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January , 2009©

OUR ELECTED REPRESENTITIVES HAVE BEEN BUSY LITTLE BEES LATELY...

Along with the billions Congress has been doling out to the companies that caused the recent financial meltdown, our elected representatives are working feverishly to jump start the economy by offering some temporary (1-2 years) tax cuts for small businesses and us ordinary folks. We now have a laundry list of changes in our tax law. Some for 2008 only. Some for 2008 and 2009. And they're not done yet. There's more coming down the pipeline any day now (that is if they can get by the inauguration and officially seat the new junior senator from Illinois).

Here's a sampling of what "we the people" (at least some of us) will be enjoying (?) -- so far...

1. Should your home be foreclosed and/or the home sells for less than the outstanding mortgage, if the lender forgives all or part of the unpaid mortgage debt, you would normally be paying tax on the amount of your loan that was forgiven/cancelled. For 2008 through 2012 –up to \$2 million of cancelled qualified mortgage debt will be excluded from taxation.
2. The Alternative Minimum Tax Exemption amount for 2008 has been raised by \$3,700. This will hardly do the job for large families with lots of dependency exemptions and/or taxpayers who live in states with high local income taxes and/or real estate taxes. Neither dependency exemptions of taxes are allowed as a deduction against AMT. With all the billions they gave away recently – one would think they could have done a bit better than \$3,700.
3. The "Higher Education Tuition Deduction" has been extended through 2009. The maximum deduction is \$4,000 but is phased out at incomes exceeding \$130,000 for joint filers.
4. A NEW bone was thrown to home owners who pay real estate taxes but cannot itemize deductions. For 2008 and 2009 non-itemizers who pay real estate taxes may deduct \$1,000 (joint) or \$500 (single) in ADDITION to the standard deduction.
5. The teacher's classroom expense deduction (up to \$250) has been extended through 2009.
6. Taxpayer's age 70-1/2 and older can continue to use all or part of their required minimum distributions from IRAs to make charitable contributions up to a maximum of \$100,000 per year for 2008 and 2009.
7. The Required Minimum Distributions from retirement plans for taxpayers age 70-1/2 and older was suspended for 2009. BUT NOT FOR 2008. Just shows to go ya – how much our elected officials really understand the tax law. 2009 wouldn't be a real problem as the required distribution is based on the prior year's

retirement plan value. By the end of 2008, most 401Ks were already 101Ks. The problem was 2008 distributions as they are required to be based on 2007 account values which in most cases were almost 50% higher. By forcing seniors to sell their retirement assets at huge losses in order to satisfy this ridiculous law....our elected representatives have put an undue burden on the senior community. However – according to some studies done before this law was passed – changing it for 2008 would cost too much (who cares about seniors anyway). The conclusion of this report was (in my words) they (the government) weren't getting enough bang for their buck here. The excuse given by Congress was that it would be too difficult and costly for the financial institutions handling these retirement funds to deal with this change. Congress just gave billions of our money to these institutions, but they think it's just too difficult for them to deal with this last minute change in the law. All of this after both presidential candidates supported the change for 2008. Now, guess which side Congress' bread is buttered on.

8. First time home buyers can claim a refundable tax credit equal to the lesser of 10% of the purchase price or \$7,500 for homes purchased after April 8, 2008 and before July 1, 2009. The credit is phased out for taxpayers with income between \$75,000 and \$95,000 (single) and \$150,000 - \$170,000 (joint).
 - a. FYI #1 – the word refundable means that you get the money even though you owe/paid no tax.

- b. FYI #2 – If 2 or more unmarried persons purchase a home together, the \$7,500 credit can be shared.
- c. FYI #3 – A taxpayer is a first time home buyer if he or his/her spouse had no present ownership interest in a principal residence in the U.S. during the 3 year period before the purchase of the home.
- d. FYI #4 – Property acquired from a person related to the buyer will NOT qualify.
- e. FYI #5 – If you purchase the home in 2009 (before July 1) you can claim the credit on your 2008 return.

Now here's the catch...the credit is actually an interest free loan and must be paid back ratably over a 15 year period. If the house is sold prior to the completing the "loan payback" – the repayment is accelerated.

Here's a sampling of what the business community (at least some businesses) will enjoy:

1. The 15 year depreciable life for qualified leasehold improvements and qualified restaurant property has been enhanced and extended through December 31, 2009. In addition to these extended time frames, the new tax law also provided that "qualified restaurant property includes *"a building, if that building is placed in service after December 31, 2008 and before Jan 1, 2010"* (in other words – during 2009)...or..."*any improvement to a building if more than 50% of the building's square footage is devoted to preparation of, and seating for on-premises consumption of, prepared meals"* (in other words – a restaurant).The

improvements must be made more than three years after the building is originally placed in service.

AND

2. Qualified retail improvement property placed in service during 2009 may be depreciated over 15 years (instead of 39). Qualified retail improvement property is "any improvement to an interior portion of a building that is nonresidential real property" if the premises is open to the general public and is used in the retail trade and "the improvement is placed in service more than 3 years after the date the building was first placed in service." There are several improvements which do not qualify for this tax break, among which are enlarging the building and adding an elevator/escalator.
3. Employees who bike to work are now eligible for a \$20 per month non taxable fringe benefit starting in 2009.

IRS TAXPAYER ADVOCATE CALLS FOR CHANGE

The IRS Taxpayer Advocate, in her annual report to Congress said that the Tax code is too complex. The report said that if tax compliance were an industry, it would be one of the largest in the United States. It currently consumes approximately 7.6 billion hours and requires the equivalent of 3.8 million full time workers. And – it's not going away any time soon.

What is going away will be the use of private agencies to pursue and harass

taxpayers into coughing up what they owe by almost any means possible. It seems the IRS has devoted lots of money and energy to managing this private collection program. In the end, it turns out that "they" have discovered through evaluating the IRS data that IRS's collection function outperforms the private debt collectors in almost every way. What took them so long?

MORE ON THE DRAWING BOARD...

Both houses of Congress are again working feverishly to do more to keep the economy from falling off a precipice. A new "stimulus" package is in the works. Included are topics such as:

1. Freezing the estate tax at \$3.5M per person exemption and a 45% maximum tax rate.
2. A "making work pay" credit which would provide an extra \$500 for individuals and \$1000 for couples for 2009. They would do this by reducing the amounts withheld from their checks throughout the year. \$500 per year or less than \$10 per week? And they think this is going to stimulate the economy? Maybe they all should go home and let's start over again.
3. Extend the business net operating loss carryback to 5 years.
4. Extend the \$250,000 Section 179 expensing limit and the 50% first year bonus depreciation through 2009.

2009 is going to be a very interesting year

