

NEWSLETTER

JANUARY 2010

Extended First-Time Homebuyer Credit

If you are in the market for a new home, you may still be able to claim the First-Time Homebuyer Credit. Congress recently passed The Worker, Homeownership and Business Assistance Act Of 2009, extending the First-Time Homebuyer Credit and expanding who qualifies. If you (and your spouse, if married) have **not owned a home** for the past **three years**, you qualify as a first-time homebuyer. Here are some 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**. If you enter into a binding contract by April 30, 2010 you **must close** on the home on or before **June 30, 2010**.
2. For qualifying purchases in 2010, you will have the option of claiming the credit on either your 2009 or 2010 return. A copy of the closing document must be attached to the return. You **cannot electronically file** your tax return if you are claiming the credit.
3. 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.
4. The **maximum credit** for long-time residents is **\$6,500**. However, married individuals filing separately are limited to \$3,250. The maximum credit for first-time homebuyers is **\$8,000**.
5. 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.
6. 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.
7. **No credit** is available if the purchase price of the home exceeds **\$800,000**.
8. 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.
9. A dependent is not eligible to claim the credit, and the credit is **not** available is the purchase is between **related parties** (family members).

Making Work Pay Tax Credit

This credit -- available for tax years **2009** and **2010** -- equals 6.2 percent of a taxpayer's earned income. The maximum credit for a married couple filing a joint return is **\$800** and **\$400** for other taxpayers. Most wage earners have been enjoying a boost in their paychecks from this credit since April. Eligible self-employed taxpayers can also benefit from the credit by evaluating their expected income tax liability. If eligible, self-employed taxpayers can make the appropriate adjustments to the amounts of their estimated tax payments.

Taxpayers who fall into any of the following groups should review their tax withholding to ensure enough tax is being withheld: married couples with **two incomes**, individuals with **multiple jobs**, dependents, pensioners, Social Security recipients who also work, and workers without valid Social Security numbers. **Having too little tax withheld could result in potentially smaller refunds or small balance due rather than an expected refund.** For those who believe their current withholding is not right for their personal situation, a quick withholding check using the IRS withholding calculator on IRS.gov may be helpful. Adjustments can be made by filing a revised Form W-4, or W-4P.

The Making Work Pay tax credit is either phased out or unavailable for higher-income taxpayers. The phase out begins at \$75,000 for single taxpayers and \$150,000 for couples filing a joint return.

Expanded Recovery Act Tax Credits

People can now weatherize their homes and be rewarded for their efforts. The American Recovery and Reinvestment Act, enacted earlier this year, expanded two home energy tax credits.

Non-business Energy Property Credit

This credit equals **30%** of what a homeowner spends on eligible energy-saving improvements, up to a maximum tax credit of **\$1,500** for the combined 2009 and 2010 tax years. The cost of certain high-efficiency heating and air conditioning systems, water heaters and stoves that burn biomass all qualify, along with labor costs for installing these items. In addition, the cost of energy-efficient windows and skylights, energy-efficient doors, qualifying insulation and certain roofs also qualify for the credit, though the cost of installing these items does not count.

Residential Energy Efficient Property Credit

Homeowners going green should also check out a second tax credit designed to spur investment in alternative energy equipment. This credit equals **30%** of what a homeowner spends on qualifying 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, homeowners should check the manufacturer's tax credit **certification statement** before purchasing or installing any of these improvements. The certification statement can usually be found on the manufacturer's website or with the product packaging. Normally, a homeowner can rely on this certification. The IRS cautions that the manufacturer's certification is different from the Department of Energy's Energy Star label, and not all Energy Star labeled products qualify for the tax credits.

New Deduction for Sales Tax on Purchase of New Motor Vehicles

In 2009, you can deduct the state or local sales and excise taxes imposed on the purchase of a qualified motor vehicle **after** February 16, 2009, and before January 1, 2010. A qualified motor vehicle includes a passenger automobile, light truck, or motorcycle, the original use of which begins with that purchaser and that has a gross vehicle weight rating of 8,500 pounds or less. A qualified motor vehicle also includes a motor home, the original use of which begins with that purchaser. The amount of tax you are able to deduct is limited to the tax that is imposed on the **first \$49,500** of the purchase price of the vehicle. The deduction is phased out over a \$10,000 range that begins when modified adjusted gross income is more than \$125,000 (\$250,000 if married filing a joint return). No deduction is allowed when modified adjusted gross income is equal to or more than \$135,000 (\$260,000 if married filing a joint return). The new deduction can be used to increase the amount of your **standard deduction** **or** you can take it as an **itemized deduction** (if you are not electing to take the state and local general sales tax deduction).

NEW MILEAGE RATE

<u>Cents per mile</u>	<u>2009</u>	<u>2010</u>
Business miles:	55	50
Medical or Moving:	24	16.5
Charitable purposes:	14	14

EXPANDED AND ENHANCED HOPE TUITION TAX CREDIT

The Hope Credit (now re-named the “**American Opportunity Credit**”) is available for **2009** and **2010**. The maximum credit is **\$2,500**, and it is allowed on the first **four years** of college. Up to 40% of the credit is refundable, meaning if you don’t owe enough tax to cover the credit, you can get a refund. The income limitations are higher, with phase-out of the credit beginning at \$160,000 for married filing jointly, and \$80,000 for single filers. Qualifying expenses include tuition, fees, and books. The student must be your dependent, and you must claim them on your return. For purposes of the credit, any expenses paid by the student are treated as being paid by the parent.

REAL ESTATE TAX DEDUCTION

This was new last year, and it’s available again this year. Even if you **don’t itemize** your deductions, please tell us what you paid in **Real Estate taxes**. There is an additional **\$500 (\$1,000** for married couples filing jointly) that can be added to your **standard deduction** for real estate taxes paid.

These are just a few of the new provisions. There were many changes to the tax law passed in 2009. As always, we are here for you to answer any questions you might have about the new tax law provisions. We value you as our customer and appreciate your business. We’re looking forward to hearing from you soon!