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SUMMARY OF SELECTED TAX LAW CHANGES FOR 2009 & 2010

Well, tax code simplification did not occur in 2009, instead 2 new schedules were added. Ironically, the standard deduction will now require a Schedule L to complete!

As far as the outlook for tax changes, with the current significant reduction in income tax receipts and increased spending by the government, the logical conclusion is for higher taxes. How this will come about remains to be seen. The economy and the political environment will all play a role. Many of the 2001 tax cut provisions sunset in 2010. 2010 should definitely be an interesting year.

Two major tax acts for 2009 were:

1. **American Recovery and Reinvestment Act (aka "stimulus")- February**
2. **Worker, Homeownership & Business Act – November**

First Time Homebuyer Credit – has been changed 3 times within an 18-month period!

Depending on when the home was purchased, you may qualify for a credit up to \$8,000. The latest version of the credit applies to home purchases that must be entered into contract by April 30, 2010 and closed on by July 1, 2010. There are complexities regarding ownership, adjusted gross income limitations that I can go into, if this credit interests or pertains to you.

Real Estate Tax deduction remains in place for 2009 and will allow taxpayers who do not itemize, to take a deduction for real estate taxes paid. This change has the most impact on taxpayers who own a home or condo but do not have a mortgage.

New Motor Vehicle Sales Tax Deduction – like real estate taxes, the sales and excise taxed paid on the purchase of new vehicles, from February 17, 2009 until the end of 2009, can be added to the standard deduction. Sales tax on vehicles has been a deduction for taxpayers who itemize for a few years, so this tax change benefits those who usually do not itemize deductions. Some limitations apply.

Unemployment – up to \$2,400 in unemployment benefits are exempt from federal income tax in 2009.

American Opportunity Credit (college education) – was put in place to expand education credits for more taxpayers. Taxpayers paying education expenses, for themselves or dependents, for first 4 years of college, may qualify for this credit (up to \$2,500 per student per year) for tax years 2009 & 2010. This credit allows more taxpayers to qualify by raising Adjusted Gross Income levels. This credit "replaces" the Hope Credit, which was limited to \$2,000 and only available for the first 2 years of post-secondary education.

Making Work Pay credit – instead of a "stimulus check", the government changed tax withholding tables so working taxpayers had slightly larger paychecks for 2009. Social Security recipients & certain retirees should have received a \$250 check mid-year. This needs to be accounted for on a new Schedule M on 2009 tax returns.

The following tax breaks remained in place through 2009:

1. deducting sales tax in lieu of income tax on itemized returns
2. extending the educator deduction (for teachers/administrators in grades K-12)
3. extending the Higher Education Deduction (tuition at university/college level)

For those taxpayers over age 70 ½, a **Required Minimum Distribution (RMD) is required for 2010.**

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Converting an IRA to a Roth IRA – the adjusted gross income limitations to convert has been removed in 2010. Previously, if a taxpayer's adjusted gross income was \$100,000 or more, they could not convert a traditional IRA to a Roth IRA. Also, in 2010, taxpayers can elect to pay taxes on the conversion over 2 tax years. One of the big advantages of Roth IRA's is all withdrawals are tax free based on current tax code, and holding the Roth IRA for at least a 5-year period.

Energy Credits are back in place. There are two categories of energy credits for residences.

"Energy Efficient Credit" – think alternative energy. This credit equals 30% of the cost of solar energy electric and heating property, small wind energy property (wind turbines), fuel cell property and geothermal heat pumps.

"Nonbusiness Energy Property Credit" – this is a credit of up to \$1,500 (lifetime) for energy improvements to your primary residence. This credit applies for qualified improvements – insulation, exterior windows & doors, some roofing, high efficiency heat pumps, air conditioners, water heaters, etc. There are lots of details and small print but keep your records or ask when we meet.

Alternative Minimum Tax (AMT) patch was again put in place for 2009 so many middle income taxpayers are not hit with additional taxes. As a reminder, the AMT is another way to figure tax. Initially put in place so high income taxpayers do not eliminate all tax liability via deductions, it has not been indexed for inflation and would hit many middle income taxpayers if not "patched" each year.

The ability to expense business property in lieu of depreciating over asset lifetime (electing Section 179) up to \$250,000 was retained for tax year 2009.

For more information visit my website at www.orovalleycpa.com, or ask me during our tax appointment. Other resources include the IRS website www.irs.gov.

2009

GENERAL ITEMS

Exemption Amount Increased

The amount for each personal exemption has increased from \$3,500 in 2008 to \$3,650 in 2009. The phase-out of exemptions continues to occur at higher adjusted gross income levels.

