

# *What's New for 2009 and 2010*

## **I.R.S.**

**First-Time Homebuyer Credit-** The first time homebuyer credit has seen many changes and additions. This credit applies to taxpayers who purchased a home in 2008, 2009, or 2010. The original credit is designed for individuals who purchased a home in 2008. The original credit is 10% of the purchase price up to \$7500. This credit is basically a no-interest loan. The credit is to be paid back through the taxpayer's income tax returns for the next 15 years beginning with the 2010 tax year. The yearly payment, subtracted from the taxpayers refund, is equal to 1/15 of the credit. The original credit stated the taxpayer could not own a home for the previous 3 years.

The first change in this credit occurred in early 2009. The newer credit is 10% of the purchase price up to \$8000. This was an entirely refundable credit and does not have to be paid back.

The next change to the credit occurred very late in 2009. The newest credit is still 10% of the purchase price up to \$8000, is fully a refundable credit, and does not have to be paid back. The big change is that previous homeowners do not have the 3-year "no ownership" rule. Homeowners that lived in their home for any 5 consecutive year period in the previous 8 years of the replacement home purchase are now eligible for up to a \$6500 credit.

Regardless of which credit the taxpayer qualifies for, there are several factors that apply. The new home must be their principal residence, they must live in the home for the set amount of time, and the I.R.S. has the right to audit this credit at any time. Also, this credit is set to entirely expire on June 30, 2010.

There are many scenarios, options, and other special provisions so please consult with me as to which credit is best and/or required for you.

**Adoption Credit-** The adoption credit has been increased to \$12150 for the 2009 tax return.

**Child's Investment Income-** The amount of taxable investment income for children claimed on the parents return, without being subject to the parents tax rate, has been raised to \$1900 for tax year 2009. This is up from \$1800 on the 2008 tax returns. Also, the age of the child subject to this tax was raised to 18 in 2008 and up to 24 for full time students claimed on the parents return.

**Earned Income for Additional Child Tax Credit-** The amount of earned income to qualify for the additional child tax credit was reduced to \$3000 in 2009 and will remain for tax year 2010.

**Deduction for Sales Tax on New Vehicles-** For 2009 returns, you may deduct the sales and/or excise tax on new vehicles purchased after February 16, 2009 and before January 1, 2010. This deduction applies to passenger autos, light trucks, and motorcycles with a gross weight of less than 8500 pounds. Also included are new motor homes. This deduction applies to taxpayers that itemize as well as those who don't itemize.

**Earned Income Credit-** For 2009, the maximum credit allowed has been increased to \$457 with no children, \$3053 for one child, \$5028 for two children, and \$5657 for three children or more. The income limitations have also been raised. The biggest change is regarding the third child. I have prepared taxes for 30 years and this is the first time there has been an additional credit for the third child.

The credit amounts change slightly for 2010. The amount of investment income allowable for the earned income credit has been raised to \$3100 for 2009 and will remain at \$3100 for 2010. You may also wish to speak to your employer about receiving this credit in advance. However, this will reduce your refund drastically.

**Economic Recovery Payment-** These payments were received by some taxpayers in 2009. It was much the same as the stimulus payments made in 2008 but to a much smaller group of individuals: most generally, low income taxpayers receiving social security, SSI, railroad retirement, or veterans disability payments. These payments were up to \$250 per individual and are non-taxable.

**Making Work Pay Credit-** This is a new refundable credit that most taxpayers will receive for working. You must have earned income to qualify. The credit is 6.2% of your earned income up to \$400. This credit is per person. Like most credits, there are income limitations but I feel the majority of my clients will receive this new credit.

**Government Retiree Credit-** To be eligible for this credit, you must be a retiree of any city, state, or federal governmental agency that did not participate in the social security program. Many local agencies that I have seen over the years are included in this group. The maximum credit is \$250 per person. No credit is allowed if you received the \$250 economic recovery payment of \$250.

**Hope and Lifetime Learning Credits-** For 2009 and 2010, there is a new education credit called the American Opportunity tax credit. The maximum credit is \$2500 per student but covers the first four years instead of the first two years of college as previously claimed on the Hope Credit. In addition, unlike the former education credits that only reduced or zeroed your tax liability, the AOC has a 40% refundable credit option. Therefore, even if you have no tax liability, you may receive an additional \$1000 refund per student. Also, new terms, “related expenses” and “course materials”, have been added to tuition amounts. “Related Expenses” and “course materials” include books, supplies, and equipment needed for a course of study. These items were NEVER allowed in past years. There are so many options regarding tuition, I must calculate your taxes many ways to see which method will save you the most.

