



October, 2009 ©

NEW AND CONTINUING TAX CREDITS/ CHANGES AVAILABLE FOR 2009/2010

In addition to the massive tax increase being pushed down the pipeline along with the proposed "health care reform" bill, there are some "stimulus" credits and law changes available to individuals for 2009 and in some cases 2010 returns. Here is what's happening – so far...

1. Nonbusiness Energy Property Credit equal to 30% of amount paid for eligible energy saving improvements – up to a maximum of \$1,500 in total expenditures over tax years 2009 and 2010. Eligible property includes high efficiency heating and air conditioning systems, water heaters, windows, skylights, insulation, etc.
2. Residential Energy Efficient Property Credit equal to 30% of qualified expenditures up to \$1,500 for items such as solar panels, wind turbines and the like.
3. Making Work Pay Credit of 6.2% of a taxpayer's earned income is available for single taxpayers with income of less than \$75,000 and married taxpayers with income of less than \$150,000. The credit is phased out for taxpayers with income above these amounts.
4. American Opportunity Credit modifies the previous Hope credit (for 2009 and 2010) and is equal to 100% of first \$2,000 and 25% of next \$2,000 (or a total of \$2,500) is available for taxpayers with income less than \$80,000 (single) or \$160,000 (joint return). Also – 40% of this credit is "refundable". This means if the taxpayer owes no tax at all - he/she will still receive a check from the government for 40% of the eligible amount (up to \$1,000). The refundable portion of this credit is NOT available to any student who has un-earned income taxed at the parents' due to the "kiddy tax". Unlike the previous Hope Credit which was only available to students in their first or second year of college, this modified credit is available to an individual student for the first four years of college.
5. First-Time Home Buyer Credit of 10% of the purchase price up to \$8,000 has been extended through April 30, 2010. To be eligible for the first-time buyer credit, a taxpayer must not have owned another principal residence in the previous three years. A new Existing Home Owner Credit of 10% of the purchase price up to \$6,500 is available for current home owners who

purchase a different home for use as their primary residence. The extended credit is phased out at income levels above \$125,000 (individuals) and \$225,000 (joint returns). This credit is "*refundable*". This means if the taxpayer owes no tax at all - he/she will still get a check in the mail for the amount of the credit.

6. Computers and other technology, including internet access, are now eligible for payments from Section 529 college savings plans.
7. For 2009, a deduction is available for state and local taxes paid on up to \$49,500 of the purchase price of a new vehicle (8,500 pounds or less – except for motor homes which are not subject to weight limitations).
8. For 2009 ONLY, there is no required minimum distribution from IRAs or other qualified plans for seniors age 70-1/2 and older.
9. For 2010 ONLY – the income limitation of less than \$100,000 for converting regular IRAs to Roth IRAs has been lifted. However – there is a big caveat...the value of the regular IRA (which has never been taxed) must be picked up on your 2010 income tax return (probably at higher rates than are currently in force). The resulting tax can be paid over the next two years AFTER the year of conversion. This means the tax will have to be paid ½

by April 15, 2012 and ½ by April 15 2013.

A few good reasons to do this...Roth IRAs do not require minimum distributions after age 70-1/2. On your death, the Roth IRA will not be subject to income tax. A regular IRA is always taxable – even to your beneficiaries. A few good reasons not to do this...your tax bracket for 2010 will definitely be going up. Although the tax may be paid with part of the funds from the converted IRA, doing so will reduce the amount that can grow tax free in the future.

This may or may not work for you. Lots of things to consider...your current tax bracket; what your tax bracket will be if you pick up X dollars of income due to the conversion; How long do you have to recover the amount paid for tax on the conversion before are planning to use those funds for retirement, etc. etc. If you are considering this in any way, shape or form, please call our office to discuss.

10. The NOL carryback provisions which allowed only *qualified* small businesses to carryback losses for 5 years instead of 3, has been extended to *any* business with a loss in 2008 or 2009 to use the temporary 5 year rule. There is no dollar limit on the carrybacks for the first 4 years. The 5th year, however – would be limited to 50% of the company's taxable income for that year.

11. Beginning with 2010 returns, any tax return preparer filing 10 or more returns (this means probably 99.9% of preparers) will be required to electronically file ALL returns. Paying electronically will not be required. The majority of returns are already filed electronically. This will just speed up the process.

YOU, HEALTH CARE "REFORM" AND YOUR TAXES...

