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Tax Update - 2009

Jim Gage & Co., C.P.A.'s L.L.P.

www.gagecpa.com Toll free (877)295-9426

Algona (515)295-9426 and Bancroft (515)885-2723

Inside this issue:

First-Time Homebuyer Credit	1
Farm and Business Depreciation	2
Tidbits	2
American Opportunity Tax Credit	2



Hybrid Vehicle Credit

Credits are available for certain hybrid vehicles. Credits range from \$250 up to \$3,400 subject to phase outs.

Reminder – RMDs

Required Minimum Distributions (RMD) have been suspended for 2009 therefore, you do not need to withdraw any monies in 2009.

Principal Residence Planning

The issue to retain, sell or transfer your personal residence by gift is a real life issue. Check out our website for more information on this topic plus many other tax issues.

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First-Time Homebuyer Credit

The first-time homebuyer credit, which was set to end November 30, 2009, on qualified first-time home purchases has been extended with new legislation entitled the Worker, Homeowner and Business Assistance Act of 2009 which was signed into law on November 6, 2009. The new law:

- ★ Extends deadlines for purchasing and closing on a home.
- ★ Allows a credit for current homeowners buying a different principle residence.
- ★ Raises the income limitations for homeowners claiming the credit.

Under the new law, an eligible taxpayer must buy, or enter into a binding contract to buy, a principle residence (which includes mobile homes and R.V. attached to land) on or before April 30, 2010 and close on the home by July 1, 2010. Newly constructed homes must have a binding contract on or before April 30, 2010 and be occupied by July 1, 2010. For qualifying purchases in 2010, taxpayers have the option of claiming the refundable credit on either their 2009 or 2010 return.

This new act also establishes a refundable credit for current homeowners who buy a different principle residence. The credit is 10% of the purchase price with a maximum credit of \$6,500. They must have lived in the same principle residence for any five-consecutive year period during the eight-year period that ended on the date the replacement home is purchased.

People with higher incomes now qualify for the credit. The new law raises the income limits for homes purchased after November 6, 2009. The credit phases out for individual taxpayers with modified adjusted gross income between \$125,000 and \$145,000 or between \$225,000 and \$245,000 for joint filers. This is a significant increase as the existing phase-outs for purchases on or before November 6, 2009 are \$75,000 to \$95,000 for single filers and \$150,000 to \$170,000 for joint filers.

One of the new requirements is that a settlement or closing statement needs to be sent to IRS with your tax return to claim the credit. It is very important that you bring this document with you if you are claiming this credit on your tax return. There are other issues not mentioned in this letter that may affect your eligibility for the credit, so if you plan on purchasing a new home and are not sure if you would qualify for the first-time homebuyer credit or the current homeowner credit, **please contact us.**

This following is a simple chart showing the differences between the eligible credits:

	2009 FIRST-TIME HOME-BUYER CREDIT	2009/2010 FIRST-TIME HOMEBUYER CREDIT - EXTENDED	NEW CURRENT HOMEOWNER CREDIT
Max Credit	\$8,000 Refundable	\$8,000 Refundable	\$6,500 Refundable
Effective Dates	Purchases from 1/1/09 thru 11/6/09	Purchases from 11/6/09 thru 04/30/10	Purchases from 11/6/09 thru 4/30/10
Modified Adjusted Gross Income Phase-Outs	\$75,000- \$95,000 (single) \$150,000- \$170,000 (joint)	\$125,000-\$145,000 (single) \$225,000- \$245,000 (joint)	\$125,000- \$145,000 (single) \$225,000- \$245,000 (joint)

Farm and Business Depreciation

Brand new farm equipment (except for grain bins) must be depreciated over 5 years in 2009 instead of 7 years.

There is still 50% bonus depreciation for 2009 on brand new assets. The 50% bonus can be calculated on basis for trade-ins. Twenty year property (machine sheds) qualifies for this provision. The property must be acquired and placed in service by 12/31/09.

Section 179 or "fast depreciation" is \$250,000 again for 2009. 2010 limits are set to roll back to \$125,000.

Tidbits

GAMBLING:

Taxable gambling winnings are determined on a per casino visit. If you have a W-2G with winnings of \$1,000 but you spend \$300 at that casino that day, then your taxable winnings are \$700, not \$1,000. You need to have proof of money spent at that casino on the day of the W-2G.

NEW VEHICLE SALES TAX DEDUCTION:

This deduction is available whether you itemize or use the standard deduction for sales tax paid on a **brand new** vehicle. The deduction is for the first \$49,500 of the purchase price. A qualified vehicle for this deduction is a **brand new** vehicle weighing less than 8,500 pounds (this includes motor homes). The purchase date must be between **February 17, 2009** to December 31, 2009 with phase outs at \$125,000 to \$135,000 modified AGI for single taxpayers and \$250,000 to \$260,000 for married joint filers. For this deduction, you **MUST** bring to your tax appointment your invoice showing the purchase price.

ENERGY CREDITS:

Energy saving exterior windows, doors, insulation, water heaters, furnaces, etc. on **existing homes** may qualify for a 30% tax reducing credit on qualified expenses for maximum credit of \$1,500. Equipment must be placed in service by December 31, 2009 in order to claim the credit in 2009. This credit will also be available in 2010. Be sure to keep and bring the manufacturers certification statement to your tax appointment. This can usually be found on the packaging or can be obtained from the retailer. For detailed specifications, please refer to our June 2009 newsletter.

STANDARD DEDUCTION:

The standard deduction will be increased by up to \$500 for single and \$1,000 for married filing joint taxpayers for any real estate taxes paid in 2009.

UNEMPLOYMENT:

The first \$2,400 of unemployment compensation in 2009 is excluded from taxable income.

2010 ROTH CONVERSION:

Starting in 2010, taxpayers with modified adjusted gross income of more than \$100,000 will be allowed to convert a traditional IRA to a Roth IRA. This change applies to all years beyond 2010 - and the income taxes due on the 2010 conversion can be spread over two years. So the 2010 conversion amount may be included as taxable income in 2011 and 2012 - helping to spread out the tax bite. Conversion in subsequent years are included in income during the tax year in which the conversion is completed.

CAPITAL GAINS TAX RATES:

Reduced capital gains and qualified dividends tax rates are set to expire on December 31, 2010. It is important that any closely held C-Corp pay dividends using the reduced rates. In addition, planning may be necessary to sell appreciation stocks or mutual funds prior to this expiration.

American Opportunity Tax Credit

For 2009 and 2010, the college tuition credit known as the HOPE credit has a new name and qualifications which are very beneficial. **The American Opportunity Tax Credit is for the first four years of college, not two as in the past.** The qualifying expenses have also been expanded to not only include tuition, but also books. The credit max has increased to \$2,500 per student calculated as follows: 100% of the first \$2,000 of qualified expenses plus, 25% of qualified expenses for the next \$2,000. One of the largest changes is that now **40% of the credit, which exceeds your income tax, can be refunded.** Previously, it only offset income tax and if you had more credit than tax you lost the extra amount (use it or lose it each year).

The credit is phased out ratably for taxpayers with modified AGI between \$80,000 and \$90,000 (\$160,000 - \$180,000 for joint filers). So in 2009 and 2010 be sure to get your student's 1098T, cost of books and supplies, and a **detailed transcript from the college of expenses paid during 2009.** Those of you with students at colleges in the declared Midwest Disaster Areas will still need to bring in room and board expenses for 2009.