

Don't Miss These Tax Breaks in 2009!

By Johanna F. Turner, CPA, CPF[®], RLP[®]

You might believe the thought of tax season fills financial planners and CPAs with dread. Not necessarily so – why not look on the bright side? For starters, we get to spend some time with many special clients that we haven't seen in awhile. Plus, tax season comes when most sane people want to be indoors anyway (at least Congress got *that* one right). And preparing taxes and giving financial advice is especially gratifying when clients have taken our tax planning advice before year end and we can help save them money. Take my advice before the end of this month, and you'll be ringing in the New Year a little happier, too!

To start, let's be sure you know the difference in tax **credits** and tax **deductions**. A deduction reduces your tax bill, but you save only the amount of your "marginal" tax rate on the deduction. A tax credit comes right off of your taxes. And a **refundable** tax credit is the ultimate tax break. For example, if you are in the 15% tax bracket, a tax deduction of \$500 will save you \$75 in federal taxes, while a \$500 tax credit will save you just that - \$500 in federal taxes. That's a big difference! A **refundable** tax credit turns into a refund of \$500 if you owe nothing in taxes.

Many of the below changes are from the American Recovery and Reinvestment Act (ARRA). Also, you'll notice that many savings are limited to "eligible" taxpayers. In general, taxpayers must meet certain income limitations before qualifying for deductions and credits.

Hot Tax Credits

First-time homebuyer credit: Eligible taxpayers can get up to \$8,000 back if they have not owned a residence in the past three years. You **must** purchase the house by November 30, 2009.

New Home Tax Credit (Kentucky taxpayers): This **nonrefundable** tax credit can be claimed against up to \$5,000 of Kentucky income tax liability for qualified buyers of new single-family dwellings. To be eligible for the credit you must fax in your application within seven days from the purchase date. Homebuyers who are eligible for the above first-time homebuyer credit are not eligible.

Energy-efficient credits: These credits were greatly expanded for 2009 and 2010 – up to 30% of the cost of all qualifying improvements up to a total of \$1,500.

Education tax credits: The HOPE credit has been around since 1998, but ARRA modified the credit for 2009 and 2010, made it partially refundable, and named it the American Opportunity Credit. Qualified expenses are eligible for a credit of up to \$2,500. In addition, the income limitations have been raised so more families will qualify.

Making Work Pay credit: This credit, which took effect in early spring, continues to be controversial, and for good reason. Employers began calculating paychecks using the projected amount of the credit (\$400 for singles and \$800 for married couples) beginning in the spring of 2009. Because tax calculation is rarely that simple, many taxpayers will end up with reduced refunds or unexpected balances due next year.

Vehicle credits: In addition to prior year credits for certain energy-efficient vehicles, ARRA added credits for new plug-in electric vehicles and for new plug-in electric drive motor vehicles purchased after February 17, 2009.

Credit enhancements: ARRA enhanced both the Additional Tax Credit and the Earned Income Credit for 2009 and 2010, which means that more families will qualify for both. Both of these credits are refundable.

Terrific Tax Deductions

New vehicle tax deduction: Cash for clunkers may be over, but you can still get a break on your transportation. Buy a new vehicle between February 17 and December 31 of 2009 and eligible taxpayers can deduct state and local taxes on the first \$49,500 of the sales price of new cars, light trucks, motor homes and motorcycles regardless of whether you itemize. There is no limit on the number of qualifying vehicles.

Spousal IRAs: Spousal IRAs have been around for awhile, but many people aren't aware that they exist. If only one spouse is employed, the other may qualify to contribute up to \$5,000 (\$6,000 if age 50 or over) to his or her own IRA plan.

Charitable Contributions: 2009 is the last year you can do a direct rollover from an IRA to a tax-exempt organization. The 2008 Emergency Economic Stabilization Act lets you give up to \$100,000 if you're 70½ or older. This can be a great way to give to charity, especially if you wouldn't normally itemize. You won't owe federal income tax on the money (though you can't take a deduction).

529 Plans: Are you using a 529 plan for college costs? ARRA added computer technology to the list of 529-qualified college expenses for 2009 and 2010. Computer technology encompasses many items from laptops to software to printers if used for educational purposes while enrolled in an eligible educational institution.

Notable News

- The first \$2,400 of unemployment benefits an individual receives **in 2009** are tax free.
- The standard mileage rate for business use was decreased from 58.5¢ to 55¢. That's still a good deal for older cars. I would look for it to increase during 2010 if gas prices continue at these levels or higher. By the way, if you drive your personal car for your closely-held business, track your mileage and write a check from your business to yourself before the end of the year in order to get that mileage deduction.
- The reduced dividend and long-term capital gains rates, set to expire in 2008, have been extended through 2010. The tax rates on dividends and long-term capital gains are 0% for those in the lowest two tax brackets and a flat 15% after that.

Finally, beginning in 2010, taxpayers with IRAs are going to have a tremendous opportunity to convert them to Roth IRAs. I believe it's so significant that I am devoting next month's entire column to Roth IRA conversions.

Want more advice? Our latest issue of FoxNotes recently went out to clients. Call our office at 247-6087 for your free copy.