

TAX ALERT

PERIODIC REPORT ON NEW TAX DEVELOPMENTS

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The *Tax Alert* is a periodic publication from the firm for clients, friends and business associates. We will bring to your attention new developments in taxation, focusing on individual, estate and gift taxes.

FEDERAL TAX CHANGES

There are a number of new credits and deductions that took effect in 2009, as well as some extended tax provisions that you may benefit from.

Making Work Pay Credit – You may have noticed a little more in your paycheck each week this year. This credit was actually given to workers through reduced federal income tax withholding in 2009. The maximum credit is \$400 (\$800 married filing jointly). However, not all workers will be entitled to this credit when they file their tax returns. It phases out for taxpayers with modified income in excess of \$75,000 (\$150,000 married filing jointly). Those ineligible taxpayers may find that they did not have enough tax withheld in 2009.

Deduction for Taxes Paid on Purchase of New Vehicle - Taxpayers who buy a car, light truck, motor home or motorcycle in 2009 may be able to deduct the sales tax they paid on their 2009 income tax returns. This deduction is limited to taxes paid on the first \$49,500 of the purchase price. Taxpayers who do not itemize deductions will benefit by adding these taxes to their standard deduction. Those who do itemize will choose between deducting sales taxes instead of state and local income taxes.

Roth Conversion in 2010 – In the past, taxpayers with modified AGI over \$100,000 could not convert their traditional IRA's to Roth IRA's. In 2010, the \$100,000 limitation has been removed, allowing more taxpayers to convert to Roth IRA's. In addition, the tax on a 2010 Roth conversion can be deferred until 2011 and 2012. Whether this is advisable depends on your individual tax situation, so please consult us before making a conversion.

Credit for Higher Education Expenses - The Hope Credit has been renamed the American Opportunity Credit. For tax years 2009 and 2010, it will be available to more taxpayers, including some with higher incomes and those who owe no tax. Qualifying expenses are expanded to include required course materials. The maximum credit is now \$2,500, and covers the first 4 years of qualified education.

Section 529 Plans and Computers - In 2009 and 2010, computers used for college can be purchased with funds from Section 529 plans.

Unemployment Benefits Not Taxable- For 2009, the first \$2,400 of unemployment benefits an individual receives are not taxed.

First Time Homebuyer Tax Credit – First time homebuyers who purchase a home in 2009 may be eligible for refundable credit up to \$8,000. The home must be the taxpayer's principal residence. If it ceases to be the taxpayer's main home within a 3-year period, then the credit will have to be paid back.

Those who purchase a home in 2009 can claim the credit on either a 2008 or a 2009 tax return. If the 2008 tax return has already been filed, the credit can be claimed on an amended tax return. For those who have not purchased a home yet, the time period is extended, but you must have a binding contract before May 1, 2010 (and must close before July 1, 2010).

EXTENDED PROVISIONS

The following tax provisions have been extended through 2009:

- Educator's deduction of up to \$250
- Higher education tuition and fees deduction

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- Tax-free distributions from IRA's for charitable purposes (up to \$100,000)
- Taxpayers who itemize have the option of deducting state and local sales taxes instead of state and local income taxes.

SUNSET PROVISIONS

The beneficial tax rates for dividends and capital gains are set to expire after 2010. Unless changed, the 2011 taxes will be:

- Dividends will be taxed at ordinary income tax rates.
- The long-term capital gains tax rate will be 20% (10% for taxpayers in the 15% tax bracket).
- The qualified five-year 18% capital gains rate (8% for taxpayers in the 15% tax bracket) will be reinstated.

RETIREMENT PLAN LIMITATIONS

This is a good time to review your contributions to your retirement plan, as well as the investment performance within the plan.

- **Traditional IRA Contributions**

IRA contributions for 2009 and 2010 are limited to \$5,000. Taxpayers over 50 can contribute an additional \$1,000.

- **Retirement Plans – Deferral Limits**

The maximum elective deferrals for qualified plans are:

	<u>2009</u>	<u>2010</u>
401(k) or Uni-K	\$16,500	\$16,500
403(b)	\$16,500	\$16,500
SIMPLE	\$11,500	\$11,500

Taxpayers over age 50 can contribute an additional \$5,500 to a 401(k) or 403(b) plan in 2009 and 2010. For SIMPLE plans, the catch-up contribution is \$2,500.

