

# FTA FAMILY TAX ADVANTAGE

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## CLIENT NEWSLETTER

FALL 2009

2009 continues to be a year of uncertainty. Is the Great Recession over? When will jobs return? When will housing prices move upward? And many more questions. Unfortunately, no one has the answers.

In this Newsletter we will bring you up to date on the tax changes that have occurred so far in 2009, and some other interesting developments that affect us all. This and future Newsletters and other information will be posted on our website [www.famtax.com](http://www.famtax.com).

Let's start with the American Recovery and Reinvestment Act of 2009 ("ARRA"). That's the huge stimulus bill enacted last spring.

- **Unemployment Compensation:** In 2009 only the first \$2,400 is exempt from tax. (Given the economic climate, this might be extended to 2010.)
- **Sales Tax on Purchase of Motor Vehicle:** For most people using the Standard Deduction, the sales tax paid on the purchase (not lease) of a motor vehicle between February 18 and December 31, 2009 is deductible as an addition to the Standard Deduction. (Itemizers still have the option of claiming the deduction for sales tax or state income taxes, whichever is greater.) The tax paid on the first \$49,500 of purchase price is deductible. It can be used to purchase more than one vehicle during the year. Qualifying vehicles are cars, trucks, and motorcycles weighing less than 8500 pounds, and also motor homes. Single taxpayers with income over \$135,000 and married taxpayers with income over \$260,000 cannot claim this deduction.
- **Child Tax Credit** has been changed to make more of it "refundable". A *refundable credit* is a credit that can reduce the tax below zero, thereby creating a refund, even if there is no tax; a *non-refundable credit* is one that can only be used to offset tax and cannot reduce the tax below zero.
- The **Hope Credit** for education expenses has been renamed the **American Opportunity Tax Credit**, and has been increased to a maximum of \$2500 per year (up from \$1800 in 2008), with \$1000 of that being "refundable".
- **Residential Energy Credits** have been expanded and extended, although the total limit remains \$1500. These credits are *not refundable*; this means that you must have tax to offset with the credit. Sellers of air-conditioning and windows have been using the credit as a sales pitch. For low income people this credit is

basically worthless.

- **Credit for Plug-In Electric Vehicles:** Watch out for this one, especially our Arizona clients. This credit *does not apply to Golf Carts*. Many dealers are saying that it does. The credit applies to plug-in vehicles that are designed primarily for *on-road use*, and must meet several additional standards. The most important requirement is: *The manufacturer must give a statement of certification that the vehicle meets all federal standards for this credit*. Without this certification there is no credit.
- **First Time Homebuyer Credit** has changed dramatically. New in 2008, it granted a \$7500 credit to first time homebuyers; however, this had to be repaid over several years. This old credit was really an interest free loan. The new 2009 credit is \$8000 and does not have to be repaid. To qualify, the home must be purchased (sale closed) by **November 30, 2009**. Congress is discussing extending this date.
- **Making Work Pay Credit** is really another rebate that is has been reducing withholding taxes since April 1. The credit is 6.2% of a person's income from work, with a maximum of \$400 per person per year. The credit applies to 2009 and 2010. (Non-working people receiving Social Security received a \$250 check earlier in 2009.)
- The **Alternative Minimum Tax** has once again been "patched" for 2009 so as to prevent millions of middle-class taxpayers from being caught in its trap. At least Congress did not wait until December to do it this year. Maybe someday they will make the "patch" permanent.
- **Bonus Depreciation** allows businesses to write-off large amounts of newly purchased assets that would normally be required to be depreciated over several years.
- **COBRA Medical Insurance Subsidy** for employees who lose their jobs between September 1, 2008 and December 31, 2009: The federal government will pay 65% of the COBRA premium for up to 9 months. This applies to former employees who initially declined COBRA at the time of their job loss. Laid off employees now have a second chance to decide about COBRA, and should contact their former employers.
- **Conversion from Regular to Roth IRA in 2010:** Taxpayers making over \$100,000 per year have not been permitted to convert a Regular IRA into a Roth IRA. The \$100,000 rule expires in 2010. Regular and Roth IRAs each have their advantages and disadvantages, and the rules are quite complex. In a nutshell, when you contribute money to a Regular IRA the contribution is tax deductible; when you withdraw the money later on, the withdrawal is fully taxable. The opposite is true of a Roth IRA: There is no deduction for contributions, and withdrawals are tax free. Please give us a call if you want to discuss this complex issue.

Along with federal changes, many states have changed their taxes as well. In **New York** there is a new Metropolitan Commuter Transportation Mobility Tax ("MCTM") on all businesses in New York City, and the counties of Westchester, Putnam, Rockland, Orange, Dutchess, Nassau, and Suffolk. The tax is 0.34% of net income. Estimated tax payments are required with 75% due by November 2, 2009 and 25% due by February 1, 2010. Also in **New York**, individuals with more than \$1,000,000 income will see substantial increases in their

state income tax (and City income tax for New York City residents).

A reminder to our **Arizona** clients: If your income (both taxable and non-taxable) is less than \$32,352 (single) or \$40,440 (joint), you might be eligible to have your real estate taxes on your home frozen. Please contact Dan for further information.

**Cost of Living Tax Adjustments:** Each year numerous provisions of the tax law are adjusted based on changes in the cost of living. It has just been announced that there will be **zero** cost of living adjustment for Social Security recipients in 2010. In addition, the cost of Medicare will rise, so many (but not all) people will start getting *smaller* Social Security checks in January. Other cost of living adjustments for 2010 have not yet been announced, but are expected to be small.

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Have you been getting lots of notices from your credit card companies telling you that your new interest rate is 29.99% or so, and that your credit line has been cut by 50% or more? Almost everyone has been getting these. The banks are trying to squeeze as much out of their customers as possible before the main portions of the new credit card laws take effect on February 1, 2010. Among the new restrictions are set to take affect are:


- Banks cannot raise interest rates on already existing balances.
- Penalty interest rates cannot be assessed until you are 60 days late in payments.
- Banks must give 45 days notice before raising interest rates.
- Banks must mail bills at least 21 days before payment is due.
- If payment is received by 5 PM on the due date it must be considered on time. (Many banks required payment by 2 AM on the due date to deliberately deceive people into paying late.) Also, if the due date is a Saturday, Sunday, or legal holiday, your payment is considered on time if it arrives on the next business day.
- Banks must apply payments first to the portion of debt that carries the *highest* interest rate, rather than the lowest as has been past practice.
- Customers must give consent for the bank to allow you to go over your credit limit, thereby incurring a fee.
- No one under 21 years of age will be permitted to have a credit card unless a parent or legal guardian is the primary cardholder.

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Watch for your 2009 Tax Information package which we will send to our clients in early January.

Please feel free to call or write if you have any questions.

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