

TAX STRATEGIES
NEW FOR 2009/2010

Individuals:

Earned Income Credit is expected to be higher for families with three or more children and a bigger share of the credit can be claimed when the taxpayer's income tax liability is less than the credit.

Child Care Credit will increase for families with three or more children

Hope Credit: Credit for college costs will increase to \$2,500 in 2009 and 2010 for four years of college instead of two. It is expected that it will be partially refundable for middle-incomers.

Real Estate:

First-Time Homebuyers who purchase a home after January 1, 2009 and before December 1, 2009:

Qualifying taxpayers can receive a credit up to \$8,000 for joint filers and \$4000 for married filing single if you qualify as a first-time homebuyer.

To be considered a first-time homebuyer you, and your spouse, if married, did not own any other main home throughout a three year period ending on the date of purchase.

The amount of credit phases out for taxpayers whose adjusted gross income is more than \$150,000 for joint filers and \$75,000 for singles.

You have a choice to claim this credit on your 2008 tax year form or on your 2009 tax year form.

Repayment of this credit is not required by the qualifying first-time homebuyer.

The Energy Saving Credit for home improvements is expected to be extended through 2010 with an increase rate of 30% and a hike in the cap from \$500 to \$1,500.

Payroll Tax Credit for Individuals: The credit is 6.2% of earned income, capped at \$500 for single filers and \$1,000 for joint filers, with a phase-out for higher incomers. For singles, the credit will likely start phasing out at \$75,000 of adjusted gross income and will disappear entirely at \$100,000. For married filers, the phase-out zone will start at \$150,000 and end at \$200,000 of AGI.

- For self employed individuals you have a choice either to claim the credit on your return or reduce your estimated tax payments.
- Retirees won't be entitled to any credit.

Auto/Vehicles:

“President Obama signed into law a program the National Highway Traffic Safety Administration (NHTSA) is calling the Car Allowance Rebate System (CARS). This is a federal program that helps you purchase a new, more fuel efficient vehicle when you trade in a less fuel efficient vehicle.”

For more information visit <http://www.cars.gov/>

IRA:

Parents and Grandparents can contribute to an IRA for their children or grandchildren who work. The limit is the smaller of \$5,000 or the amount of the child's earnings. The contribution will be considered a gift and is counted towards the \$13,000 gift exclusion.

Dependants do not have to withhold money from earnings if they did not owe any tax in the previous year and do not plan to owe tax in the current year so long as their unearned income does not exceed \$300 and their earned income does not exceed \$5,700.

Sole proprietors or husband and wife business partnerships who hire their kids under the age of 18 need not pay Social Security tax. Federal unemployment tax also is not due until the employed children reach 21.

If you may need early distributions (before age 59 ½), do not do a rollover to or from an IRA. The IRS has said in a private ruling that any rollover into or from an IRA account as a prohibited change in withdrawals. This will result in disallowing an exception that allows the IRA holder to make equal payouts for at least 5 years and until the age of 59 ½ without paying the 10% penalty.

Congress will ask the IRS to hold off on penalties imposed on small businesses as a result of laws passed against tax schemes. These penalties unintentionally affected small businesses that purchased benefit plans that fell into the IRS' interpretation of tax schemes under the law. Congress will be looking to reduce the fines.

The IRS has decided to work with congress to end the requirement to keep records of personal and business calls by individuals who use employer provided cell phones. Currently the law requires these individuals to keep such records.

Fringe Benefits:

Bicycle Commuters Fringe Benefit for 2009. Employers can reimburse employees up to \$20 per month for their costs of pedaling to work. The cost of the bike, repairs and storage costs are covered. The benefit is allowed only when the bicycle is used for a substantial portion of the commute. This is in lieu of parking, transit passes or van pool perks. The benefit won't lower the employers employment taxes since this benefit cannot be funded through salary reduction as it is for parking and mass transit.

Businesses:

Carry-back losses will be allowed to be carried back five years instead of two except for firms that received special aid payments from Treasury. Home builders will benefit as will other unprofitable industries.

50% Bonus Depreciation for assets purchased in 2009

The higher \$250,000 limit on expensing assets will continue in 2009 with full expensing available until \$800,000 of assets are put in service.

Renewable Energy Credits ... wind, solar, geothermal, biomass, etc. will have a long term extension and no dollar caps.

New Tax Credit for hiring unemployed veterans and youths age 16 to 25

Banks will be able to buy more tax free without losing interest deductions.

Private activity bond interest is exempted from Alternative Minimum Tax (AMT) for 2009 and 2010.

The minimum tax exemptions for 2009 are expected to increase and companies will be allowed to buy back their debt at a discount tax free.