**Long-Term Care Premiums-** For 2009, long-term care premiums can be deducted as medical expenses with the following limits: \$320 per month for 40 years of age and under, \$600 for 40-51, \$1190 for 51-60, \$3180 for 61-70, and \$3980 for 71 and over.

**Discharge of Qualified Principal Residence Indebtedness-** The Emergency Economic Stabilization Act of 2008 extended the exclusion from gross income for the discharge of qualified principal residence indebtedness by an additional 3 years. The exclusion now applies to debts discharged after 2006 and before 2013.

**Capital Gains Tax Rates-** For 2009, the 5% maximum tax rate previously reduced to 0% remains in effect. The 15% maximum tax rate remains in effect. This applies to LONG TERM capital gains only.

**Failure to File Penalty-** If returns are filed more than 60 days after the due date, plus extensions, the minimum penalty is now the smaller of \$135 or 100% of the unpaid tax. This is why I tell all my clients to file returns on time, even if they can't pay. The extension is an extension of time to FILE, not an extension of time to PAY.

**Standard Deduction Increased-** The standard deduction amounts for taxpayers who can't itemize has been increased by small amounts across the board. However, there are a few additions that you may add to your standard deduction. You may now add: real estate taxes on your primary residence, sales tax paid on the purchase of a NEW vehicle, and net disaster losses from a flood, fire, theft, etc.

**Standard Mileage Rate-** Standard mileage rates have been raised for 2009. For business purposes, the rate is now 55 cents per mile. Medical and move related mileage is now 24 cents per mile. Charitable mileage remains 14 cents per mile.

**Unemployment Compensation-** For any tax year beginning in 2009, each recipient of unemployment benefits may exclude up to \$2400 from gross income. This means if both spouses received unemployment, you may be able to exclude up to \$4800 from gross income.

**Roth IRA Contribution Limit-** For 2009, you may contribute the lesser of \$5000 or your total taxable compensation for the year for age 49 and under. For ages 50 and older, the maximum contribution is the lesser of \$6000 or your total taxable income for the year. There are income limitations, which are adjusted according to filing status.

**Traditional IRA Contribution and Deduction Limits-** The amounts are identical as the previously quoted amounts for the Roth IRA.

**Temporary Waiver of Required Minimum Distributions-** For 2009, the IRS has waived the minimum distribution requirements from IRA's. The RMD normally occurs for taxpayers over the age of 70 ½. So if you didn't need the distribution in 2009, and you took none, you will not be penalized.

**Retirement Savings Contribution Credit-** If you contribute to your own retirement, and your adjusted gross income is less than \$55500 as a married couple, \$41625 as a head of household, or \$27750 as a single or separated person, you may be able to claim a credit.

**Household Employee-** If you employ a household employee, and you pay this person less than \$1700 for 2009, you are not required to report this amount and/or pay social security and Medicare taxes on that employees wages.

**Personal Casualty Loss-** Most generally, a casualty or theft loss must exceed \$500 plus 10% of your adjusted gross income for 2009. This has been raised from \$100 plus 10% of your AGI in previous years.

**Education Savings Bond Exclusion-** An individual who redeems qualified U.S. savings bonds to pay for higher education expenses may be able to exclude the interest income from gross income. This exclusion is limited according to your adjusted gross income.

## MICHIGAN

**Home Improvement/Appliance Credit-** Credit is limited to principal residence. Credit does not to renters. AGI must be less than \$37500 for single taxpayers and \$75000 for married taxpayers. Credit is 10% of purchase price and installation of qualified home improvement or energy efficient appliance up to a \$75 credit for single taxpayers and \$150 for married taxpayers for each of the following: (a) Insulation, (b) Furnace, (c) Water Heaters, (d) Windows, and (e) Refrigerators, Washers, and Dishwashers. The credit applies to purchases made after December 31, 2008 and before January 1, 2012.

All products must meet EPA Energy Star criteria and the State of Michigan may request receipts. This is a refundable credit so you may receive a refund even with no tax liability.

**Energy Cost Recovery Surcharge-** Credit is based on itemized surcharges that may have appeared on residential electric bills as “cost recovery” charges. This credit is available to both homeowners and renters. The maximum credit allowed is \$9 per meter in 2009 and \$7.20 per meter in 2010. The credit is equal to 25% of the annual surcharge for 2009 and 20% of the annual surcharge for 2010 and 2011. This is a non-refundable credit.

**Unemployment Benefits-** Although the IRS is giving us a \$2400 exclusion of unemployment benefits from gross income per person, and the State of Michigan is also allowing this exclusion, the excluded amount must be added to any MI credit forms such as property tax credit and home heating credit.