

## Alerts and Updates

### WHAT'S NEW FOR TAX YEAR 2009 (WHEN FILING IN 2010)

January 11, 2010

To assist you with assembling your 2009 tax material, the following are meaningful tax changes affecting individuals and businesses, effective for tax year 2009.

#### Individuals

- **First-time homebuyer credit:** Credit increases to as much as \$8,000 for homes purchased after 2008 and before May 1, 2010 (July 1, 2010, if contract signed prior to May 1, 2010). Credit phases out at adjusted gross income (AGI) between \$75,000 and \$95,000 for single taxpayers and for joint taxpayers with AGI between \$150,000 and \$170,000.
- **Non-first-time homebuyers:** Credit is 10 percent of purchase price up to \$800,000 with a maximum credit of \$6,500 for those taxpayers ages 18 and over. Credit phases out for single taxpayers with AGI between \$125,000 and \$145,000 and for joint taxpayers with AGI between \$225,000 and \$245,000.
- **Refundable child credit:** Credit equal to the greater of 15 percent of earned income in excess of \$3,000 or, for taxpayers with three or more qualifying children, the excess of Social Security taxes for the tax year over the earned income credit for the tax year.
- **COBRA subsidy:** The 65-percent subsidy for continuation coverage is not taxable.
- **Section 529 plan expenses:** Computer equipment, Internet access and related services now qualify as qualified education expenses.
- **Health-coverage tax credit:** Increased credit to 80 percent of premiums for qualified health insurance of taxpayer and dependents.
- **Unemployment compensation:** Tax-free up to \$2,400 per person.
- **American Opportunity Education Credit:** The maximum Hope education credit is increased to \$2,500 from \$1,800. Education credit income limits have also increased, with phaseouts occurring for single taxpayers with AGI between \$80,000 and \$90,000 and joint taxpayers with AGI between \$160,000 and \$180,000.

- **Deduction for motor vehicle taxes:** Deduction may be available for state and local taxes paid on purchases of new vehicles after February 16, 2009. Phased out for single taxpayers with AGI between \$125,000 and \$135,000 and for joint taxpayers with AGI between \$250,000 and \$260,000.
- **Tax on child's investment income:** Amount of child's income not subject to tax at parents' rate is increased to \$1,900 from \$1,800.
- **"Cash for Clunkers":** Payments made under the program are not taxable for federal income-tax purposes.
- **Making Work Pay credit:** Refundable credit in the amount of 6.2 percent of earned income. Credit is phased out for single taxpayers with AGI of \$75,000 to \$95,000 and for joint taxpayers with AGI of \$150,000 to \$190,000.
- **Alternative Minimum Tax exemption increased:** Exemption increased to \$46,700 from \$45,000 for single taxpayers, \$70,950 for joint filers and \$35,475 if married and filing separately.
- **Standard mileage rates:** \$0.55 cents per mile for business use of car, \$0.24 cents per mile for medical reasons and for the cost of operating your car for determining moving expenses, and \$0.14 for the use of a car for charitable purposes.
- **Credit for nonbusiness energy property:** Credit available for qualifying home-energy savings items placed in service in 2009 increased from 10 percent to 30 percent for qualifying items, and the \$500 lifetime cap is now an aggregate \$1,500 cap.
- **Retirement savings plans:** IRA deductions may be available for those covered by other plans subject to certain dollar limits and phased out for single taxpayers with AGI between \$55,000 and \$65,000 and for joint filers with AGI between \$89,000 and \$109,000.
- **Roth IRA income limit:** Contribution may be allowed for those with AGI less than \$120,000.
- **Elective salary deferrals:** Catch-up contribution for those 50 and older is increased to \$5,500 from \$5,000.
- **IRA minimum distributions:** No minimum distributions are required from IRAs and most defined contribution plans for 2009.
- **Personal casualty and theft loss limit:** Loss must be more than \$500 to be allowed in addition to the 10-percent AGI limit.
- **Tax benefits for adoption:** Maximum adoption credit increased to \$12,150 from \$11,650.

## Businesses

- **Deferred income from debt cancellation:** Qualifying businesses can elect to delay income recognition until 2014 arising from the reacquisition of certain types of business debt repurchased. Income is then recognized over five years.
- **Built-in gains:** Corporate level tax eliminated on built-in gains of an S corporation that converted from C corporation status at least seven years prior to the current tax year.
- **Gain from certain small-business stock:** Exclusion of gain increased to 75 percent for stock acquired after February 17, 2009, and before 2011.
- **Increased penalties for late filing of partnership and S corporation returns.**
- **Increased first-year expensing:** 2008 limits of \$250,000 and \$800,000 extended to property placed in service in 2009.
- **Net operating losses:** Eligible small businesses may carry back 2008 losses to three, four or five years.
- **Bonus depreciation:** 50-percent bonus depreciation is extended to include property placed in service in 2009.
- **Work Opportunity Tax Credit:** Expands credit to any unemployed veteran or disconnected youth-unemployed youth between 16 and 24 years of age who commenced work in 2009.
- **Electric motor-vehicle credit:** Credit expanded to maximum of \$7,500, including per-kilowatt-hour usage.
- **Section 48 energy investment credit:** Credit may be elected in lieu of production credit for qualified facilities.
- **Grants:** Taxpayers may receive grants from the United States Department of the Treasury in lieu of production credit for qualified facilities under Section 48.

## For Further Information

For details in connection with many of the tax changes discussed above, please see the articles below or contact any of the practitioners in the [Tax Accounting Group](#).

- [Effects of the Worker, Homeownership and Business Assistance Act of 2009](#)
- [Summary of Tax Provisions Included in the American Recovery and Reinvestment Act of 2009](#)

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