

SETH ENTERPRISES, CPA

SUMMARY OF IMPORTANT TAX CHANGES IN 2009

First-Time and Long-Time Resident Homebuyer Credit for Primary Residences

This newly expanded version of the tax credit is both for taxpayers who haven't owned a principal residence during the past three years or owned a home for 5 out of 8 consecutive years and purchase and close escrow on a home before July 1, 2010. The credit is up to \$8,000 for first-time homebuyers and \$6,500 for long-time resident buyers. The credit may be claimed on either an amended 2009 tax return (if you close in 2010) or a 2010 return. If you are considering sizing down, this credit may give you extra incentive to sell your current home. The cost of a home may not exceed \$800,000 and the credit phases out at higher income levels (starting at \$225,000 for joint filers and \$125,000 for other filers).

New Vehicle Purchase Incentive

Qualifying taxpayers may deduct state and local sales and excise taxes paid on the purchase of new cars, light trucks, motor homes and motorcycles if purchased between February 16, 2009 and before January 1, 2010. There is no limit on the number of vehicles that may be purchased and still deduct the taxes paid. The cost of each qualifying vehicles may not exceed \$49,500. The deduction phases out for taxpayers at higher income levels. This deduction is available regardless of whether a taxpayer itemizes deductions on Schedule A.

Energy-Efficient Home Improvements

Congress wants homeowners to make their homes more energy efficient. This credit for non-business energy property is increased for homeowners who make qualified energy-efficient improvements to existing homes. The amount of the credit is 30 percent of the cost of all qualifying improvements and is limited to a \$1,500 credit for improvements made both in 2009 and 2010. The cost of installation does not qualify for the credit. Qualifying improvements include the addition of insulation, energy-efficient exterior windows, and energy-efficient heating and air conditioning systems.

Mortgage Forgiveness Debt Relief

Congress allows taxpayers to exclude from tax up to \$2 million (\$1 million for a married person filing a separate return) of cancellation of debt income realized in a mortgage workout on their principal residence. This exclusion also applies to mortgage debt forgiven in connection with a foreclosure. To be eligible for relief, the debt must have been used to buy, build or substantially improve the taxpayer's principal residence and must be secured by a mortgage on that residence. A refinanced mortgage up to the amount of the original mortgage is also eligible for the exclusion.

Roth Conversions – New Rules Starting in 2010

Taxpayers with modified adjusted gross income of more than \$100,000 will be allowed to convert a traditional IRA to a Roth IRA. Income taxes due on the 2010 conversion can be spread over two years (2011 and 2012). Conversions in subsequent years are included in income during the tax year in which the conversion is completed. Removing the Roth IRA conversion cap however doesn't mean anyone can contribute to a Roth IRA, but it does mean that anyone can convert an existing IRA to a Roth IRA.

IRA conversions to Roth IRAs

Roth Conversions – if you converted any retirement funds to your Roth IRA in 2009, you have six months to move those funds back to your retirement account to avoid paying income taxes. This strategy is especially good if the value of those funds is worth less today than they were when you made the transfer to your Roth.

IRA and Roth IRAs

You may contribute to your IRA or Roth IRA for 2009 as long as you do it by April 15, 2010. If your income is too high to make a contribution to your IRA or Roth IRA, you may contribute to a non-

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deductible IRA. Your contribution may be as much as \$5,000 plus an additional \$1,000 if you're over 50 years of age. If you participate in a retirement plan at work, the amount of your deductible IRAs is limited. Income phase-outs also apply to contributions to Roth IRAs. The maximum contribution to a 2010 IRA or Roth IRA is the same in 2010 as it was in 2009.

IRA Charitable Contributions

For 2009, an individual over age 70 1/2 is allowed an exclusion from gross income for qualified charitable distributions of up to \$100,000 made directly from an IRA or Roth IRA to a charity.

Tax Credit for First Four Years of College

The American Opportunity Credit is designed to help parents and students pay part of the cost of the first four years of college. The new credit modifies the existing Hope Credit for tax years 2009 and 2010, making it available to a broader range of taxpayers, including many with higher incomes and those who owe no tax. Tuition, related fees, books, equipment (including laptop computers) and other required course materials generally qualify. Many of those eligible will qualify for the maximum annual credit of \$2,500 per student.

Certain Computer Technology Purchases Allowed for 529 Plans

Congress added computer technology to the list of college expenses (tuition, books, etc.) that can be paid for by a qualified tuition program (QTP), commonly referred to as a 529 plan. For 2009 and 2010, the law expands the definition of qualified higher education expenses to include expenses for computer technology and equipment or Internet access and related services to be used by the designated beneficiary of the QTP while enrolled at an eligible educational institution. Software designed for sports, games or hobbies does not qualify, unless it is predominantly educational in nature.

Making Work Pay Credit

In both 2009 and 2010 wage earners qualify for the Making Work Pay Credit. For single individuals, the credit is \$400 and is \$800 for married couples filing jointly. The credit phases out for taxpayers with modified adjusted gross income in excess of \$75,000 (\$150,000 for married couples filing jointly). If you work two jobs or both of you work or you're claimed as a dependent, we need to check to see whether you have sufficient withholding.

