

TAX UPDATE

2009 MID-YEAR NEWSLETTER

***G**reetings, With the passing of another massive economic stimulus bill tax laws just got more complex. But with careful planning you may find a number of opportunities to reduce your taxes in 2009 and 2010. This Mid Year Tax Update Newsletter identifies key areas that have changed and offers a variety of tips to help you reduce your tax burden. Please feel free to call if you wish to review your situation.*

New Tax Laws May Lower Your Tax Bill

To help “stimulate” the flagging economy a number of tax law changes have been made that can save you money. Some of the major opportunities are:

Up to \$800 in your pocket? If you earn less than \$190,000 (married) or \$95,000 (single) you will receive the new Making Work Pay Credit in 2009 and 2010. This credit provides up to \$400 for working individuals and \$800 for working families. Unlike the last “rebate” you will not see a check in the mail. Instead you

should see a little more money in each paycheck as the amount of income tax withheld from your pay will be reduced accordingly to account for the credit.

\$250 One-time Economic Recovery Payment. Starting in May 2009, most retirees and disabled individuals receiving benefits from the Social Security Administration, Railroad Retirement Board, and the U.S. Department of Veterans Affairs will receive a one-time \$250 payment. This benefit will also be available in 2009 to certain government retirees not eligible for Social Security Benefits. This one-time payment will reduce any allowable Making Work Pay credit you may be receiving.

Increase in Earned Income Tax Credit. The beginning income phase-out range for the Earned Income Tax Credit (EITC) for all married couples filing a joint tax return is going up \$1,880 in 2009. In addition, if you have three or more children your EITC amount will be going up approximately 5%.

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Deja Vue: Depreciation Incentives

Two key depreciation incentives have been extended through 2009.

1 Section 179. The amount of qualified assets that can be expensed versus depreciated remains at \$250,000 (up from \$133,000). The phase out threshold remains at \$800,000 (up from \$530,000 without the extension).

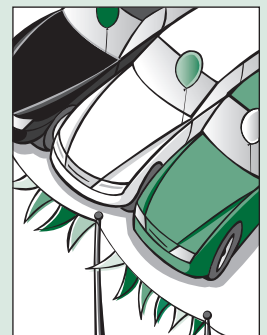
2 First year bonus depreciation. The ability to take a 50% bonus depre-

ciation for the first-year of qualifying new (not used) assets has been extended through the end of 2009. This bonus also extends to depreciation limits for luxury autos.

Remember, these provisions serve to change the “timing” of taking your businesses’ depreciation expense and NOT the amount of the expense over the life of the asset.

New Vehicle Sales Tax Deduction

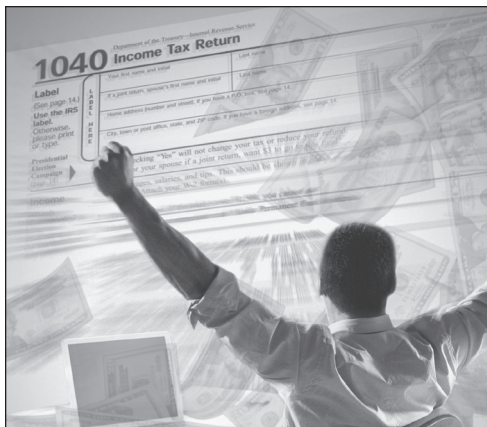
To help the ailing auto industry there is an itemized deduction for state and local sales taxes as well as excise taxes paid on the purchase



of new (not used) cars, light trucks, recreational vehicles, and motorcycles from 2/17/09 thru 12/31/09. The deduction is limited to taxes paid on the initial \$49,500 of the vehicle’s purchase price. If you do not itemize, the amount can be added to your standard deduction. This deduction phases-out for those with adjusted gross incomes between \$125,000 - 135,000 (\$250,000 - 260,000 on joint returns).

One more AMT “patch”

Every year the Alternative Minimum Tax (AMT) calculation threatens to hit millions of new taxpayers with additional tax. And for the past few years Congress has extended a one-year patch to keep from snagging these taxpayers. 2009 is no exception as the one-year “patch” has been extended once more with an increase in the AMT exemption amount to \$70,950 for joint filers/widow(er), and \$46,700 for individuals.



