

2009-10 TAX GUIDE

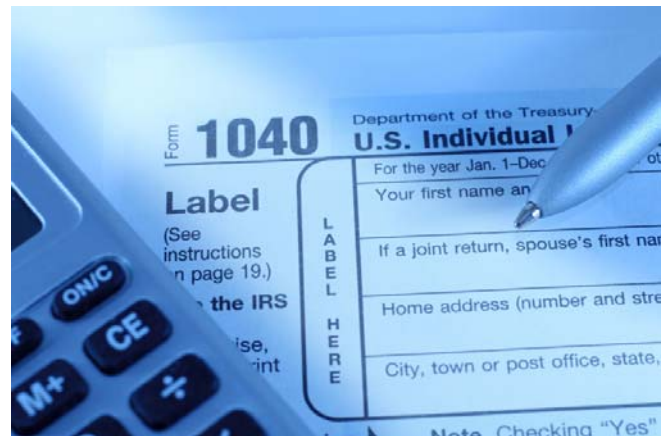
2009-10 TAX GUIDE

Economic Stimulus Payments

The *American Recovery and Reinvestment Act of 2009*, provides for a one-time stimulus payment to retirees. If you're receiving Social Security, Railroad Retirement or Veterans benefits you should have received a stimulus payment of \$250 around June of 2009.

Stimulus payments were issued per retiree, so if you're receiving benefits from more than one agency you would only be eligible for one check, however, if both you and your spouse received benefits, you should have each received a check. Children who receive Social Security benefits are not eligible unless they are adult children who receive disability benefits on a parent's record.

If you're receiving retirement benefits but still working, you may also be eligible to take the new Making Work Pay credit. Any economic recovery payment received as a retiree will reduce the Making Work Pay Credit.



New Tax Laws Focus on the Economy

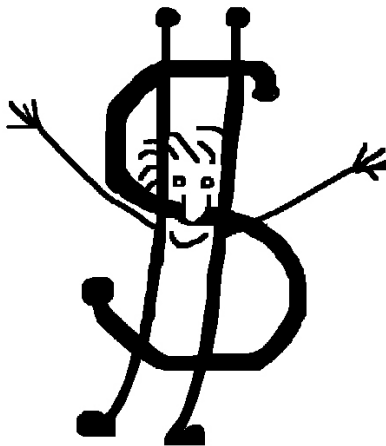
Concerned with a faltering economy, Uncle Sam passed two significant pieces of tax legislation during 2009. The *American Recovery and Reinvestment Act*, signed into law mid-February, was designed to spend our way out of the recession. The second piece of legislation passed in November, the *Worker, Homeownership, and Business Assistance Act* was revenue neutral and focused on extending some

benefits that were set to lapse.

The *American Recovery and Reinvestment Act of 2009* contains nearly \$300 billion in tax and relief assistance. This legislation includes a new type of stimulus payment, the Making Work Pay credit and its twin, the one-time stimulus payment to retirees. The bill enhances and expands the first-time homebuyer and child tax credits, expands the development of alternative sources of energy and stimulates the creation of new "green collar" jobs. The alternative minimum tax was updated while bonus depreciation and Section 179 expensing received extensions. Most of the tax charges are effective retroactively back to January 1,

2009.

Late in November, Uncle Sam passed the *Worker, Homeownership, and Business Assistance Act of 2009*. This legislation was smaller than its predecessor and considered to be revenue neutral, offsetting \$21 billion in benefits with revenue raisers. The primary purpose of the bill was to extend and expand two benefits set to expire in 2009. The first-time homebuyer credit was expanded to include other types of homebuyers, in addition to first-time homebuyers, while the Net Operating Loss (NOL) Carryback was expanded to be used for either 2008 or 2009 NOLs. Other smaller provisions include the exclusion of income



IRS Revises Tax Provisions to Keep Pace with Inflation

Each year Uncle Sam adjusts more than three dozen tax provisions to keep pace with inflation. For 2009, personal exemptions and standard deductions will rise and tax brackets will widen about 4 1/2 percent because of inflation. Some of the more key changes affecting your 2009 tax return include:

- **The Standard Deduction** is \$11,400 for married couples filing a joint return, up from \$10,900 in 2008. For singles and married couples filing separately, inflation increased the standard deduction by \$250 to \$5,700. Heads of household increased \$350 to \$8,350. The IRS says that nearly two out of three taxpayers take the standard deduction, rather than itemizing deductions.

