

Tax Tips

Keeping you informed...

Summer 2009

Making Work Pay Credit

Should you adjust your withholding?

For 2009 and 2010, you can claim a refundable Making Work Pay Credit if you are employed. The amount of the credit equals the lesser of 6.2 percent of your earned income or \$400 (\$800 if married filing jointly). However, the credit is phased-out when your modified adjusted gross income is between \$75,000 and \$95,000 (\$150,000 and \$190,000 if married filing jointly).

If you receive a paycheck, the credit is handled through your withholding, so you may have an increase in your take-home pay. If you do not have taxes withheld, you can claim a credit when you file your tax return.

The lower withholding amount may cause unexpected results if you have more than one job or you are married and both work. Because each employer is withholding less, the total reduced withholding may exceed the allowable credit and you may end up owing more taxes. To prevent this from happening, consider increasing your withholdings by filing Form W-4, *Employee's Withholding Allowance Certificate*, with your employer.

Economic Recovery Payment

Are you eligible?

For 2009 only, you may be entitled to a one-time \$250 economic recovery payment if you are:

- An adult eligible for Social Security benefits;
- An adult eligible for Railroad Retirement benefits;
- An adult eligible for Veterans benefits; or
- An individual of any age eligible for Supplemental Security Income (SSI), other than an individual who receives SSI while in a Medicaid institution.

To receive an economic recovery payment, you must have been eligible for any of the above four benefits for any part of November 2008, December 2008, or January 2009. You don't have to do anything to receive this payment.

The applicable agency will be sending out the payments as early as May or June of 2009. This payment is not taxable, but it reduces any Making Work Pay Credit to which you may be entitled.



American Opportunity Tax Credit

Have you paid any college tuition in 2009?

The Hope Credit, which was a tax credit available for tuition expenses paid during the first two years of college, has been expanded and renamed the American Opportunity Tax Credit for 2009 and 2010. Now taxpayers can claim up to \$2,500 per student, per year for the first four years of post-secondary education. This is much better than the Lifetime Learning Credit, which is limited to \$2,000 per return, per year for all eligible students. You cannot claim both credits for the same student in the same year, so you must choose one or the other.

The credit equals 100 percent of the first \$2,000 of qualified tuition and related expenses, plus 25 percent of the next \$2,000 of such expenses, for a maximum credit of \$2,500. However, the credit is gradually reduced if your modified adjusted gross income is between \$80,000 and \$90,000 (\$160,000 and \$180,000 if married filing jointly).

In general, education credits are nonrefundable. However, 40 percent of the allowable American Opportunity Tax Credit is refundable. Thus, if you have no tax liability, you can still claim a refund of \$1,000 ($\$2,500 \times 40\%$) for this credit (assuming you are entitled to a \$2,500 credit after applying the phase-out rules). The balance of the credit is lost and cannot be carried over.



First-Time Homebuyer Credit

Thinking of buying your first home in 2009?

The First-Time Homebuyer Credit is still available for homes purchased through November 30, 2009. If you purchase a home in 2009, the credit equals the lesser of 10 percent of the purchase price of the home or \$8,000 (\$4,000 if married filing separately). However, if your income is too high, you may lose some or all of the credit because it is phased-out when your modified adjusted gross income is between \$75,000 and \$95,000 (\$150,000 and \$170,000 if married filing jointly).

This credit is refundable. This means the credit is treated like a tax payment. Therefore, even if you have no tax liability, you will get a refund equal to the amount of the credit (up to \$8,000).

If you purchased a home in 2009, you can wait to claim this credit on your 2009 tax return and get a refund in 2010. Or, you can choose to claim this credit on your 2008 tax return and get a refund sooner. If you already filed your 2008 return, you can file an amended return.

There is one catch. If you purchased the home in 2009, you must use the home as your principal residence for at least 36 months from the date of purchase. If you don't, you must repay the full amount of the credit on the return for the year you stop using the home as your principal residence.

Deduction for Sales Tax on New Motor Vehicles

Did you buy a new vehicle this year?