Unemployment Benefits

Up to \$2,400 in unemployment benefits are considered tax-free income and will not be taxed in 2009.

Saver's Credit

For 2010, if you contribute to your retirement plan at work or to a traditional IRA and your income is lower than the income thresholds (less than \$27,000 to less than \$55,500 depending upon your filing status), you qualify for the Saver's Credit. You must be at least 18 years of age, not a full-time student, and not claimed as a dependent on someone else's tax return. Depending on your income, the tax credit is from 10% of your contribution to as high as 50% of your contribution.

Investment Income

The lower 15% tax rates on long-term capital gains (held over 1 year plus 1 day) and qualified dividends have been extended through 2010. The capital gains rate for some investors even drops to zero. The zero-percent rate is limited to taxpayers in the 10% to 15% income tax brackets. Capital gains rates will likely increase after 2010.

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Property Tax Deduction

Homeowners who don't itemize their deductions can still claim a portion of real estate taxes paid in 2009 (\$500 if single or \$1,000 if filing married jointly).

Charitable Contributions (cash or check)

Both charitable contributions in the form of cash or check require a receipt from the charity. This means that if you attend church on Sunday and put \$10.00 in the collection plate, you cannot take a deduction without a receipt from your church. If you pay by check, your canceled check is your receipt unless the total of your contributions is \$250 or more. Because of recent tax court cases, the best practice is to obtain a receipt for every donation.

Non-Cash Charitable Contributions

Don't forget that non-cash charitable deductions require documentation. You cannot simply say "3 bags of clothing." Not only do you need a receipt from the charity, but a list of what you contributed. If you need my non-cash charitable contribution worksheet to arrive at the deductible amount, let me know and I'll email it to you.

Home equity interest and refinancing

Unless you substantially improve your home with funds from a home equity loan, your mortgage interest deduction may be limited. The total of your home equity debt is limited to \$100,000 for you to be able to deduct the interest. Any interest paid on loans that exceed \$100,000 is considered personal interest and is not deductible.

Medicare Part B

In 2010, if you're not considered high income, your **Medicare B premium** will again be \$96.40 per month. If you're covered by Medicare and you're considered high income, you can expect a Medicare Part B surcharge. The surcharge is based upon 2008 income. The surcharge begins at adjusted gross income of over \$85,000 if you're single and \$170,000 if you're married. If your income decreased since 2008, you can dispute the surcharge but you must do it in a timely manner. Call the local Social Security office to file your dispute.

Reminders for Business Filers ~

Office in Home

If you have an office in home, your office must be used *exclusively* for your business and *regularly* for your business. Also, the 1st business related trip of the day from your qualified home office is not deductible unless you qualify under special rules. It is considered part of your personal *commute*. The trips after that 1st stop of the day are deductible business miles if the stop is business related.

Business Use versus Personal Use Property Deductions

This is a category that includes cell phones, home computers, auto expenses, etc. The IRS examines the personal use versus the business use. For example, I have a cell phone, but the only time I use it is when I travel. I keep in touch with family and return client calls, but this cell phone is used for business only a small percentage of the year. It is unlikely that I qualify to deduct much of my cell phone expense. Home computers are a problem, also. How much of the time do you spend on your computer that is personal use as opposed to business use?

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Travel and Meal & Entertainment Expense

In addition to a receipt, make sure you keep a log noting the name of the client, the purpose of the meeting, the cost, and who attended. Your credit card statement is not considered substantiation.

Business travel expense

Keep a log of your business mileage. Without a mileage log, no deduction is allowed. Again, keep track of the name of the client and business purpose of the meeting. Most of you use the standard mileage rate. For 2009, it is 55 cents per mile.

Forms 1099-MISC

If you paid more than \$600 to a business or individual for services rendered, you are required to issue Form 1099-MISC. Forms must be mailed to the recipients no later than February 15, 2010. Your forms must be mailed to the IRS no later than March 1, 2010. If you are required to issue the forms and do not, your deduction may be disallowed by the IRS.

Business Inventory

The IRS continues to place an increased emphasis on the physical inventory of businesses as of December 31st each year. Make sure that if your business does have inventory, you count that inventory the last day of each year.

Section 179 Expense and Bonus Depreciation for Businesses

The maximum Section 179 deduction for 2009 is \$133,000. A trade or business that exceeds this amount in business asset purchases for the year may also depreciate an additional 50 percent of the remaining cost of an asset. In addition to California, some states do not conform to these larger limits.

Tax credit for low-speed or two- or three-wheel electric vehicles

Congress created a tax credit for low-speed or two- or three-wheel electric vehicles such as motor scooters purchased after Feb. 17, 2009 and before Jan. 1, 2012. The amount of the credit is 10 percent of the cost of the vehicle, up to a maximum credit of \$2,500. To qualify, a vehicle must be either a low-speed vehicle that is propelled to a significant extent by a rechargeable battery with a capacity of at least 4-kilowatt hours or be a two- or three-wheeled vehicle that is propelled to a significant extent by a rechargeable battery with a capacity of at least 2.5-kilowatt hours.