- **Personal and Dependency Exemptions** are \$3,650 up from \$3,500 in 2008.
- The **maximum earned income tax credit** for 2009 is:

Children	Max. Credit	Earned Income	
		Single	MFJ
0	\$457	\$13,440	\$18,440
1	3,043	35,463	40,463
2	5,028	40,293	45,293
3+	5,657	43,281	48,281

- The annual gift exclusion rises to \$13,000, up from \$12,000 in 2008.



Tax Rate Changes for 2009

Knowing which bracket you are in is important to understanding how different deductions affect your local tax liability. Each year the brackets are adjusted for the effect of inflation. Below are the new rates for the year 2009.

SINGLE	RATE	HEAD OF HOUSEHOLD	RATE
\$0—8,350	10%	\$0—11,950	10%
\$8,351—33,950	15%	\$11,951—45,500	15%
\$33,951—82,250	25%	\$45,501—117,450	25%
\$82,251—171,550	28%	\$117,451—190,200	28%
\$171,551—372,950	33%	\$190,201—372,950	33%
Over \$372,950	35%	Over \$372,950	35%
MARRIED FILING JOINTLY	RATE	MARRIED FILING SEPARATELY	RATE
\$0—16,700	10%	\$0—8,350	10%
\$16,701—67,900	15%	\$8,351—33,950	15%
\$67,901—137,050	25%	\$33,951—82,250	25%
\$137,051—208,850	28%	\$82,251—171,550	28%
\$208,851—372,950	33%	\$171,551—372,950	33%
Over \$372,950	35%	Over \$372,950	35%
ESTATE & TRUSTS	RATE	CORPORATIONS	RATE
\$0—2,300	15%	\$0—50,000	15%
\$2,301—5,350	25%	\$50,001—75,000	25%
\$5,351—8,200	28%	\$75,001—100,000	34%
\$8,201—11,150	33%	\$100,001—335,000	39%
Over \$11,150	35%	\$335,001—10,000,000	34%
		\$10,000,001—15,000,000	35%
		\$15,000,001—18,333,333	38%
		Over \$18,333,333	35%

First-time Homebuyer Credit Gets a Facelift

Uncle Sam just keeps making the first-time homebuyer credit better and better. When first enacted in 2008, the credit was 10 percent of the purchase price of a qualifying residence up to a maximum of \$7,500. The credit applied only to homes purchased prior to July 1, 2009. In the original legislation, taxpayers were required to repay the credit over a 15-year period, which ultimately made this credit no more than a tax-free plan.

In February 2009, Uncle Sam sweetened the deal by increasing the maximum credit to \$8,000, extending the cut-off date to November 30, 2009 and eliminated the requirement to repay the credit. Eliminating the requirement to pay back the credit makes this tax break a red-hot deal.

In November of 2009, Uncle Sam improved the tax credit once more by expanding the definition of who qualifies as

a first-time homebuyer and extending the time to purchase your home through April 30, 2010.

For homes acquired after November 6, 2009 credit is no longer restricted to first-time purchases. Under the new rules, long-time residents may be eligible for a reduced credit. To qualify, you must have lived in your old residence for any five-consecutive year period during the last eight years, ending on the date your new residence is purchased. The credit for long-term homebuyers is 10% of the qualifying home's purchase price up to a maximum credit of \$6,500.

The time to purchase your home has also been extended to April 30, 2010. If



a taxpayer enters into a binding contract to buy prior to May 1st and the property closes prior to July 1, 2010 the taxpayer will be eligible for the credit.

The new law raises the income threshold for which the credit is phased out. Under the old law, single taxpayers were phased out between \$75,000 and \$95,000 income. Under new law the phase-out begins at \$125,000. For married taxpayers the old law phased out the credit between \$150,000 and \$170,000. Under the new law the phase-out begins at \$225,000.

