

Major Tax Initiatives for 2009

As we begin the fourth quarter of tax year 2009, we need to turn our attention to getting ready for the 2009 tax season. 2009 has brought several changes that will affect your tax preparation for this year. I have decided that to best serve you I will dedicate the final quarter of newsletters to helping you understand and apply these changes and to provide additional information that will help you in your preparation.

We will begin our discussion with looking at the major tax initiatives for 2009. Most of these provisions were enacted under the AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 signed by President Obama in February 2009. The first initiative that affects the majority of workers is the:

MAKING WORK PAY CREDIT

This temporary credit for tax years 2009 and 2010 is available to a fair majority of the American workforce. This credit is equal to 6.2% of annual earned income and can amount to a maximum of \$400 for an individual or \$800 for a joint-filing married couple.

The credit is also refundable-----meaning that it can be used to offset your entire federal income tax bill, including the Alternative Minimum Tax (AMT) and you get to collect any leftover credit in a refund after your tax bill has been reduced to zero.

There are phase-out rules, however. The credit is reduced or completely eliminated over the following Adjusted Gross Income (AGI) ranges:

\$75,000 to \$95,000 for singles and married couples who file separately
\$150,000 to \$190,000 for joint filing married couples

This credit comes in the form of new federal employment tax withholding tables to allow employees to collect their credits in advance via reduced payroll tax withholding from April 1 through the remainder of 2009. The 2009 1040 return should include a separate line to recognize this credit so that self-employed who failed to take their credit in advance through reduced quarterly estimated tax payments can take the credit.

\$250 ECONOMIC RECOVERY PAYMENT FOR GOVERNMENT PROGRAM BENEFICIARIES

This payment aimed mainly at retirees has been sent to the following government program recipients:

- Adults eligible for Social Security benefits and anyone eligible for Supplemental Social Security Income (SSI) except those who receive them while in a Medicaid institution.
- Adults eligible for Railroad Retirement benefits

- Adults eligible for Veteran's compensation or pension benefits

Note: If you have received the \$250 Economic Recovery Payment, it is subtracted from any MAKING WORK PAY credit that you would otherwise be entitled to collect.

EXTENDED FIRST-TIME HOMEBUYER CREDIT

The Stimulus Act extends the first-time homebuyer credit deal until December 1, 2009.

For a qualified purchase of a principal residence between January 1, 2009 and November 30, 2009 the maximum credit under the revamped rules equals the lesser of (1) 10% of the purchase price or (2) \$8,000 or (3) \$4,000 if you are married filing separately. These credit maximums are up from the \$7,500 and \$3,750 amount that apply for 2008 purchases. To be eligible, you must not have owned a principal residence in the U.S. during the three year period that ends on the purchase date. For a newly constructed home, the purchase date is deemed the date that you move in to the new residence. The credit is phased out over the following AGI ranges:

\$75,000 to \$95,000 for singles and married filing separately
\$150,000 to \$170,000 for married filing joint couples.

Another change from the 2008 provision is that a first-time homebuyer is not required to pay back the credit over 15 years. However, even with the liberalized new rules, you may have to repay the credit if you sell the home for a gain within three years of the purchase date or if you stop using it as your principal residence within that time frame.

Additional Note: If you buy the home between January 1, 2009 and November 30, 2009 you can choose to treat the purchase as if it occurred in 2008. Then you can claim the credit on your 2008 Form 1040 and get the benefit much quicker. The 15 year repayment rule won't apply to you even though you are claiming the credit on your 2008 tax return.

ALTERNATIVE MINIMUM TAX PATCH

Congress has applied a one-year patch on the Alternative Minimum Tax (AMT), preventing millions from being forced to pay the AMT tax for 2009. The expanded exemptions for 2009 are:

\$70,950 for married filing joint returns (up from \$69,950 for 2008)
\$46,700 for unmarried individuals (up from \$46,200 for 2008)
\$35,475 for married filing separately (up from \$34,975 for 2008)

EXPANDED HIGHER EDUCATION TAX CREDIT

For 2009 and 2010, the Stimulus Act makes taxpayer friendly changes to the rule for the HOPE Scholarship education credit. The HOPE scholarship has temporarily renamed to the American Opportunity credit.

The new HOPE modified credit equals 100% of the first \$2,000 of qualified post secondary education expenses paid during the year, plus 25% of the next \$2,000. The maximum credit is now \$2,500. (Under the old HOPE for 2008 the maximum credit would have been \$1,800)

The new HOPE credit now covers the cost of tuition, fees, and course materials (but not room and board) for the first four years of post-secondary education. The credit becomes unavailable after the student has logged in four

years of academic hours. (Under the old HOPE credit rules, the credit was only allowed for the first two years of post-secondary education, and course materials were not a qualified expense).

The phase-out ranges of Adjusted Gross Income (AGI) are:

\$80,000 to \$90,000 for unmarried individuals
\$160,000 to \$180,000 for married filing joint filers

Under the new rule, the new HOPE credit can be used to offset both your regular federal income tax bill and your AMT bill. In addition, up to 40% of the credit is now refundable. That means if you still have some credit after reducing your federal income tax bill to zero, you can collect up to 40% of the leftover amount in a refund.

