

## 2009 and 2010 Tax Changes

Several tax acts enacted in the past two years are benefitting taxpayers in various ways. However, most of the benefits are temporary in nature, that is, unless extended by future legislation; they apply for 2009 only or in some cases for 2009 and 2010. Here's a review of the more widely applicable provisions that could have an impact on you and your family.

### ***New sales tax deduction for vehicle purchases***

- For 2009, there is a new deduction for state and local sales and excise taxes paid on the purchase of new cars, light trucks, motor homes and motorcycles after February 16, 2009 and before January 1, 2010. The deduction generally is available regardless of whether you itemize deductions on Schedule A or claim the standard deduction. The deduction is limited to the tax on up to \$49,500 of the purchase price of an eligible motor vehicle. The deduction is phased out for joint filers with modified adjusted gross income (AGI) between \$250,000 and \$260,000 and other taxpayers with modified AGI between \$125,000 and \$135,000.

### ***Continued property tax deduction***

- For taxpayers that don't itemize, a maximum of \$500 for individuals and \$1,000 for joint filers for property taxes paid in 2009 can be deducted in addition to the standard deduction.

### ***First-time homebuyer credit and subsequent principal residence credit. These credits have three sets of rules.***

- **Original:** A refundable tax credit for first-time homebuyers equal to the lesser of 10% of the purchase price or \$7,500 for qualifying purchases after April 8, 2008 and before January 1, 2009. The credit is essentially an interest-free loan because it has to be paid back to the IRS over 15 years beginning with the homebuyer's 2010 tax return.
- **The Recovery Act improved the credit for 2009 purchases by (1) eliminating the requirement to pay it back (subject to exceptions), (2) increasing the maximum credit to \$8,000, and (3) making it available for purchases through November 2009. The November 2009 extension lengthened this time period to April 30, 2010.**
- **You are considered a first-time homebuyer if you (or your spouse, if married) had no present ownership interest in a principal residence in the U.S. during the 3-year period before the purchase of the home to which the credit applies. The first time homebuyer credit, whether claimed in 2008 or 2009, phases out for individual taxpayers with AGI between \$75,000 and \$95,000 (\$150,000–\$170,000 for joint filers). New legislation passed in November 2009 increased the phase-out range for purchases after November 6, 2009 and before May 1, 2010. The credit phases out for individual taxpayers with modified adjusted gross income (AGI) between \$125,000 and \$145,000 (\$225,000 and \$245,000 for joint filers) for the year of purchase.**
- **Subsequent principal residence:** Any individual (and, if married, the individual's spouse) who has maintained the same principal residence for any 5-consecutive year period during the 8-year period ending on the date of the purchase of a subsequent principal residence is treated for credit purposes as a first-time homebuyer of that subsequent principal residence. This credit is effective for qualifying house purchases from November 7, 2009 to April 30, 2010. The maximum allowable credit for such taxpayers is \$6,500 (\$3,250 for a married individual filing separately) and the credit cannot be claimed for a residence if its purchase price exceeds \$800,000.
- **The November 2009 extension also applies to the purchase of a principal residence before July 1, 2010, if the taxpayer has entered into a written binding contract before May 1, 2010, to close on the purchase of a principal residence before July 1, 2010.**

**College tax breaks**

- Education credits have been available for several years. For 2009 and 2010, a new “American Opportunity” tax credit of up to \$2,500 of the cost of tuition and related expenses was enacted. You receive a tax credit based on 100% of the first \$2,000 of tuition and related expenses (including books) paid during the tax year and 25% of the next \$2,000 of tuition and related expenses paid during the tax year. The credit is available for the first four years of post-secondary education in a degree or certificate program. Forty percent of the credit is refundable. The credit is phased out for taxpayers with modified AGI between \$80,000 and \$90,000 (\$160,000 and \$180,000 for joint filers).
- Section 529 Education Plans are tax-advantaged savings plans that can be used to pay qualified education expenses, including: tuition, room and board, mandatory fees and books. For 2009 and 2010, qualified education expenses under these plans include computer technology and equipment, as well as Internet access and related services.