Also included in the new law is a purchase price limit of \$800,000. Under prior law there was no ceiling placed on the price of the home. Under the new law, once the price paid for the property exceeds \$800,000 no credit is available.

New Educational Credit

Uncle Sam is willing to help pay for your college with the new American Opportunity Credit. The new education credit modifies and expands the Hope credit for tax years 2009 and 2010.

The credit provides undergraduates a dollar for dollar reduction of taxes, up to \$2,500 of the first \$4,000 of qualifying educational expenses. Qualified expenses have been expanded



from the Hope credit rules. In addition to tuition, they include expenditures for required course materials such as books, supplies and equipment needed for a course whether or not the materials are purchased from the school.

Unlike the Hope credit, the American Opportunity Credit can be used for all four college years and is refundable

up to \$1,000. You can receive a refund of up to forty percent of the credit, even though you owe no tax.

The full credit is available for taxpayers with modified adjusted gross income of \$80,000 or less \$160,000 or less for married couples filing jointly. The credit is phased out for taxpayers with incomes above these levels.

Student Loan Interest

Except for certain mortgage interest Uncle Sam usually doesn't allow for personal interest to be deducted. There is an exception allowed for student loan interest. Student loan interest is interest you paid during the year on a loan you took out solely for the purpose of paying qualified educational expenses. Eligible expenses include tuition and fees, qualified room and board, books,

supplies or other necessary educational expenses.

The amount deductible interest is phased out if your modified adjusted gross income is between \$60,000 and \$75,000 for single filers of \$120,000 and \$150,000 for married filing jointly.

The student loan interest is taken as an adjustment to in-

come so you are able to take the deduction even if you don't itemize.



New Standard Mileage Rates

For 2009, the business standard mileage rate for the cost of operating your car, van or pickup is 55 cents per mile. The standard rate for medical or moving is 24 cents per mile.

The business rate is based on an annual study of the fixed and variable costs of operating a vehicle. The business rate is intended to reimburse the full cost of vehicle ownership and includes the loss of value due to depreciation. The rate for medical and moving is based only on the variable cost of operation. This rate is intended to only reimburse the additional out-of-pocket cost and includes such costs as fuel and maintenance.

The standard mileage rate for charitable purposes is set by law. The rate for 2009 is 14 cents per mile. Uncle Sam has not changed this rate since 2008.

Alternative Minimum Tax

Uncle Sam put another Band-Aid on the old Alternative Minimum Tax (AMT) with the passing of the American Recovery and Reinvestment Tax Act. Even though complex, Uncle Sam is unwilling to repeal the AMT because of the loss in revenue it would create.

The new law includes a patch that will raise the exemption levels to \$46,700, up from \$46,200, for single taxpayers and \$70,950, up from \$69,950, for married taxpayers filing jointly. Under old law the exemption levels were set to revert back to their 1986 level of \$33,750 for singles and \$45,000 for joint filers. The AMT patch will affect more than 26 million taxpayers and costs Uncle Sam about \$70 billion.

Transportation Fringe Benefits Increased

Starting January 1, 2009, employers can provide transportation fringe benefits, such as transit passes and van pooling tax-free for employees up to \$120 per month. Qualified parking is tax-free up to \$230 per month.

Deducting Stock Losses

Sales of stock create capital gains or loss. Generally you're allowed to recognize a capital loss deduction for any year to the extent you have gains plus \$3,000 (\$1,500 if you are married and file a separate return). If you have more losses than can be deducted you can carry over the unused portion to later years until it is completely used up.

New Car Sales Tax Deduction

If you purchased a new car, light truck, motor home or motorcycle after February 17, 2009 and before January 1, 2010, you'll be glad to know that Uncle Sam will allow you to deduct state and local sales and excise taxes paid.

The deduction is limited to the portion of attributable to the first \$49,500 of the purchase price. The deduction is phased-out for married taxpayers filing joint with modified adjusted

gross incomes between \$250,000 and \$260,000, and for all other taxpayers between \$125,000 and \$135,000.