There is a new deduction for state or local sales tax imposed on new motor vehicles purchased after February 17, 2009, and before 2010. You can either claim a standard deduction or an itemized deduction. The standard deduction is in addition to the basic standard deduction, so you can claim a deduction even if you don't itemize. Otherwise, you can claim an itemized deduction for sales tax on new vehicles in addition to the state income tax deduction.

You may deduct the sales tax attributable to the first \$49,500 of the purchase price of a qualified vehicle. Qualified vehicles include cars, light trucks, motor homes, and motorcycles. The deduction is gradually reduced when your modified adjusted gross income is between \$125,000 and \$135,000 (\$250,000 and \$260,000 if married filing jointly).

Hybrid Vehicles

Can you claim a credit?

Taxpayers can no longer claim a credit for Toyota/Lexus or Honda hybrid vehicles purchased in 2009. Additionally, the credit for Ford hybrid vehicles has begun its phase out for purchases made after March 31, 2009.

Ford met the government's quota by selling more than 60,000 qualifying vehicles during the calendar quarter ending December 31, 2008. Thus, if you purchased a qualifying vehicle before March 31, 2009, you may claim 100 percent of the credit. You may claim 50 percent of the credit for qualifying vehicles purchased after March 31, 2009, and before October 1, 2009, and 25 percent of the credit for qualifying vehicles purchased after September 30, 2009, and before April 1, 2010. No credit is allowed for qualifying vehicles purchased after March 31, 2010.

General Motors, Mazda, Mercedes-Benz, Nissan, and Volkswagen vehicles continue to qualify for the full credit.

If you want to know the amount of the credit for different makes and models, visit the IRS website at www.irs.gov and search for "Qualified Hybrid Vehicles."

Energy Credit for Home Improvements

Want to make energy-efficient home improvements?

The nonbusiness energy property credit for energy-efficient improvements to your principal residence was not available in 2008. However, it's back again for two more years in 2009 and 2010.

If you aren't sure which property qualifies for the credit, go to www.energystar.gov and look up "Tax Credits for Energy Efficiency." You shouldn't assume that all ENERGY STAR products qualify for the credit. Make sure you receive proper certification from the manufacturer that the property qualifies for the credit.

In 2009, the credit equals 30 percent of the amount paid for:

- Qualified energy efficiency improvements (i.e., insulation, windows, doors, etc.); and
- Residential energy property expenditures (i.e., central air conditioners, natural gas furnaces, tankless water heaters, biomass fuel stoves, etc.).

There is a cap of \$1,500 on the total nonbusiness energy property credits allowed. This cap only applies to property placed in service in 2009 and 2010. Thus, you can claim up to \$1,500 even if you already claimed a \$500 nonbusiness energy property credit in 2006 or 2007.

You can claim this credit regardless of your modified adjusted gross income. Unlike the first-time homebuyer credit, it is non-refundable. To the extent it exceeds your tax liability, you lose it. Therefore, it may be wise to hold off making any improvements until 2010 if you don't expect to owe a lot of taxes this year. Another alternative is to make some improvements each year.

QUICK TIPS

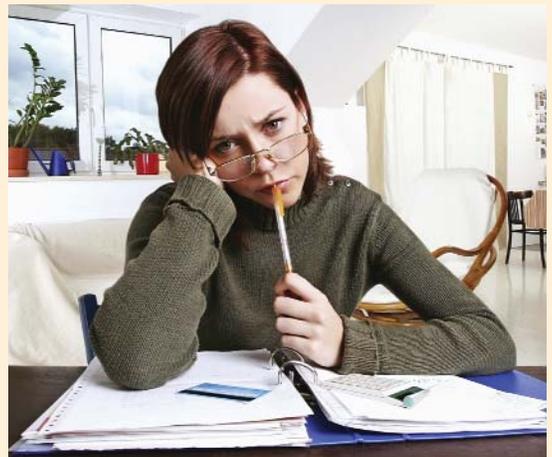
1 If you are unmarried and purchase a home with another individual as tenants in common, you can claim the entire first-time homebuyer credit on your tax return even if you are a first-time homebuyer and the other individual is not. However, you cannot claim the first-time homebuyer credit before you close on the purchase. In addition, you will not qualify for the credit if you purchase the home from a related party, inherit the property, or receive it as a gift.

