

2009 TAX TIPS AND BEYOND...

• FIRST-TIME HOMEBUYER CREDIT

- The first-time homebuyer credit has been extended. The new rules are effective for homes purchased between November 6, 2009 and May 1, 2010 (before July 1, 2010, if you entered into a written binding contract before May 1, 2010). A credit of \$8,000 or 10% of purchase price (the lesser of the two) can be claimed on your 2009 tax return for a qualifying home that was purchased during 2010. The credit is gradually phased-out as your adjusted gross income (AGI) increases.

Phase-Out:

- Homes purchased **Pre November 7th** - between \$75,000 and \$95,000 (single) and between \$150,000 and \$170,000 (married filing joint).
- Homes purchased **Post November 6th** - between \$125,000 and \$145,000 (single) and between \$225,000 and \$245,000 (married filing joint).

Other limitations may apply- see IRS Instructions to Form 5405, First Time Homebuyer Credit for additional detail.

• QUALIFIED REPEAT HOME BUYER CREDIT

- A \$6,500 credit is available for buyers who have previously owned and lived in a home for 5 of the 8 years preceding the new home purchase. The new home must become the buyer's principal residence in order to qualify for this credit. ***(Same as the First-Time Homebuyer Credit phase out rules apply)***

• RESIDENTIAL ENERGY CREDIT

- A 30% tax credit, with a maximum of \$1,500 for the two-year period (2009 & 2010) is available for certain energy-saving home improvements.
 - **Qualifying property:** Windows, doors, insulation, certain asphalt roofs, high-efficiency heat pumps, air conditioners, water heaters. The credit has also been extended to include biomass fuel stoves.

• REFINANCING POINTS

- Points paid on the purchase of a new home are fully deductible. While points paid to refinance your home are amortized and deducted over the life of the loan.

• STANDARD MILEAGE RATES

- For 2009, the standard mileage rates for the cost of operating your car are as follows:
 - Business, **55** cents per mile
 - Medical Reasons, **24** cents per mile
 - Moving Expense, **24** cents per mile
 - Charity mileage, **14** cents per mile

- **CASH FOR CLUNKERS PROGRAM – SUBJECT TO FUNDING**

- Qualified consumers will receive the \$3,500 or \$4,500 credit at the time they purchase a new fuel-efficient vehicle. The program was made available for purchases between July 1, 2009 and November 1, 2009 or when authorized funds are no longer available whichever comes first. The amount received under this program **is not** taxable for federal income tax purposes.

- **ALTERNATIVE MOTOR VEHICLE CREDIT**

- Certain vehicles (qualified hybrids, advanced lean burn technology vehicles and qualified alternative fuel vehicles) may qualify for a tax credit. **Must review instructions to determine which vehicles qualify and for the amount of credit.** For example, a \$1,300 tax credit is available for the 2009 Volkswagen Jetta 2.0L TDI Sedan (Advanced Lean Burn Technology vehicle).

- **NEW CAR PURCHASES**

- Sales tax, excise tax and other fees paid on new cars purchased after February 16, 2009 and before January 1, 2010, can be deducted on Schedule A as an itemized deduction. Alternatively, if you do not itemize you can increase your standard deduction by these state and local sales or excise tax.
 - **Limitation:** The amount is limited to the tax on the first \$49,500 of the purchase price of the vehicle. Furthermore, the deduction is phased out when modified adjusted gross income is between \$125,000 and \$135,000 (single) and between \$250,000 and \$260,000 (married filing joint).

- **UNEMPLOYMENT COMPENSATION**

- Unemployment benefits are subject to income tax. For 2009, each recipient of unemployment compensation can **exclude \$2,400** from gross income. Keep in mind, however, that unemployment benefits are taxable and that you may be required to pay estimated tax to prevent underpayment penalties.

- **ANNUAL GIFT EXCLUSION**

- The annual exclusion for gifts of present interests made to a person during the calendar year has increased to \$13,000. A married couple can gift up to \$26,000 to any person per year.

- **ECONOMIC RECOVERY PAYMENT**

- Any economic recovery payment that you received is not taxable for federal income tax purposes. Keep in mind, however, that the economic recovery payment reduces any “making work pay” credit that you’re eligible to receive.

- **MAKING WORK PAY CREDIT**

- If you have earned income from work, you may be able to take this credit. It is 6.2% of your earned income, but cannot exceed more than \$400 (\$800 married filing jointly). **Phase-out of credit:** The credit starts to phase-out at \$75,000 of adjusted gross income and the credit is completely gone at \$95,000 (for single taxpayers). For married filing jointly taxpayers, the phase-out begins at \$150,000 and the credit is fully eliminated at \$190,000.

- **AMERICAN OPPORTUNITY CREDIT**

- This new education tax credit (a modification of the Hope credit) is available for 2009 and 2010. The maximum credit per student is \$2,500 (100% of the first \$2,000 and 25% of the next \$2,000 qualified education expense). The credit is available for the first 4 years of postsecondary education.
- **Who cannot claim the American Opportunity Credit:**
 - If you're claimed as a dependent on your parent's tax return.
 - You filing status if married filing separate.
 - Your Modified Adjusted Gross Income is within the following:
 - \$90,000 or more if single
 - \$180,000 or more if married filing jointly

- **CONTRIBUTIONS TO RETIREMENT ACCOUNTS**

- Contribution limits for 401k and 403b plans increased in 2009 from \$15,500 to \$16,500. Catch up (**age 50 or older during the calendar year**) contributions also increased by \$500 to \$5,500 in 2009. Contribution limits to SIMPLE retirement plans also increased by \$1,000 to \$11,500, while the catch up contributions remained unchanged at \$2,500.
- The income limits for those willing to contribute to traditional IRAs as well as Roth IRA plans increased again in 2009. The income phase-out threshold for Roth IRAs now starts at \$166,000 for those filing joint returns, and \$105,000 for taxpayers with a filing status of single or head of household.

- **SALE OF MAIN HOME**

- Gain from the sale or exchange of a main home is no longer excludable from income if allocable to periods of nonqualified use. Generally, nonqualified use means any period after 2008 where neither you nor your spouse (or your former spouse) used the property as a main home (with certain exceptions).

WHAT'S NEW FOR 2010

- **ROTH IRA CONVERSIONS**

- On Jan. 1, 2010, the \$100,000 income limit for Roth conversions will be permanently eliminated. This would enable you to convert a traditional IRA or employer-sponsored retirement plan to a Roth. For conversions done in 2010, you can choose to include the entire amount into income on your 2010 tax return or have the income spread equally across your 2011 and 2012 tax returns. Plans that are converted to Roth IRAs in future years (anytime after 2010) will be taxed on the entire amount in the year converted.

- **RECAPTURE OF FIRST-TIME HOMEBUYER CREDIT**

- If you claimed the first-time homebuyer credit for a home that you purchased during 2008 (between April 8, 2008 and before January 1, 2009), you must **begin to repay this credit during 2010**. The credit (an “interest free loan”) must to be repaid over 15 years beginning with 2010 (e.g. $1/15 \times \$7,500 = \500 per year).