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IRS Reminds Individuals of Suspended RMD Rules

Late in 2008, Congress waived required minimum distributions (RMDs) from 401(k), traditional IRAs and similar plans for 2009. While many taxpayers had hoped Congress would suspend RMDs for 2008, it did not. Nonetheless, the 2009 waiver is valuable if you plan carefully.

Distributions

Generally, individuals must receive the entire balance of their 401(k), traditional IRA or similar arrangement or start receiving periodic distributions from it by April 1 of the year following the year in which they reach age 70-1/2. There are special RMD rules for beneficiaries.

Recession

RMDs became a hot topic on Capitol Hill because of the recession. RMDs for 2008 are based on plan balances from December 31, 2007. The stock market declined significantly in 2008, causing investments to plummet in value.

Age 70-1/2

The IRS recently reminded taxpayers who turned 70-1/2 in 2008 had until April 1, 2009 to take their required 2008 distribution. Congress only suspended RMDs for 2009 and not for 2008. A taxpayer who has failed to take a required 2008 RMD by April 1, 2009 risks a 50 percent excise tax.

An individual who turns 70-1/2 in 2009 is not required to take a 2009 RMD by April 1, 2010. That distribution is waived. However, the taxpayer must take a 2010 RMD by December 31, 2010. These rules can be confusing and you do want to risk a penalty. Please contact our office if you have any questions.

Planning opportunities

The IRS also reminded taxpayers that distributions in 2009 will not be deemed RMDs. This creates some special planning opportunities. A taxpayer may be able to roll over the distribution into an IRA if it is an eligible distribution and satisfies other rollover rules. There are important exceptions so before you

contemplate a roll over, *please contact our office.*

IRS finally pulls the plug on private tax collection.

In a move that surely pleased many taxpayers and many in the tax community, the IRS pulled the plug on its controversial private debt collection (PDC) program. On March 6, all tax collection returned to the IRS, according to Commissioner Douglas Shulman. However, Shulman also warned that this decision does not mean that tax cheats will be getting away with anything. He announced that the IRS anticipates hiring more than 1,000 collection personnel in Fiscal Year (FY) 2009 to undertake collection efforts. Under the PDC program, only 200 private tax collectors from two firms were used, in addition to 800 IRS employees. During the two years that the PDC program was in operation, it netted the government \$68.8 million. Shulman cited cost-effectiveness and the state of the economy among the reasons that tax collection will return to the IRS. An independently conducted study

indicated that IRS collection, when handling similar cases, was more cost-effective than the private contractors' collection. Critics of private collection also had complained that private collectors had been going after the "easy targets," who generally fell into the lower income population of taxpayers.

Additionally, the IRS indicated that current economic times require that the agency have more discretion to work with taxpayers regarding payment terms, missed payments, and such. Generally, IRS employees have more options and greater flexibility to help taxpayers resolve collection cases, which by law private contractors do not have.

IRS releases examinations and collections statistics.

The IRS has released the numbers behind its activities from October 1, 2007 through September 30, 2008 in a publication called the *2008 IRS Data Book*. This annually released information provides statistics on returns filed, taxes collected, and the IRS's enforcement efforts.

Examinations Data

For example, the IRS reported that its examinations totaled over 1.54 million during FY 2008, or 0.8 percent of the total returns filed during the previous calendar year. This amount was a 0.65-percent drop from returns examined during FY 2007. Of all the returns examined, a little over one-percent were individual income tax returns, a 0.507-percent increase from FY 2007.

Within the category of individual income tax returns, the IRS examined 0.93-percent less taxpayers with under \$200,000 of total positive income than the previous year; i.e. a total of all sources of income, excluding losses. This figure increased by 33.23-percent for taxpayers with total positive income between \$200,000 and \$1 million, but decreased by 30.3-percent for individuals with total positive income over \$1 million from the previous year.

Decreased Tax Collection

The IRS also reported that, while it received over \$2.7 trillion in gross collections during the Fiscal Year (FY) 2008, its net tax collections (after refunds) actually decreased by 3.34-percent from FY 2007. The IRS distributed more than 237 million total refunds in FY 2008 with over 118 million going to individual tax payers. Total FY 2008 tax refunds rose to over \$425 billion, while over \$270 billion (63.52-percent) alone went to individual filers. The IRS also reported that \$95.7 billion in economic stimulus payments were made during the year, as mandated by the *Economic Stimulus Act of 2008*.

One major reason for these large refunds was the large increase in individual income tax returns filed during FY 2008 as a result of the one-time economic stimulus payments under the *Economic Stimulus Act of 2008*. While the number of individual income tax returns received by the IRS only increased by 3.7-percent for FY 2007, it increased

11.1-percent for FY 2008. The increase was even greater for Forms 1040NR, 1040NR-EZ, 1040PR, 1040-SS, and 1040CC; which increased by 36-percent for FY 2008 (as compared to 2.3-percent for FY 2007).

The IRS also reported that the economic stimulus payments generated an increase in electronically filed income tax returns as well. During FY 2008, taxpayers electronically filed over 101.5 million returns, 89.5 million of which were individual income tax returns. Of all individual income tax returns filed, 58-percent were filed electronically during the year.

Tax holiday bill passes House.

The Georgia House of Representatives has passed a bill that would allow for sales tax holidays this year for sales of back-to-school items, personal computers, energy-efficient products, and water-efficient products. If the House bill is enacted, a sales tax holiday period of July 30, 2009, through August 2, 2009, would apply to noncommercial purchases of general school supplies (up to \$20 per item), clothing and footwear (priced at \$100 or less), and computers and computer-related accessories for personal use (for single purchases of \$1,500 or less). A sales tax holiday period would also run from October 1, 2009, through October 4, 2009, for purchases of energy-efficient or water-efficient products for noncommercial home or personal use that are priced at \$1,500 or less per product.