Standard Deduction Amount Increased

The standard deduction for taxpayers who do not itemize deductions on Schedule A is higher in 2009 than 2008. The basic standard deduction amounts for 2008 are:

· Head of household	\$ 8,350
· Married filing joint	\$11,400
· Single	\$ 5,700

Real Estate Tax Deduction

Again in 2009, taxpayers will be able to further reduce taxable income up to \$500 (Single) or \$1,000 Married Filing Joint for real estate taxes paid if they do NOT itemize deductions.

CHANGE! Motor Vehicle Sales Tax Deduction

For any new motor vehicles purchased from February 17, 2009 through end of 2009, the state and local sales tax can be deducted whether taxpayer itemizes or takes standard deduction.

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CHANGE! Unemployment Benefits

Up to \$2,400 in unemployment benefits is exempt from Federal income tax in 2009.

Social Security and Medicare Taxes - Wage Limits

The maximum amount of wages that are subject to social security tax (6.2% each for employer and employee) rises to \$106,800. All wages are subject to Medicare tax. (1.45% each for employer and employee).

CHANGE! Gift Tax Annual Exclusion

The annual amount of cash that you can give to someone else without filing a gift tax return increases \$1,000 to \$13,000.

Alternative Minimum Tax (AMT) Exemptions Increased

In 2009, the AMT exemption amount increased across the board. For taxpayers filing, married filling jointly, the exemption amount increased to \$70,950, for single taxpayers increased to \$46,700.

RETIREMENT SAVINGS PLANS

Traditional IRA Deductibility

The amount at which the deductibility of traditional IRA contributions phases out will increase based on cost of living increases. (\$109,000 Married Filing Jointly, \$65,000 Single or Head of Household)

IRA Contribution Limits

Remain the same as 2008. Taxpayers 50 or over at the end of 2009 may contribute up to \$6,000 per person to an IRA. Taxpayers under age 50 can contribute up to \$5,000 per person.

CHANGE! 401k and 403b Contribution Limits Increase

The maximum contribution a person can make to a company 401k or 403b plan increases to \$16,500 for 2009. Taxpayers 50 or over at the end of 2009 may contribute an additional \$5,500 to these plans making their total 2009 contribution maximum \$22,000.

REMINDER! Withdrawals from Pensions for Retired Public Safety Officers

Retired law enforcement officers, firefighters, ambulance crews, etc. can exclude withdrawals from pension plans used to pay insurance premiums from their taxable income. Insurances include: health, accident or long-term care. The maximum amount that can be excluded is the lesser of insurance premiums or \$3,000. **IRS issued clarification to this law in December 2008 stating premiums must be paid directly from the plan.**

CREDITS, DEDUCTIONS & EXCLUSIONS

Health Savings Accounts (HSA's)

The maximum HSA deduction increased to \$3,000 (\$5,950 for family coverage) for taxpayers under age 55. Add \$1,000 to these amounts for taxpayers age 55 or over.

CHANGE! Mileage Rates

The mileage rates for 2009 are as follows:

Type	Rate per mile
Medical and Moving	24 cents
Charity	14 cents
Business	55 cents

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NEW! American Opportunity Credit

Up to \$2,500 can be claimed per student for the first four years of post-secondary education. Course materials, including books and computers, needed for enrollment or attendance are qualified education expenses.

NEW! Making Work Pay Credit

For 2009 & 2010, a credit equal to the lesser of 6.2% of earned income, or \$400 Single, \$800 Married Filing Joint, is available to taxpayers. There is a phase out of this credit for taxpayers whose income exceeds \$75,000 Single or \$150,000 Married Filing Jointly.

Retirees/Social Security recipients should have received a \$250 payment in mid 2009. Certain government retirees, who are not eligible for Social Security and did not receive the \$250 in 2009, can claim the \$250 as a credit on the 2009 tax return.

CHANGE! Residential Energy Improvements Credits

A taxpayer may claim up to a \$1,500 lifetime credit for energy improvements (high efficiency air conditioning and cooling, insulation, exterior doors and windows, skylights). Secondly, 30% of the cost of qualified solar electric, solar water heating, small wind energy, geothermal and fuel cell property is eligible for federal tax credit. There is no dollar limits for the "alternative energy" property credit.

REMINDER! Medicare Part D

The amounts paid by taxpayers for Medicare Part D, the voluntary prescription drug coverage are considered eligible medical expenses for itemizing deductions.

REMINDER! Cash Contributions

ALL cash contributions must be supported by a written and dated receipt from the charity or a dated bank record.

REMINDER! Charitable Contributions of Vehicles, Boats and Aircraft

If you donate a vehicle (boat or aircraft) to a qualified organization your deduction is limited to the gross proceeds from its sale by the organization. There are a few exceptions for deducting fair market value. Written acknowledgement from the organization is required.

REMINDER! Non-Cash Charitable Items

Any donations of non-cash charitable items (e.g. clothing, household goods) must be in "good" condition. There is no guideline on how this will be enforced. Industry professionals are recommending clients keep a detailed list of what was donated and a receipt from the organization.

