

## Important Tax Law Changes for 2010

Taxpayers should make sure they are aware of many important changes to the tax law before they complete their 2010 federal income tax return.

Here are several important changes that the IRS wants you to keep in mind when you file your 2010 federal income tax return in 2011.

**Health Insurance Deduction Reduces Self Employment Tax** In 2010, eligible self-employed individuals can use the self-employed health insurance deduction to reduce their social security self-employment tax liability in addition to their income tax liability. As in the past, eligible taxpayers claim this deduction on Form 1040 Line 29. But in 2010, eligible taxpayers can also enter this amount on Schedule SE Line 3, thus reducing net earnings from self-employment subject to the 15.3 percent social security self-employment tax.

Premiums paid for health insurance covering the taxpayer, spouse and dependents generally qualify for this deduction. Premiums paid for coverage of an adult child under age 27 at the end of the year, for the time period beginning on or after March 30, 2010, also qualify for this deduction, even if the child is not the taxpayer's dependent.

As before, the insurance plan must be set up under the taxpayer's business, and the taxpayer cannot be eligible to participate in an employer-sponsored health plan. Details, including a worksheet, are in the instructions to Form 1040.

**First-time homebuyer credit** You must meet the required deadlines to be eligible to claim the credit. You must have bought — or entered into a binding contract to buy — a principal residence on or before April 30, 2010. If you entered into a binding contract by April 30, 2010, you must have closed or gone to settlement on the home on or before Sept. 30, 2010. Because of the documentation requirements for claiming the credit, taxpayers who claim the credit on their 2010 tax return must file a paper — not electronic — return and attach Form 5405, First-Time Homebuyer Credit and Repayment of the Credit, and a properly executed copy of a settlement statement used to complete the purchase.

Taxpayers who claimed the first-time homebuyer credit for a home bought in 2008 must generally begin repaying it on the 2010 return. In most cases, the credit must be repaid over a 15-year period. Many of those affected by this requirement received reminder letters from the IRS.

A repayment requirement also applies to a taxpayer who claimed the credit on either their 2008 or 2009 return and then sold it or stopped using the home as their main home in 2010. Use Form 5405 to report the repayment.

In addition, certain members of the armed forces and some other taxpayers still have time to buy a home and take the credit. See Form 5405 and its instructions for details.

**Standard Mileage Rates for 2010** The standard mileage rate for business use of a car, van, pick-up or panel truck is 50 cents for each mile driven. The rate for the cost of operating a vehicle for medical reasons or as part of a deductible move is 16.5 cents per mile. The rate for using a car to provide services to charitable organizations is set by law and remains at 14 cents a mile.

**Tax Breaks Extended** Several tax breaks that expired at the end of 2009 were renewed and can be claimed on 2010 returns. They include:

**State and local general sales tax deduction**, primarily benefiting people living in areas without state and local income taxes. Claim on Schedule A, Line 5.

**Higher education tuition and fees deduction** benefiting parents and students. Claim on Form 8917.

**Educator expense deduction** for kindergarten through grade 12 educators with out-of-pocket classroom expenses of up to \$250, Claim on Form 1040, Line 23 or Form 1040A Line 16.

**District of Columbia first-time homebuyer credit.** Claim on Form 8859

For further information about these changes visit the IRS website at <http://www.irs.gov>.