
TAX UPDATE

2009 YEAR-END NEWSLETTER

SAM'S



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Season's Greetings to clients and friends! Once again, it is time to prepare for the income tax filing season. Please start collecting your income and deduction documentation for 2009 and review this issue of the Tax Update Newsletter for recent changes. Don't hesitate to call if you have questions or want to discuss your situation.

If you are out of work, struggling with your mortgage or just trying to stay afloat during these tough economic times, as for our part, Sam's First Choice will try to help you hold it together by not raising our prices this year.

Congress surprised us this year by passing a bill in early November with several significant tax changes, including an extension of the popular homebuyers' tax credit and expanded loss deductions for businesses. **While the IRS usually does not "push" tax breaks, it has undertaken a number of public relations campaigns to remind taxpayers to take advantage of stimulus provisions before they expire. These provisions include the deduction for sales taxes on new car purchases, energy efficiency improvement credits, and the increased tax credit for higher education expenses, which are discussed in more detail below.**

Described below are just a few of the tax laws that may affect your 2009 tax return:

Homebuyer Tax Credit

If you are in the market for a new home, you may still be able to claim the First-Time Homebuyer Credit. On November 5, 2009, Congress passed **The Worker, Homeownership and Business Assistance Act Of 2009**, extending the First-Time Homebuyer Credit and expanding who qualifies.

Here are the top 10 things the IRS wants you to know about the expanded credit and the qualifications you must meet in order to qualify for it.

1. You must buy – or enter into a binding contract to buy a principal residence – on or before April 30, 2010.
2. If you enter into a binding contract by April 30, 2010 you must close on the home on or before June 30, 2010.
3. For qualifying purchases in 2010, you will have the option of claiming the credit on either your 2009 or 2010 return.
4. A long-time resident of the same home can now qualify for a reduced credit. You can qualify for the credit if you've lived in the same principal residence for any five-consecutive year period during the eight-year period that ended on the date the new home is purchased and the settlement date is after November 6, 2009. Also, Purchases do not qualify if the taxpayer buys the home from a related person.

5. The maximum credit for long-time residents is \$6,500. However, married individuals filing separately are limited to \$3,250.
6. People with higher incomes can now qualify for the credit. The new law raises the income limits for homes purchased after November 6, 2009. The full credit is available to taxpayers with modified adjusted gross incomes up to \$125,000, or \$225,000 for joint filers.
7. The IRS will issue a December 2009 revision of Form 5405 to claim this credit. The December 2009 form must be used for homes purchased after November 6, 2009 – whether the credit is claimed for 2008 or for 2009 – and for all home purchases that are claimed on 2009 returns.
8. No credit is available if the purchase price of the home exceeds \$800,000.
9. The purchaser must be at least 18 years old on the date of purchase. For a married couple, only one spouse must meet this age requirement.
10. A dependent is not eligible to claim the credit.

Service members have more liberalized rules for claiming the homebuyers credit. They are not subject to the same recapture rules, and they get additional time to qualify for the credit if they serve outside of the United States for at least 90 days in 2009 or 2010. Also, military personnel who receive payments under the Defense Housing Assistance Program (HAP) to assist them in selling a home that has declined in value do not have to report the payments as income.

Unemployment Benefits and FUTA Surtax Extended

The new Act extends unemployment insurance benefits to out-of-work Americans in all 50 states by an additional 14 weeks. The legislation also extends benefits to jobless Americans for six additional weeks in states with unemployment levels over eight and a half percent. To pay for this extension, Congress has extended through June 30, 2011, the special surtax on employers who pay federal unemployment compensation taxes (FUTA). The permanent rate is 6%, but a temporary 0.2% surtax was added in the February stimulus law. The new Act extends this 0.2% surtax through the first half of 2011, making the FUTA rate on employers 6.2% for this time period.

SALES TAXES ON CARS DEDUCTIBLE FOR 2009

The “cash for clunkers” program may be history, but you can still get a special deduction from the IRS if you purchased a new car before the end of the year. A provision in the American Recovery & Reinvestment Act of 2009 (ARRA) allows a deduction for state and local sales and excise taxes imposed on a car purchase. The deduction is limited to the sales and excise taxes and similar fees paid on up to \$49,500 of the purchase price of a new vehicle. You can take this deduction even if you do not itemize your deductions. However, it is subject to income limits, so you have to make under \$125,000 as an individual, or \$250,000 if you are married filing jointly to claim the full tax benefit. With 2010 models arriving in dealer showrooms, there is still time to get a new car for less.

Personal Exemptions and Standard Deductions

The value of each personal and dependency exemption available to most taxpayers is \$3,650, unchanged from 2009. The new standard deduction for heads of household is \$8,400, up from \$8,350 in 2009. For other taxpayers, the standard deduction remains unchanged at \$11,400 for married couples filing a joint return and \$5,700 for singles and married individuals filing separately. Nearly two out of three taxpayers take the standard deduction rather than itemizing deductions, such as mortgage interest, charitable contributions, and state and local taxes.

Earned Income Credit (EIC)

For 2009 and 2010, EIC percentage is increased to 45% of the first \$12,750 of earned income for taxpayers who have three or more qualifying children. (Prior to the new law, the credit was 40% of this amount for taxpayer with two or more qualifying children.) Several forms will be modified to account for the third child: Form 8867 (Paid Preparer's Earned Income Checklist), Form 8862 (Information To Claim EIC After Disallowance), and Schedule EIC (Earned Income Credit).

Child Tax Credit

In another child-related credit, the refundable part of the Child Tax Credit is increased for 2009 and 2010. The income threshold is now set at \$3,000 (down from \$8,500). The full credit amount is still \$1,000.

Transit Benefits

Transit passes, van pooling, qualified parking, and other qualified transportation fringe benefits are not typically included in employee income up to a certain dollar amount. In March 2009, this dollar amount was increased to \$230 per month (up from \$120) for transit passes and van pooling. This increased exclusion will continue through 2010 with adjustments made for inflation.

Energy-Efficient Home Improvements

The Recovery Act allows a credit for 30 percent of the cost of improvements for homeowners who make energy-efficient improvements to existing homes. Qualifying improvements include the addition of insulation, energy-efficient exterior windows and energy-efficient heating and air conditioning systems. The maximum credit is \$1,500 for 2009 and 2010. Qualifying for this credit can be tricky, but most reputable energy contractors have information on which products are covered. For example, you cannot just buy an air conditioner which meets certain energy efficiency standards. Your entire heating and cooling system must meet the standards.

Residential Energy Efficient Property Credit

The residential energy efficient property credit equals 30 percent of what you spend on property such as solar electric systems, solar hot water heaters, geothermal heat pumps, wind turbines, and fuel cell property. Generally, labor costs are included when calculating this credit. Also, no cap exists on the amount of credit available except in the case of fuel cell property. Not all energy-efficient improvements qualify for these tax credits. For that reason, you should check the manufacturer's tax credit certification statement before purchasing or installing any of these improvements.

Tax Credit for First Four Years of College

The American Opportunity Credit is allowed for 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 refundable and available to more taxpayers, including those with higher incomes. Tuition, related fees, books and other required course materials all qualify now. The maximum annual credit is \$2,500 per student.

Please contact us if you want more details on the new changes or if you would like to discuss how the new changes could affect your 2009 tax return.

Cordially,

Sandra A. McAllister

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