Just in case you haven't really read the bill just passed by the House, should this become law – your taxes and costs are about to rise – yet again. Some of the effects of this bill, if passed – would be:

1. Employers MUST provide a "qualified" plan (the bill does not define the qualifications), pay 72.5% of the cost OR incur an 8% tax on their payroll. Smaller employers with annual payrolls of \$500,000 to \$750,000 will be fined less. The effect of this is likely to push employers to pay the 8% tax which will in many cases be less than the required payments for insurance premiums. This will force millions of employees into the government run "public option".
2. Your insurance premiums most likely will be going up (so what else is new?). According to the CBO (Congressional Budget Office) the "public option" plan will require an individual earning \$44,000 before taxes will have to pay approximately \$7,300 (including premium and deductible) annually. For a family earning \$102,000, the annual costs are estimated at \$20,300. Looking pretty expensive to me...
3. You will be required to provide proof that you are enrolled in a qualified plan each year when you file your personal income tax return. Just FYI – illegal immigrants are exempt from this requirement (ostensibly, because they don't file income tax returns...).
4. Section 305 of the bill provides for automatic Medicaid enrolment of newborns who do not otherwise have insurance. This includes the children of all persons who come here just to have their child and go back home immediately. The child is born here...is a U.S. citizen and is *entitled* to Medicaid and/or welfare. Feeling better about your tax dollars at work?
5. Flexible spending accounts (aka "cafeteria plans") would be limited to \$2,500 per person. This will greatly increase the tax burden for many employees who currently utilize this vehicle for uncovered medical/dental expenses, including insurance deductibles.
6. If you are covered under the "public option" while employed, the cost of the coverage could NOT be purchased on a pre-tax basis.

7. A 5.4% tax surcharge would be levied on persons with “modified” adjusted gross income over \$1 million (joint returns) or \$500,000 (single returns).
8. A 2.5% excise tax (presumably not deductible) would be levied on the sale of certain medical devices (including wheel chairs, etc.). This would be applied at the manufacturer level. As always, this cost will be passed down the line to the ultimate consumer – again raising his/her cost of health care instead of lowering it.
9. Payments made to a single payee – including corporations – aggregating \$600 or more in a calendar year would require the filing of an information return – form 1099 – for that year. Read this as increased cost of doing business for everyone. Microsoft can afford it....small businesses cannot.
10. Congress is EXEMPT from these rules.
11. And that’s just the beginning...

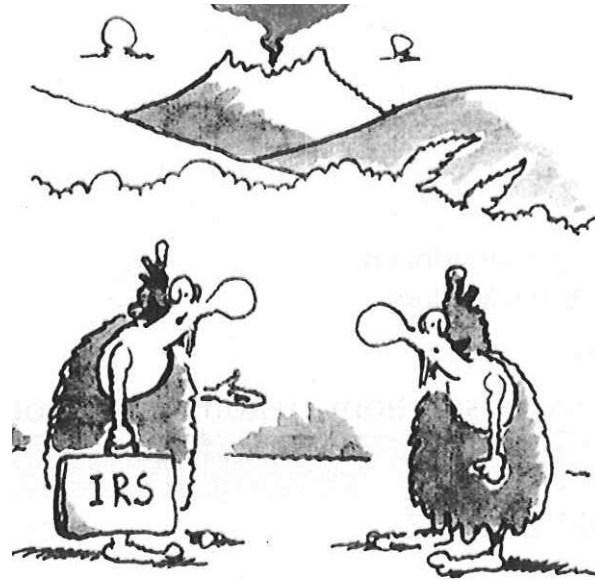
If you’d like to read the bill, see www.defendyourhealthcare.us. If for some reason it is no longer on that website – we have a pdf copy and would be happy to send it to you for your leisure reading pleasure.

IF HISTORY IS PROLOGUE...LISTEN UP!

- The U.S. Postal Service was established in 1775. The government had 234 years to get it right and it is broke.
- Social Security was established in 1935 – 74 years ago and it is broke.
- Fannie Mae was established in 1938 – 71 years ago and it is broke.
- Since 1964 when the “War on Poverty” started – approximately \$1 trillion taxpayer dollars are redistributed each year and it seems we have not made a dent in the numbers.
- Medicare and Medicaid were established in 1965. Both systems are broke and filled with fraud. (If you watched 60 minutes a few weeks ago – they exposed the massive fraudulent claims being perpetrated on the Medicare/Medicaid system and how easy it was to accomplish.)
- Freddie Mac was established in 1970 and it is broke.
- The Department of Energy was created in 1977 to lessen our dependence on foreign oil. It now has 16,000 employees with an annual budget of \$24 Billion and we are now importing more oil than ever before.
- Someone tell me if Congress EVER passed a bill that came in at or below the projected cost.

House bill 3962 creates about 118 *new* federal departments. Can you imagine what this is going to really cost in a few years? Does anyone know where all this money is going to come from? It would seem that the federal government (this includes BOTH sides of the aisle) isn't really equipped to act with business

knowledge and acumen no matter how many "experts" they consult. Politics gets in the way – practically all the time. If history is any lesson for the future – we don't want the federal government running our health care system. It is in need of repair – but H.R. 3962 is not the best way to do it.



"I'm both — first I hunt, then I gather."