The special deduction is available whether or not you itemize your deductions. If you do not itemize you may add the additional amount to your standard deduction on your 2009 tax return. Your tax preparer will be able to show

New Law Exempts Partial Unemployment

If you were out of work and received unemployment benefits you'll be glad to know that Uncle Sam has come to your aid.

Prior to 2009, unemployment benefits were included in income and fully taxable. The new law temporarily allows unemployment recipients to exclude from income up to \$2,400 of benefits for 2009.

Amounts exceeding the threshold will continue to be fully taxable.



Beginning on March 1, 2009, Uncle Sam creates parity between all benefits by increasing the transit passes to \$230 per month. To qualify, the employer must have a written plan in place.

Making Work Pay Credit

Here's a new credit aimed at providing tax relief for working people. The Making Work Pay credit allows a dollar reduction of your taxes equal to 6.2% of your wages up to a maximum credit of \$400 for single filers, \$800 if you're married and file jointly. The credit will be available for 2009 and 2010.

Uncle Sam put limitations on who will be eligible to take the credit. For high income taxpayers, those with modified adjusted gross incomes exceeding \$75,000 for single filers, \$150,000 for joint filers, the credit will be reduced by 2% of your income in excess of these limits. For example, if you were

a single taxpayer with modified adjusted gross income of \$90,000, (\$15,000 over the \$75,000 limit) your Making Work Pay credit would be \$100. This is calculated by multiplying your \$15,000 excess income by 2% to get your phase-out from the \$400 maximum credit allowed. Other limitations disallow the credit for nonresident aliens and dependents claimed on another taxpayer's return.

This credit may be an easy one for taxpayers to miss. Your tax preparer will be able to complete the required Schedule to insure you get any credit available.



New Act Makes More Taxpayers Eligible for Child Tax Credit

Most taxpayers with children are familiar with the child tax credit. It gives individuals with dependent children under age 17 a \$1,000 per child credit. This can really add up if you have three or four children.

Beginning in 2009, the definition of a qualifying child changes. The new definition requires your child to be your

dependent, be younger than you, and if your child files a joint return, they will be disqualified, unless the return was only to claim a refund.

In 2008, the credit was based on 15% of the taxpayer's earned income in excess of \$8,500. The threshold has been reduced in 2009, to earned income over \$3,000.

The reduction will allow more taxpayers to use the additional child tax credit and increase the amount of the payments they receive.

	<u>2008</u>	<u>2009</u>
Credit per child	\$1,000	\$1,000
Credit phased-out when income exceeds	\$110,000—MFJ \$75,000—S,HH,QW \$55,000—MFS	\$110,000—MFJ \$75,000—S,HH,QW \$55,000—MFS
Additional credit is based on earned income in excess of	\$8,500	\$3,000

Checklist of Itemized Deductions

Use the partial list of itemized deductions below as a checklist to help determine whether you may benefit from itemizing

- Doctor and Dentist Fees
- Prescription Medicines
- Insulin
- Acupuncture
- Air conditioner necessary for allergies of respiratory ailments
- Nursing fees
- Hospital fees
- Contacts, including supplies used with contacts (saline & enzyme cleaner)
- Chiropractic services
- Medical, dental, and long-term care insurance
- Hearing aids
- Dentures
- Guide dog for physically disabled persons
- Cosmetic surgery for deformity relating to a congenital abnormality, accident, or disease
- Special equipment installed in home to provide a medical benefit
- Birth control prescribed by a doctor
- State income taxes
- Real estate taxes
- Personal Property taxes
- Home mortgage interest
- Points paid on purchase of residence
- Points paid on refinancing
- Investment interest
- Charitable contributions
- Casualty losses
- Theft losses
- Tax return preparation fees
- Safe deposit box used to store investments
- Work clothes not suitable for normal wear
- Expenses relating to tax planning
- Expenses relating to investments
- Professional dues & Union dues
- Certain unreimbursed employee expenses
- Estate taxes
- Subscriptions to professional magazines
- Continuing professional education
- Occupational licensing fees
- Travel expenses relating to managing investments
- IRA administration fees
- Job-hunting cost
- Medical exams required by employer
- Gambling losses to extent of gambling winnings
- Fees to collect interest of dividends
- Legal fees for collecting taxable income or keeping a job
- Trust administration fees
- Impairment-related work expenses

Electric Vehicle Credit

If you're interested in purchasing an electric vehicle then you'll want to investigate these credits. There are two available depending on vehicle size and battery capacity. The credit for the full size vehicle is called the Plug-in Electric Drive Vehicle credit, while the small vehicle is referred to as the Plug-In Electric Vehicle credit; somewhat confusing. If you find that your vehicle qualifies for both credits, then the Plug-in Electric Drive Vehicle credit should be claimed.



