2009 Year-End Tax Tips

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Year-end tax planning is generally a good idea, but in 2009 it is particularly important given all the initiatives the federal government has undertaken to start the engines of economic growth. If we have learned nothing else in the wake of the economic downturn, we have at least learned that when referring to taxation no tax benefit is guaranteed for the long-term. We also know that 2010 will likely usher in major tax changes as lawmakers confront a record federal deficit. Individuals should continually review the tax benefits available to them, including:

Home-Buyer Tax Credit
Congress passed new legislation on November 6, 2009, the "Worker, Homeownership and Business Assistance Act of 2009" (the "Act"), which extends and expands the first-time homebuyer credit as previously enacted. Under the Act, an eligible taxpayer must buy, or enter into a binding contract to buy, a principal residence on or before April 30, 2010 and close on the purchase of the home by June 30, 2010. In addition, current homeowners may purchase a replacement for their existing principal residence and claim a credit against their income tax otherwise due of up to $6,500 (up to $3,250 for a married individual filing separately). The homeowner must have lived in the same principal residence for any five-consecutive year period during the eight-year period that ended on the date the replacement home is purchased. The credit phases out for individual taxpayers with modified adjusted gross income (MAGI) between $125,000 and $145,000 (between $225,000 and $245,000 for joint filers). The existing MAGI phase-outs of $75,000 to $95,000 ($150,000 to $170,000 for joint filers) still apply to purchases on or before November 6, 2009.

American Opportunity Education Credit
This credit is essentially the former Hope Credit and allows a tax credit for up to $2,500, which can be taken against spending on qualified tuition and related expenses. The term "qualified tuition and related expenses" has been expanded to include expenditures for "course materials." For this purpose, the term "course materials" means books, supplies and equipment needed for a course of study whether or not the materials are purchased from the educational institution as a condition of enrollment or attendance. An expenditure for a computer could qualify for the credit if the computer is needed for enrollment or attendance at the educational institution. The credit can also be claimed for expenses for the first four years of post-secondary education (unlike the Hope Credit limitation to the first two years of college), but can only be claimed for expenses paid in 2009 and 2010. Currently this credit is available for 2009 and 2010 to single taxpayers

with less than $80,000 of MAGI and married couples earning less than $160,000. Amounts paid in 2009 for the spring of 2010 are eligible for a 2009 credit.

New Automobile Purchases
Taxpayers who purchase a new vehicle before the end of 2009 may deduct the associated state sales and excise taxes and other fees on as much as $49,500 of the purchase price. This deduction is available irrespective of whether a taxpayer itemizes their deductions or takes the standard deduction allowed to every taxpayer. The deduction is subject to phase-out rules depending on income levels.

Retirement Savings
Working Americans who participate in a tax deferred 401(k) plan should be aware that the contribution limit in a 401(k) is $16,500 in 2009 ($22,000 for individuals over the age of 50). A worker who was unemployed for the first half of 2009 and eventually able to find employment can still contribute up to the $16,500 maximum in 2009 if they are eligible to participate in a 401(k) plan.

IRA Rollovers to a Roth IRA
In tax year 2010, taxpayers will have a chance to roll their traditional tax deferred IRA into a Roth IRA without being subject to limitations based on their income level. Roth IRA's are funded with after tax dollars and future withdrawals from the account are not taxed (assuming all Roth IRA rules and regulations are followed). In 2010, the IRS will not require that a taxpayer earn less than $100,000 of AGI before a roll over of IRA assets to a Roth IRA. Therefore, a rollover to a Roth IRA could potentially limit income tax due and the effect from future increases in tax rates.

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