- **401(k)'s, Uni-K's and SEP Plans**

The maximum contribution limit for qualified plans and SEP's is \$49,000 for 2009 and 2010.

The annual compensation limit is \$245,000 for both years.

IMPROVED RESIDENTIAL ENERGY CREDITS

Replace the exterior windows and doors in your existing main home with new energy efficient models, and you could get a tax credit. For 2009 and 2010, the credit is 30% of the cost up to a maximum aggregate credit of \$1,500 (i.e., the total credit for both years combined cannot exceed \$1,500). Other improvements eligible for this credit include insulation materials, central air conditioners, natural gas, propane or oil water heaters or furnaces, hot water boilers, electric heat pump water heaters, certain metal roofs and stoves, and advanced main air circulating fans.

For 2009 – 2016, install solar electric property, solar hot water property, geothermal heat pumps or wind energy in your personal residence, and you could be eligible for a credit equal to 30% of the cost, with no cap.

There is also a credit available of \$500 for each one-half kilowatt of capacity of qualified fuel cell property for which qualified fuel cell property costs are paid. This credit is for your main home only.

These credits are nonrefundable, meaning that the taxpayer must have a tax liability in order to benefit. As always, please check with your tax professional to see if you qualify.

You can find some great information about the credits on the Energy Star website at: www.energystar.gov.

NEW YORK STATE TAX CHANGES

Increased Tax Rates Beginning in 2009 - New York State has increased its tax rate for high income earners, effective January 1, 2009. There are 2 new tax rates – 7.85% and 8.97%.

Married couples filing jointly will be affected if their taxable income exceeds \$300,000. For single taxpayers, the new rates begin at \$200,000, and for those filing Head of Household, at \$250,000.

Itemized Deductions Limited –For taxpayers whose AGI exceeds \$1,000,000, there are no itemized deductions allowed except for 50% of charitable contributions.

New Metropolitan Commuter Transportation Mobility Tax (MCTMT) - This new tax is imposed on employers and self-employed individuals engaged in business within the Metropolitan Commuter Transportation District. The MCTD includes the counties of New York (Manhattan), Bronx, Kings (Brooklyn), Queens, Richmond (Staten Island), Rockland, Nassau, Suffolk, Orange, Putnam, Dutchess, and Westchester.) The tax is .34% of wages paid to your employees if they exceed \$2,500, as well as .34% of net self-employment income if it exceeds \$10,000.

Repeal of the Middle Class STAR Rebate Program - You will no longer receive a STAR Rebate check from New York State. However, this repeal does not affect the Basic or Enhanced STAR exemption provided to property owners directly on their school tax bills.

ESTATE TAX UPDATE

- The Federal Estate Tax exclusion is \$3,500,000 for 2009.
- In 2010, unless new legislation is passed, there will be no Federal Estate Tax. This is not likely to happen.
- The New York State estate tax exclusion remains \$1,000,000. Therefore, you could have a New York State estate tax liability even if there is no Federal liability.

GIFT TAX EXCLUSION

For 2009 and 2010, the Federal Gift Tax exclusion is \$13,000 per recipient.

Amounts paid directly for tuition or medical expenses are not subject to the limitation.

YEAR-END CHECKUP SUGGESTIONS

These are some general reminders, now that we are approaching the year-end.

- Your Will and Health Care Proxy should be up-to-date. Remind your parents and relatives to update theirs as well, if they have not done so within the past 3 years.
- Check that your IRA's and retirement plans have proper beneficiary designations.
- Review your homeowners insurance for any changes that should be made to your coverage.
- Consider Long Term Care Insurance.
- The Family Documents Checklist, which was given to you with your tax return, should be completed and kept in a safe place. A family member or other responsible person should know where this is kept in case of emergency. If you need a new copy, please let us know.
- If you have not already done so, contact your investment manager to review your investment strategies for the new year.
- Review your pension deductions to make sure that you are making the maximum desired contributions. If you do not have a pension plan, make your IRA contribution early to start accumulating tax-deferred income as soon as possible.
- This is a good time to help out a charity. Consider donated appreciated stock for an additional tax benefit.

WEBSITE

Please be sure to visit our website at www.socpapc.com. Along with information about our firm, you will find links to our newsletters, and links to payroll calculators and commonly used tax forms.