REMINDER! Exclusion of Gain on Personal Residence

You cannot claim the \$500,000/\$250,000 gain exclusion on the sale of your principal residence if you acquired the home in a like-kind exchange within the last five years. This would occur if you previously had an investment property, did a like-kind exchange and then converted it to your principal residence.

BUSINESS RELATED

Increased Section 179 Expense Deduction.

The maximum amount to expense business capital investments remains at \$250,000 for 2009.

Partnership or S-Corporation Tax Return filing Penalty

The penalty for failing to file or late filing of partnership and S-Corporation tax returns is set to \$89 per month, per shareholder or partner, up to 12 months.

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2010

GENERAL ITEMS

Exemption Amount

The amount for each personal exemption remains at \$3,650 in 2010 (same as 2009). In 2010, there is no phase-out of exemptions based on adjusted gross income levels.

Standard Deduction Amount

The standard deduction for taxpayers who do not itemize deductions on Schedule A, is higher in 2010 only for Head of Household taxpayers. The basic standard deduction amounts for 2010 are:

· Head of household	\$ 8,400
· Married filing joint	\$11,400
· Single	\$ 5,700

Social Security and Medicare Taxes - Wage Limits

The maximum amount of wages that are subject to social security tax (6.2% each for employer and employee) remains at \$106,800. All wages are subject to Medicare tax. (1.45% each for employer and employee).

Gift Tax Annual Exclusion

The annual amount of cash that you can give to someone else without filing a gift tax return remains \$13,000.

Alternative Minimum Tax (AMT) Exemptions Reduced

Beginning in 2010, the AMT exemptions revert to their 2002 levels if not addressed by Congress again. The AMT exemption for couples married filing jointly will drop from \$70,950 in 2009 back to \$45,000 in 2010. This reversal would cause more individuals to pay AMT.

RETIREMENT SAVINGS PLANS

Traditional IRA Deductibility

The income level at which the deductibility of traditional IRA contributions phases out, increases for Single and Head of Household filers only. Their income limit is \$66,000 and for those filing jointly, their income limit is \$109,000 Married Filing Jointly.

IRA Contribution Limits

Remain the same as 2008 & 2009. Taxpayers 50 or over at the end of 2010 may contribute up to \$6,000 per person to an IRA. Taxpayers under age 50 can contribute up to \$5,000 per person.

CHANGE! 401k and 403b Contribution Limits Remains Unchanged

The maximum contribution a person can make to a company 401k or 403b plan remains unchanged at \$16,500 for 2010. Taxpayers 50 or over at the end of 2010 may contribute an additional \$5,500 to these plans making their total 2010 contribution maximum \$22,000.

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CREDITS, DEDUCTIONS & EXCLUSIONS

Mileage Rates

The mileage rates for 2010 are reduced from 2009 rates.

Type	2010
Medical and Moving	16.5 cents
Charity	14 cents
Business	50 cents

CHANGE! Expiration of Deductions & Credits

These deductions expired in 2009, and are no longer available unless extended by Congress in 2010.

- Tuition & Fees deduction
- Educator's deduction
- Sales Tax deduction
- Real Estate taxes (non itemizers) deduction

The credits are set to expire in 2010 unless extended by Congress:

- Residential Energy Credits
- Adoption Credit

CHANGE! Increased Tax Rates and Reduced Credits – Use for 2010 planning

Unless changed by Congress, the following tax rates and reduced credits will take place in 2011.

Description	2010 Amt	2011 Amt
Child Tax Credit	\$1,000 per child	\$500 per child
Long Term Capital Gains Rate – taxpayer in 25% tax bracket or higher	15%	20% (18% if property held for 5 years)
Long Term Capital Gains Rate – taxpayer below 25% tax bracket	0%	10% (8% if property held for 5 years)
Qualified Dividends	Same as long term capital gains rates	Ordinary income tax rates
Income Tax Rates	10%, 15%, 25%, 28%, 33%, 35%	15%, 28%, 31%, 36%, 39.6%

Itemized Deduction Limits for High-Income Taxpayers

There is no “phase out” of itemized deductions for higher income tax payers, e.g. allowing 100% of itemized deductions to “count” in 2010. In 2011, the phase out of itemized deductions is put back in place.

Residential Energy Improvements Credits

Similar to 2009, a taxpayer may claim up to a \$1,500 lifetime credit for energy improvements (high efficiency air conditioning and cooling, insulation, exterior doors and windows, skylights). Secondly, 30% of the cost of qualified solar electric, solar water heating, small wind energy, geothermal and fuel cell property is eligible for federal tax credit. There is no dollar limits for the “alternative energy” property credit.

BUSINESS RELATED

Increased Section 179 Expense Deduction.

The maximum amount is reduced to \$134,000 from \$250,000 in 2009.