Additional Note: The new law does not change the rules for the Lifetime Learning Higher Education credit.

FIRST \$2,400 OF 2009 UNEMPLOYMENT COMPENSATION IS TAX FREE

In general, unemployment compensation benefits are taxable income to the recipient. However, the American Recovery and Reinvestment Act of 2009 grants a one-year federal income tax exemption for the first \$2,400 of unemployment compensation received in 2009. Unemployment benefits above the \$2,400 limit will still be counted as taxable income.

INCREASE IN EARNED INCOME TAX CREDIT

The Stimulus Act has temporarily increased the earned income tax credit for working families with three or more children. Under the former law, working families with two or more children qualified for an earned income credit equal to 40% of the family's first \$12,570 of earned income. The credit was subject to a phase-out of Adjusted Gross Income (AGI) in excess of \$16,420 (\$19,540 for married couples filing jointly). The new law increases the earned income tax credit to 45% of the family's first \$12,570 of earned income for families with three or more children and increases the beginning point of the phase-out for all married couples filing jointly (regardless of the number of children) by \$1,880.

SALES TAX DEDUCTION FOR VEHICLE PURCHASES

The new law all taxpayers with a deduction for State and local sales and excise taxes paid on the purchase of new cars, light trucks, recreational vehicles, and motorcycles through 2009. This deduction is subject to a phase-out for taxpayers with AGI in excess of \$125,000 (\$250,000 in the case of a joint return).

TAX CREDITS FOR ENERGY-EFFICIENT IMPROVEMENTS TO EXISTING HOMES

The tax credit for energy efficient improvements to existing homes (allowed to sunset as of December 31, 2007) has been reinstated with additional improvements. The tax credit is also extended through 2010. For 2009 and 2010, the new law would increase the amount of tax credit to 30% of the amount paid (formerly 10%) or incurred by the taxpayer for qualified energy efficiency improvements during the taxable year. The bill would also eliminate the property-by-property dollar caps (under the former bill) on this tax credit and provide an aggregate \$1,500 cap on all property qualifying for the credit. This bill also updates the energy-efficiency standards of the property qualifying for the credit. The eligible improvements include insulation, exterior windows, exterior doors and certain coated metal roofs and asphalt roofs.

In addition to the individual tax initiatives discussed above the following are some of the major business allowances for the 2009 tax year:

EXTENSION OF BONUS DEPRECIATION

Businesses are allowed to recover the cost of capital expenditures over time according to a depreciation schedule. Last year, Congress temporarily allowed businesses to recover the costs of capital expenditures made in 2008 faster than the ordinary depreciation schedule would allow by permitting these businesses to immediately write-off 50% of the cost of depreciable property acquired in 2008 for use in the United States. The American Recovery and Reinvestment Act of 2009 extends this temporary benefit for capital expenditures incurred in 2009.

EXTENSION OF ENHANCED SECTION 179 EXPENSING

In order to help small businesses quickly recover the cost of certain capital expenses, small business taxpayers may elect to write-off the cost of these expenses in the year of acquisition in lieu of recovering these costs over time through depreciation. This is done by a method called Section 179 expensing. Until the end of 2010, small business taxpayers are allowed to write-off up to \$125,000 (indexed for inflation) of capital expenditures subject to a phase-out once capital expenditures exceed \$500,000 (indexed for inflation). In 2008, Congress temporarily increased the amount that small businesses could write-off for capital expenditures incurred in 2008 to \$250,000 and increased the phase-out threshold for 2008 to \$800,000. The Stimulus bill extends these temporary increases for capital expenditures incurred in 2009.

EXPANDED WORK OPPORTUNITY TAX CREDIT

The American Recovery and Reinvestment Act of 2009 expands the existing Work Opportunity Tax Credit, which generally gives businesses up to \$2,400 to add people in targeted groups to their payrolls. It adds UNEMPLOYED VETERANS discharged in 2008, 2009 or 2010 and "DISCONNECTED YOUTH" (those between 16 and 25 who haven't been regularly employed or in school for the last six months to the list of "targeted groups".

5 YEAR CARRYBACK OF NET OPERATING LOSSES FOR SMALL BUSINESSES RESCINDED

In 2008, Congress voted to extend the Net Operating Loss (NOL) Carryback period from two to five years for small businesses with gross receipts of \$15 million dollars or less. The American Recovery and Reinvestment Act of 2009 reinstates the NOL carryback period to the two taxable years before the year that the loss arises and carried forward to each of the succeeding twenty years after the year that the loss arises.

While the American Recovery and Reinvestment Act of 2009 includes several other provisions not discussed here, these are the provisions that would most likely affect the greatest number of businesses or individual taxpayers.

Next month we will look some informational items that will help you in your preparation of your 2009 Income Tax Returns and in December we will discuss some last minute ways to maximize your tax deductions and credits for 2009.

Til next time,

Charles W. Register, EA, CPB

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