug in electric vehicles.

Many other tax incentives for alternative energy creation are either extended or created.

Disaster relief. The Act creates new national disaster relief for all federally declared disasters occurring after 2007 and before 2010. This relief includes eased loss deduction rules for individuals, fast write-offs for business cleanup expenses, and a 5-year carryback for NOLs (net operating losses) attributable to qualified disaster expenses.

Please call us if you have questions about these tax changes and whether or not they apply to your situation. ■



YOU MAY QUALIFY FOR THE HOUSING TAX CREDIT 2008

The Housing Assistance Tax Act of 2008 allows certain first-time home buyers to take a tax credit of up to \$7,500 on their income tax return. However, this credit must be paid back over 15 years. In essence, it's an interest-free loan that must be repaid to the government...and it might be helpful to your family during these strained economic times.

Here are a few details to consider:

- The home must be located in the United States and be your principal residence.
- The home must have been purchased from April 9, 2008 through June 30, 2009. This includes moving into a newly constructed home.

- A special rule allows you to claim the credit in 2008 if you purchase a home by June 30, 2009.
- The credit is phased out for individual taxpayers with modified adjusted gross income between \$75,000 and \$95,000 single (\$150,000 and \$170,000 married) for the purchase year.
- If the house is sold before repaying the credit, it will be due in full on the tax return for the year in which the house is sold. But if the house is sold at a loss to an unrelated person, repayment of the remaining credit is forgiven.

If you think you may qualify, give us a call so we can help you determine whether or not this credit works in your favor. ■

We Remember John E. Walker



John Walker, husband of Honeck•O'Toole partner Janet O'Toole, passed away very unexpectedly on October 6, 2008 while on business in Connecticut. He spent the last day of his life doing what he did best –

encouraging, mentoring, and inspiring others to build strong communities. John graduated from South Portland High School, the University of Southern Maine, the Humphrey School of Public Policy at the University of Minnesota, and the John F. Kennedy School of Government at Harvard. He made a lasting mark on several area organizations, having worked for the Greater Portland Chamber of Commerce (1977-1981), serving as executive director of the Greater Portland Council of Governments (1981-1989), and founding the Maine Association of Non-Profits, serving as its executive director (1994-2001). As a private consultant beginning in 2001, he promoted leadership excellence in the public and non-profit sectors by coaching and conducting seminars and retreats for their staffs and volunteers. He also served as chair of the Cape Elizabeth Democrats for over ten years. His personal interests included playing tennis, skiing, biking, running road races, and figure skating at the Portland Ice Arena with Janet. Unfailingly upbeat, positive, and encouraging, John had legions of friends and was the consummate “cruise director” gathering friends and family together.

Greg Ryan, Executive Director, Connecticut Assets Network, said, “When in 2003 the CT Assets Network co-founded the Northeast Assets Leadership Project and others throughout the Northeast, John became its first director. We will not be saying goodbye to John. Rather, we'll be moving to honor his spirit, living out his belief that when people connect they can make a difference. We will continue to work with those whose lives he touched so that John's greatest hopes for them come to fruition. I can't think of a better way for all of us to honor John and keep his spirit alive.”

Jane, Joyce, Peter and everyone at Honeck•O'Toole remember their friend, all he had accomplished in life, and what he meant to the extended family here at the firm. Jane noted, “I first met John back when Janet and I were both staff accountants at Peat Marwick in 1976. And, after Janet joined me to form H & O, he was someone we could count on for a solid view of how to move forward. At a partner's meeting one year, I can still remember him trying to pound into Janet's and my head the difference between a policy and a procedure! We all have wonderful, fond memories of John.” For years, the team here had our April 15th tax party at John and Janet's house. John took care of most of the preparations and some years he had special surprises for us, including a magician one year! And, at every April 15th tax party we could count on him to say, ‘We made it through another one!’ To say we will miss him is a huge understatement - it won't be the same at H & O without him. ■



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& YEAR
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INSIDE

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