Plug-in Electric Drive Vehicle Credit

Uncle Sam has modified this credit for vehicles purchased after December 31, 2009. The credits run from \$2,500 to \$7,500, depending on the battery capacity. To qualify, vehicles must be newly purchased, have four or more wheels, have a gross vehicle weight rating of less than 14,000 pounds, and draw propulsion using a battery with at least four kilowatt hours that can be recharged from an external source.

Plug-in Electric Vehicle Credit

In addition to the full size vehicle credit, Uncle Sam offers credits for low-speed or two and three wheel electric vehicles. To qualify, the vehicle must be either a low-speed 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.

The vehicles must be purchased after February 17, 2009 and before January 1, 2012. The amount of the credit is 10% of the cost of the vehicle, up to a maximum credit of \$2,500.

Residential Energy Property Credit

If you're considering energy efficient improvements to your existing home, you'll be interested in the new energy legislation. Uncle Sam has increased the credit from 10% to 30% of the cost of all qualifying improvements, raised the maximum credit limit to \$1,500 for improvements made during 2009 and 2010, and eliminated the \$500 lifetime cap.

The credit applies to improvements such as:

- Insulation materials
- Skylights
- Central air conditioners
- Hot water boilers
- Exterior windows
- Exterior doors
- Natural gas, oil or propane furnaces
- Electric heat pump water heaters

- Biomass stoves
- Advanced main air circulating fans
- Certain metal roofs

You may rely on manufacturer's certifications to be sure the improvements qualify. For exterior windows and skylights homeowners may continue to rely on the Energy Star labels to determine whether property qualifies for purchases before June 1, 2009.

Extension of the Business Energy Production Tax Credit

The new tax act extended the credit for facilities producing electricity from renewable sources, such as wind, geothermal energy, municipal solid waste, qualified hydropower and marine and hydrokinetic renewable energy. The credit is one cent per kilowatt.



Residential Energy Efficient Property Credit

Energy Efficient Property applies to residential alternative energy equipment such as solar hot water heaters, geothermal heat pumps and wind turbines. The new law removes some of the previously imposed caps and allows a credit of 30% of the cost of qualified property.

Farmers Get Shorter Equipment Write-Offs

Farmers have an opportunity to depreciate new farm equipment purchased in 2009 over 5 years, instead of the normal 7 year recovery period. Grain bins, cotton ginning equipment, fencing and other land improvements won't qualify.

L-T Gains and Dividends Get Special Treatment

For 2009 and 2010, Uncle Sam will allow you to receive dividends and take profit on the sale of long-term assets you've owned, and pay no tax until they push you into the 25% tax bracket. To qualify for the 0% rate you must have owned the assets over a year and be in the 10% and 15% tax brackets.

For 2009, the 25% tax bracket starts at taxable incomes greater than \$67,900 for married filing jointly and \$33,950 for single filers. When your taxable income exceeds these amounts your dividends and long-term capital gains will be taxed at 15%. Short-term gains and long-term gains on collectibles do not qualify for these special rates.

For example, suppose you were married filing jointly and all your income was from long-term capital gains. For 2009, you would be pushed into the 25% tax bracket when your income exceeded \$67,900. If the only taxable income you had for the year was \$60,000 of the dividends and long-term capital gains, none of your income would be taxed.

Deducting Club Dues

Generally, you cannot take a business deduction for the use of an entertainment facility. This also applies to memberships where one of the principal purposes is either to conduct entertainment activities, or to provide members with access to entertainment facilities.