2 If you paid real estate taxes in 2009, but don't itemize, you can claim an additional standard deduction of up to \$500 (\$1,000 on a joint return) for state and local property taxes paid.

3 If you are in a lower income tax bracket in 2009 or 2010, now may be the time to sell appreciated capital assets. Long-term capital gains that fall within the 10- or 15-percent income tax brackets are taxed at 0 percent. In 2009, income must be under \$33,951 (single), \$67,901 (married filing jointly), or \$45,501 (head of household) to fall within the 10- or 15-percent tax brackets.

4 A noncustodial parent who wants to claim a dependency exemption for a child can no longer attach certain pages from the divorce decree or separation agreement if it's executed after 2008. The noncustodial parent must attach Form 8332 or a similar signed statement that is executed for the sole purpose of releasing the dependency exemption.

5 If you had credit card debt canceled, but didn't file for bankruptcy, you can still exclude it from gross income to the extent you are insolvent. You are insolvent to the extent your liabilities exceed the fair market value of your assets immediately before the discharge.



Energy Credit for Solar Property

Want to generate electricity using solar panels or a windmill?

In addition to the energy credit for home improvements, you may also claim a residential energy efficient property credit for property that uses solar energy to generate electricity or heat water for your residence. You can also claim this credit for property that uses a wind turbine to generate electricity in your residence, or equipment that uses the ground or ground water to heat your residence.

The following property qualifies for the credit:

- Solar electric property;
- Solar water heating property;
- Fuel cell property;
- Small wind energy property; and
- Geothermal heat pump property.

This credit equals 30 percent of the cost of purchasing and installing such property. After 2008, there is no dollar cap on the credit, with the exception of the maximum credit for qualified fuel cell property, which is \$500 for each 0.5 kilowatt of capacity.

Like the energy credit for home improvements, you may claim this credit regardless of your modified adjusted gross income, and it is nonrefundable. However, any unused credit may be carried forward and added to the credit for that year. This credit is available through 2016, so you should benefit from it eventually.



Required Minimum Distributions Waived for 2009

Don't need your RMD?

Required minimum distributions (RMDs) from qualified plans [i.e., 401(k), 403(b), 457(b), etc.] and IRAs have been waived for 2009 only. Thus, you do not have to take an RMD for 2009 if you are the account owner or a beneficiary. If you already withdrew your RMD for 2009, you may be able to roll it over to an eligible retirement plan within 60 days.

The 2008 RMD was not waived, so if you turned 70½ in 2008 and chose to delay taking your RMD until April 1, 2009, you should have taken your 2008 RMD by then. However, you do not have to take a 2009 RMD, so you won't have to include two RMDs in your gross income in 2009.

If you are a beneficiary receiving distributions over a five-year period, you can waive the distribution for 2009. This effectively allows you to take distributions over a six-year period.

Unemployment Benefits May Be Tax-Free in 2009

Should you request withholding?

All or part of your unemployment benefits received in 2009 will be tax-free under the *American Recovery and Reinvestment Act*. Every person who receives unemployment benefits during 2009 may exclude the first \$2,400 of these benefits when they file a tax return in 2010. For a married couple, the exclusion applies to each spouse separately. Thus, if both spouses receive unemployment benefits during 2009, each of them may exclude the first \$2,400 of benefits from gross income.

Any individuals who expect to receive more than \$2,400 in benefits in 2009 should consider having tax withheld from their benefit payments. Those individuals who have already chosen to have tax withheld from their benefits should consider the \$2,400 exclusion to determine whether to continue to have tax withheld. To request withholding to begin or end, use Form W-4V, *Voluntary Withholding Request*, or the equivalent form provided by the payer.

The information contained in this newsletter is not intended to provide specific tax advice or to take the place of either the written law or regulations.