



KOSITZKA, WICKS & COMPANY

## eNewsletter October 2009

- Neighborhood Assistance program Tax Credit [[click here](#)]
- IRS Releases Annual Inflation Adjustments [[click here](#)]
- IRS Memo Allows Taxpayer to Deduct Interest on \$1.1 Million Mortgage [[click here](#)]
- IRS Issues Guidance on 2009 Required Minimum Distribution [[click here](#)]
- Links to articles you may find interesting [[click here](#)]
- KWC participates in Lee National Denim Day [[click here](#)]
- Client Services Provided by KWC – Valuation [[click here](#)]

Can't read the eNewsletter from the email? Feel free to open and print a PDF or Microsoft Word version:

[Click here for PDF](#)

[Click here for MS Word](#)

---

### Neighborhood Assistance Program Tax Credit

Did you know that a contribution to an approved nonprofit organization could provide you with a Virginia tax credit? The Neighborhood Assistance Program (NAP) provides a 40% credit for eligible contributions made by individuals and corporations to nonprofit organizations whose primary function is to provide support to impoverished people. NAP is a program intended to assist the economically deprived through activities such as education, job training, housing assistance, health care clinics and community services.

Individuals must contribute at least \$500 in cash or marketable securities to an approved organization. The credit is reported on Schedule CR, Part III and a credit certificate from the Virginia Department of Social Services must be included with the return.

Businesses must contribute at least \$1,000 to an approved organization. The contribution may be in the form of cash, goods, stock, real estate, professional services, contracting services and rent or lease of the participating nonprofits' facilities. Form 500CR, Part II and a credit certificate from the Virginia Department of Social Services must be included with the return.

The key is to make a contribution to an approved organization and to request the credit certificate from your organization.

A list of approved organizations can be found at:  
[http://www.dss.virginia.gov/community/nap/nap\\_orgs.pdf](http://www.dss.virginia.gov/community/nap/nap_orgs.pdf).

You may contact the Virginia Department of Social Services, Neighborhood Assistance Program, 7 N 8th St., Richmond, VA 23219, phone (804) 726-7924.

---

## **IRS Releases Annual Inflation Adjustments - Many Unchanged for 2010**

The IRS has released its annual revenue procedure updating the tax bracket amounts and making inflation adjustments for various credits and other tax items. Due to minimal inflation, many of the numbers are unchanged from 2009 or have only been adjusted slightly. The Social Security Administration also announced that the Social Security wage base will remain unchanged for 2010, at \$106,800.

For tax years beginning in 2010, the standard deduction amounts are as follows: unmarried taxpayers, \$5,700; married taxpayers filing jointly, \$11,400; married taxpayers filing separately, \$5,700; and heads of households, \$8,400. For dependents, the standard deduction cannot exceed the greater of \$950 or the sum of \$300 plus the individual's earned income.

Also updated are amounts for the kiddie tax; the earned income credit; the child tax credit; the adoption credit; the Hope scholarship, lifetime learning, and the new American opportunity credits; and more than 30 other items.

The IRS also announced that the annual benefit limit for defined benefit plans will remain unchanged at \$195,000 for 2010. The annual benefit limit for defined contribution plans will also stay the same for 2010, at \$49,000.

[top]

---

## **IRS Memo Allows Taxpayer to Deduct Interest on \$1.1 Million Mortgage**

The IRS Office of Chief Counsel has issued a memorandum in which it reinterprets the definition of "acquisition indebtedness" under IRC § 163(h)(3) to allow a taxpayer to deduct interest on the first \$1.1 million of his or her mortgage instead of the usual \$1 million limit (CCA 200940030). This interpretation is inconsistent with—and more taxpayer-friendly than—prior Tax Court holdings on the issue.

Taxpayers can generally deduct two types of debt secured by their residences: "acquisition indebtedness," which is debt that is used to acquire, construct or substantially improve a residence, and "home equity indebtedness," which is any other debt secured by the home. Acquisition indebtedness cannot exceed \$1 million, and home equity indebtedness cannot exceed \$100,000.

Prior interpretations of the term "acquisition indebtedness" have focused on the purpose of the debt and held that acquisition indebtedness means all debt, regardless of amount, used to acquire, construct or substantially improve a residence. This interpretation was used by the Tax Court in *Pau*, TC Memo 1997-43, and *Catalano*, TC Memo 2000-82.

In CCA 200940030, the IRS adopts a new and different interpretation under which the \$1 million limit is an element of the definition of "acquisition indebtedness." Any amount of a mortgage in excess of \$1 million is not acquisition indebtedness because, by this definition,

only the first \$1 million is acquisition indebtedness. It therefore follows, according to the Service's memorandum, that a taxpayer with a mortgage larger than \$1 million can treat the first \$100,000 in excess of the \$1 million limit as home equity indebtedness because it is other debt secured by the home. This allows the taxpayer to deduct interest on the first \$1.1 million of the loan—\$1 million as acquisition indebtedness and \$100,000 as home equity indebtedness.

[top]

---

## **IRS Issues Guidance on 2009 Required Minimum Distribution Waiver for 401(k) and other retirement plans**

The Internal Revenue Service has provided guidance for retirement plan administrators, plan participants and retirees regarding recent legislation affecting required minimum distributions. The Worker, Retiree, and Employer Recovery Act of 2008 waives required minimum distributions for 2009 from certain retirement plans.

Generally, a required minimum distribution is the smallest annual amount that must be withdrawn from an IRA or an employer's plan beginning with the year the account owner reaches age 70½. The 2008 law waives required minimum distributions for 2009 for IRS and defined contribution plans (such as 401(k)s) and allows certain amounts distributed as 2009 required minimum distributions to be rolled over into an IRA or another retirement plan.

Notice 2009-82 provides relief for people who have already received a 2009 required minimum distribution this year. Individuals generally have until the later of Nov. 30, 2009, or 60 days after the date the distribution was received, to roll over the distribution.

The notice also provides guidance for retirement plan sponsors. It contains two sample plan amendments that plan sponsors may adopt or use to amend their plans to either stop or continue 2009 required minimum distributions. Both sample amendments provide that participants and beneficiaries can choose to receive or not to receive 2009 required minimum distributions. Also, both sample amendments allow the employer to offer direct rollover options of certain 2009 required minimum distributions.

Plan sponsors may need to tailor the sample amendment to their plan's particular terms and administration procedures and must adopt the amendment no later than the last day of the first plan year beginning on or after Jan. 1, 2011 (Jan. 1, 2012 for governmental plans).

[top]

---

## Links to articles you may find interesting

PayChoice suffers a data breach: <http://tinyurl.com/yzddnum>

Pros and Cons of a potential new hiring tax credit: <http://tinyurl.com/yzsb3ha>

QuickBooks 2010 released: <http://tinyurl.com/yfp6fuc>

Why are bank fees rising?: <http://tinyurl.com/yjajn7y>

---

## KWC Participates in Lee National Denim Day

If you visited our office on October 2, you may have noticed a “casual air” adopted by the staff. For a \$5 contribution, KWC employees were allowed to wear jeans for the day in lieu of their normal business attire. Since its inception, Lee National Denim Day has raised more than \$75 million for the fight against breast cancer. KWC raised \$380 and donated it in honor of one of its own, who is currently undergoing treatment for this disease.

The underlying concept behind the program is simple - by convincing enough people to take one small step, together they could reach an incredible goal.

For more information, click here: <http://www.denimday.com>