Uncle Sam specifically states that dues paid to country clubs, golf and athletic clubs, airline clubs, and hotel

Bonus Depreciation Gets Extended

In 2008, Uncle Sam allowed businesses to temporarily accelerate the write-off of capital purchases by permitting a first year 50% bonus depreciation. The bonus depreciation is in addition to the regular depreciation.

The American Recovery and Reinvestment Act of 2009 extended the period to take the 50% bonus depreciation until December 31, 2009. Eligible property includes:

New (original use) property eligible for the modified accelerated cost recovery with a depreciation period of 20 years or less:

- Water utility property
- Off-the-shelf computer software
- Qualified leasehold property
- Passenger automobile used at least 50% for business

The new law also extends, through 2010, the additional year of bonus depreciation allowed for property with a recovery period of 10 years or longer, for transportation property, and for certain aircraft.

NOL Carryback Period Increases

The new law provides for a five-year (up from two years) net operating loss (NOL) carryback period for businesses with sales of less than \$15 million. Businesses will have the choice to carry back NOLs three, four or five years. The new treatment will apply only to NOLs for tax year beginning or ending in 2008. NOLs occurring in 2009 will revert back in two years.

clubs are not deductible. The purpose and activities of a club will determine whether or not you can deduct the dues.

Dues are deductible for business organizations such as professional and trade associations, civic and public service organizations such as Rotary, Kiwanis, and the Lions Club.

Extension of 179 Expensing

The new law extended the 2008, Code Section 179 expensing amounts to 2009. Uncle Sam allows taxpayers to elect write-off, under Sec. 179, the cost of qualifying equipment in the year purchased rather than depreciating it over time. The 2008 Economic Stimulus Act significantly increased maximum write-off, from \$125,000 to \$250,000.

There are limits to the amount equipment you may purchase during the year and still qualify to make the election. The deduction begins to phase out dollar for dollar after reaching \$800,000 in total equipment purchases.

If you made equipment purchases during 2009 talk with your tax preparer about using the benefits of Section 179.



Automated Tax and Financial Services, Inc.

9400 Livingston Road
Suite 480

Fort Washington, MD 20744

Phone: 301-248-1700/7684/6972

Fax: 301-248-2490

E-mail: automatedtax@msn.com

We're on the Web!
www.automatedtaxservices.com

QUICK TAX TIPS



COBRA Benefits

Employees involuntarily separated from work between September 1, 2008 and January 1, 2010 may elect to pay 35% of the COBRA coverage cost and have it be treated as paying the full payment

Help Grandchildren Pay for College

Contributing to a 529 plan is a great way to help grandchildren pay for college and remove assets from their estate without paying gift taxes. Grandparents can contribute up to \$65,000 per person to a 529 plan and avoid gift taxes.

I Bonds Protect Against Inflation

Series I Bonds provide a shield from inflation while allowing for tax deferred interest until the bonds are redeemed. Uncle Sam pays a fixed rate and a variable rate based on the Consumer Price Index.

Shift Income to Children

Where possible shift income to your lower tax rate children. This can be done by gifting income-producing investments to your children or hiring them in your business. Watch out for the Kiddie Tax limitations.

Fund your Retirement Plan

Many employers will match contributions. Your portion of the contribution is fully deductible from income and grows tax-free. This makes funding your retirement one of the best tax shelters to be found.

Gift Appreciated Stock to Children

You may be able to avoid gain on the sale of stock or other securities by gifting them to children or grandchildren. Under the current tax law your child or grandchild, over age 17, may be able to sell them tax-free.

Use Stock Losses to Off-set Gains

If you sell stock at a gain always review your portfolio for securities that are in a loss position and won't be coming back anytime soon. Selling the stock will capture the loss and help off-set your gains.

Hire Spouse for Medical Deductions

If you're self-employed and need medical insurance, consider hiring your self and giving your employee-spouse the medical benefits. Benefits that are not deductible for the owner are often deductible for the employee-spouse.

Donate Stock

If you plan on making a charitable donation and you own appreciated stock, consider donating stock rather than giving stock. You will get a deduction for the fair market value of the stock but won't have to pay tax on the capital gains from the sale.