Refundable First-time Home Buyer Credit Gets BETTER!

There is a new and improved first-time homebuyer credit for qualified homebuyers who purchase a principal residence after January 1, but before December 1, 2009. The maximum value of the credit is 10% of the purchase price up to \$8,000 (\$4,000 if married filing separately). The credit is refundable, meaning it can eliminate your entire federal tax obligation and any leftover credit can still be used as a refund. As long as the house is your principal residence for three years and you (or your spouse) have NOT owned a home in the U.S. in the past three years (from date of closing) you could qualify.

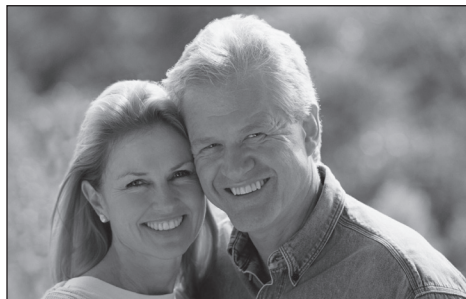
So what's changed? First, the amount of the credit is raised \$500. Second, the credit is no longer "a loan" that must be repaid in equal amounts over 15 years or when the home is sold. Third, the credit is extended for 5 more months; the qualifying dates have changed from homes purchased on or after April 9, 2008 and before July 1, 2009 to January 2nd through November 30th, 2009.



Hints: *You have an option to claim the credit on your 2008 tax return even if you purchased your home in 2009. This provision is made to help you receive the cash sooner than waiting until you file your 2009 tax return. In addition, if you were a first-time homebuyer in 2009 and already filed your tax return under the former repayable First-time Homebuyer Credit you may amend your return to secure the \$8,000 non-repayable credit.*

No Minimum Required Distributions for 2009

Minimum Required Distributions from many retirement accounts are required for those aged 70 years old and older. Now for 2009, no minimum distributions are required from individual retirement accounts (IRAs, IRA Rollovers, Inherited IRAs, Simple IRAs, and SEP IRAs) and employer-provided qualified defined contributions plans (such as 401(k), 403(b), and 457 plans). This change is made to help recover some of the lost savings due to the dramatic stock market drop last year.



What if I deferred my 2008 first-time distribution?

If you were required to take a 2008 first-time minimum distribution and deferred it until 2009 you will need to take that distribution as it is technically a 2008 distribution.

What if I already started withdrawing funds?

If you have a monthly withdrawal plan that has paid out some or all of your 2009 required distributions, you may be able to roll funds back into your account.

However, required distributions taken from an inherited account and distributed to a non-spouse beneficiary is generally not eligible to be rolled back into the inherited account.

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Increase Eligibility for the Refundable Portion of Child Credit. In 2008, the Child Tax Credit was refundable up to 15 percent of your earned income in excess of \$8,500. For qualified taxpayers this floor is reduced in 2009 and 2010 to \$3,000 making more of your income available for the refundable credit calculation.

“American Opportunity” Education Tax Credit. In 2009 and 2010, the Hope Credit is renamed and expanded under the new “American Opportunity Tax Credit”. This higher education tax benefit can provide a credit up to \$2,500 for the cost of tuition, fees and materials (not room and board) paid during the tax year (up from \$1,800). Even better, if your federal tax bill is zero up to 40% of the credit is refundable; meaning you still could get some cash back. Qualified students will receive a tax credit based on one hundred percent (100%) of the first \$2,000 of tuition and related expenses and twenty-five percent (25%) of the next \$2,000 paid during the tax year. The credit now covers up to four years of post-secondary study (up from two years) and “course materials” have been added as a qualified expense. As with most credits, this tax credit phases-out for those with adjusted gross income in excess of \$80,000 (\$160,000 for married couples filing jointly).

More Expenses are Qualified Section 529 Plan Distributions. If you have a Section 529 Education Plan to help fund education expenses without paying taxes on the earnings in the account, you now have additional expenditures that qualify for this tax-advantage account. During 2009 and 2010 the costs for computers, software, printers and internet access are now deemed to be eligible expenses. This is true even if others in the student’s family also use the computer for internet access.

This publication provides summary information regarding the subject matter at time of printing. Please call with any questions on how this information may impact your situation.