**Tax breaks for the unemployed**

- Unemployment compensation benefits ordinarily are fully taxable. However, under the Recovery Act, an individual does not have to pay tax on up to \$2,400 in unemployment benefits received in 2009.
- The Recovery Act provides a 65% subsidy for COBRA continuation premiums for up to 9 months for workers who have been involuntarily terminated, and for their families. To qualify for premium assistance, a worker must be involuntarily terminated between September 1, 2008 and December 31, 2009. Other restrictions apply, so check with your employer for details and to determine if you qualify.

**Improved energy tax breaks** There are a number of provisions that are designed to promote the creation and use of alternative forms of energy, including new or improved energy tax breaks for individuals. Federal tax credits for energy efficiency fall into three categories:

- **Energy efficiency credits for existing homes.** For property placed in service in 2009 and 2010, a taxpayer can claim a credit equal to 30% of the sum of the cost of qualified energy efficiency improvements to their home and residential energy property expenditures (see below.) The expenses must be made on or in connection with a house located in the U.S., owned and used by the taxpayer as his principal residence and originally placed in service by the taxpayer.  
Residential energy property expenses are expenses for qualified energy property (including labor costs for onsite preparation, assembly, or original installation) that meet specific standards. Such property includes high-efficiency heat pumps, air conditioners, and water heaters. It also may include energy-efficient windows, doors, insulation materials, and certain roofs. The credit has been expanded to include certain asphalt roofs and stoves that burn biomass fuel. Not all products qualify; you must determine if the products you install meet the qualifications. Up to an aggregate amount of \$1,500 in credits is available.
- **Residential energy efficient property credit.** Beginning in 2009, there is no limitation on the credit amount for qualified solar electric property costs, qualified solar water heating property costs, qualified small wind energy property costs, and qualified geothermal heat pump property costs. As a result, each of these types of improvements is eligible for an uncapped 30% credit. The limitation on the credit amount for qualified fuel cell property costs remains the same.

- **Vehicles** *Plug-in electric drive vehicle credit.* For vehicles bought after February 17, 2009 and before January 1, 2012, a new 10% nonrefundable personal credit up to \$2,500 for electric drive low-speed vehicles, motorcycles, and three-wheeled vehicles is available. There is also a new 10% credit, up to \$4,000, for the cost of converting any motor vehicle into a qualified plug-in electric drive motor vehicle. *Hybrid vehicles* qualify for tax credits based on set formulas by manufacturer and are scheduled to expire after December 31, 2010. All three credits have phase-out limits and once a manufacturer hits a certain sales limit, the hybrid credit is no longer available.
- This link provides details on products that qualify for the three types of credits:  
[http://www.energystar.gov/index.cfm?c=tax\\_credits.tx\\_index](http://www.energystar.gov/index.cfm?c=tax_credits.tx_index)

#### ***New making work pay credit (MWPC)***

- Individuals who work generally get a credit of up to \$400 (\$800 for joint filers). The credit is refundable, meaning you get it even if you owe no income tax. This change applies for 2009 and 2010. The credit is the lesser of 6.2% of your earned income or \$400 (\$800 on a joint return). The credit is phased out for joint filers with modified AGI between \$150,000 and \$190,000 and other taxpayers with modified AGI between \$75,000 and \$95,000. You won't be getting a separate check from the IRS. Rather, your employer automatically adjusts your withholding so that you will get a little more money in each paycheck. If you are self-employed, you can effectively receive the credit in advance by reducing your estimated tax payments. However, you could owe additional taxes. If you are holding more than one job, receive pension payments, or receive social security payments and are employed, your withholdings may have been reduced by more than the MWPC.

#### ***Business deductions***

- **Depreciation and section 179 limits:** 50% bonus depreciation is available for assets placed in service before 2010. The section 179 expense limit is set at \$250,000 for 2009 and drops back down in 2010 to a level still to be determined.
- **Net operating losses (NOLs):** The NOL carry-back period for business losses was historically two years. The original 2008 carry-back option to carry-back losses five years has been extended to 2009.

#### ***Child investment income***

- Over the past few years, the age at which dependent children's investment income is taxed at the parent's rate has increased. Under current legislation, the age is 23 if still being claimed as a dependent.

This document is to be used for discussion purposes only and is not intended to be an authoritative source. Of course, this is a very high level summary and each change may have income or other limitations that ultimately determine the impact on your own return. If you have tax planning needs or questions, please contact our office to schedule an appointment for consultation.

As of legislation passed through December 1, 2009