

HIGHLIGHTS OF 2009 TAX CHANGES

Stimulus Payments & Credits

Making Work Pay Credit You may be able to take this credit if you have earned income from work. Payroll withholdings were reduced in May 2009 to give benefit of this credit without waiting until your 2009 return is filed. **(See NOTE 1)**

You **cannot** take the credit if:

- Your modified AGI is \$95,000 (\$190,000 if married filing jointly) or more,
- You are a nonresident alien, or
- You can be claimed as a dependent on someone else's return.

The maximum credit is \$400 (\$800 if married filing jointly). The credit will be reduced if:

- You receive a \$250 economic recovery payment (described below) during 2009,
- Your modified AGI is more than \$75,000 (\$150,000 if married filing jointly), or
- You take the government retiree credit discussed next.

Government Retiree Credit You are eligible to take this credit if you receive a pension or annuity payment in 2009 for service performed for the U.S. Government or any U.S. state or local government (or any instrumentality of one or more of these) and the service was not covered by social security. The credit is \$250 (\$500 if married filing jointly and both you and your spouse receive a qualifying pension or annuity). However, you cannot take the credit if you receive a \$250 economic recovery payment during 2009 (discussed next). If you file a joint return, both you and your spouse receive a qualifying pension or annuity, and both of you receive an economic recovery payment, no government retiree credit is allowed; if only one of you receives an economic recovery payment, the credit is \$250.

Economic Recovery Payment Any economic recovery payment you receive during 2009 is not taxable. These \$250 payments are being made to most people who:

- Receive social security benefits, SSI, railroad retirement benefits, or veterans disability compensation or pension benefits, and
- Live in a U.S. state, the District of Columbia, Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa, or the Northern Mariana Islands.

If you are married and you and your spouse both meet these requirements, each of you may get a \$250 payment. If you are entitled to a payment, you will get it automatically you do not need to apply for it. **(See NOTE 2)**

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NOTE 1: If you are having tax withheld on your pension, you may be under-withheld. IRS has revised the 2009 tables to reflect the new payroll tax credit of up to \$800 for workers. But this is a problem for retirees who elected to have federal income tax taken from their pension payouts. If they don't have any earned income, they are ineligible for the payroll tax credit, yet their withholding will still be lower. You may be subject to an underpayment penalty if you do not meet the amount paid in requirements.

NOTE 2: If you receive a \$250 Economic Recovery Payment and are still working, you will have to pay it back when you file 2009 tax return because you are also getting the "Making Work Pay" credit. A word to the wise should be sufficient.

Energy Credits

Residential Property You may be able to claim a non-business energy property credit of 30% of the cost of certain energy-efficient property or improvements you placed in service in 2009. This property can include high-efficiency heat pumps, air conditioners, and water heaters. It also may include energy-efficient windows, doors, insulation materials, and certain roofs. The credit has been expanded to include certain asphalt roofs and stoves that burn biomass fuel. The total amount of credit you can claim in 2009 and 2010 is **limited to \$1,500**.

Residential Energy Efficient Property Credit Beginning in 2009, there is no limitation on the credit amount for qualified solar electric property costs, qualified solar water heating property costs, qualified small wind energy property costs, and qualified geothermal heat pump property costs. The limitation on the credit amount for qualified fuel cell property costs remains the same.

Plug-In Electric Vehicles The Emergency Economic Stabilization Act of 2008 created a tax credit for vehicles that have at least four wheels and draw propulsion using a rechargeable traction battery with at least four kilowatt hours of capacity (e.g. plug-in Hybrids). For 2009, the minimum credit is \$2,500 and the credit tops out at \$7,500 to \$15,000, depending on the weight of the vehicle and the capacity of the battery.

Other Deductions & Credits

Hope 2009 and 2010 Changes For tax years 2009 and 2010, the following changes have been made to the Hope Credit.

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- The maximum amount of the Hope Credit increases to \$2,500 per student. The credit is phased out if your modified adjusted gross income (AGI) is between \$80,000 and \$90,000 (\$160,000 and \$180,000 if you file a joint return).
- The Hope Credit can now be claimed for the **first four years** of post-secondary education. Previously the credit could be claimed for only the first two years of post-secondary education.
- Forty percent (.40) of the Hope Credit is now a **refundable credit**, which means that you can receive up to \$1,000 even if you owe no taxes.
- 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

For 2009, the amount of your Lifetime Learning Credit is phased out if your modified adjusted gross income (AGI) is between \$50,000 and \$60,000 (\$100,000 and \$120,000 if you file a joint return).

First Time Home Buyer

If you are a first-time homebuyer, you may be able to claim a one-time tax credit equal to the lesser of:

- \$7,500 (\$8,000 if you purchased your home in 2009), but only half of that amount if married filing separately, or
- 10% of the purchase price of your home.

You may be able to claim the credit if:

- You purchased your main home in the United States after April 8, 2008, and before December 1, 2009, and
- You (and your spouse if married) did not own any other main home during the 3-year period ending on the date of purchase.

If you constructed your main home, you are treated as having purchased it on the date you first occupied it.

You cannot claim the credit if any of the following apply.

- Your modified adjusted gross income is \$95,000 or more (\$170,000 or more if married filing jointly).
- You are, or were, eligible to claim the District of Columbia first-time homebuyer credit for any taxable year. See Form 8859. This rule does not apply for a home purchased in 2009.
- Your home financing comes from tax-exempt mortgage revenue bonds. This rule does not apply for a home purchased in 2009.
- You are a nonresident alien
- Your home is located outside the United States

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- You sell the home, or it ceases to be your main home, before the end of 2008
- You acquired your home by gift or inheritance
- You acquired your home from a related person. A related person includes:
 - Your spouse, ancestors (parents, grandparents, etc.), or lineal descendants (children, grandchildren, etc.)
 - A corporation in which you directly or indirectly own more than 50% in value of the outstanding stock of the corporation
 - A partnership in which you directly or indirectly own more than 50% of the capital interest or profits interests

For homes purchased in 2009, you must repay the credit only if the home ceases to be your main home within the 36-month period beginning on the purchase date. This includes situations where you sell the home, you convert it to business or rental property, or the home is destroyed, condemned, or disposed of under threat of condemnation. You repay the credit by including it as additional tax on the return for the year the home ceases to be your main home. If the home continues to be your main home for at least 36 months beginning on the purchase date, you do not have to repay any of the credit.

Unemployment Compensation For any tax year beginning in 2009, you can exclude from gross income \$2,400 of unemployment compensation you received during the year.

Sales Tax Deduction for Vehicle Purchases

Taxpayers who buy a new car or several other types of motor vehicles this year may be entitled to a special tax deduction when they file their 2009 federal tax returns next year. The tax break is part of the American Recovery and Reinvestment Act of 2009.

Here are seven things you should know about this new deduction:

1. State and local sales taxes paid on the first \$49,500 of the purchase price of qualifying vehicles are deductible.
2. Qualified motor vehicles generally include new **(not used)** cars, light trucks, motor homes and motorcycles.
3. Purchases must occur after Feb. 16, 2009, and before Jan. 1, 2010.
4. This deduction can be taken regardless of whether or not you itemize other deductions on your 2009 tax return.
5. The amount of the deduction is phased out for taxpayers whose modified adjusted gross income is between \$125,000 and \$135,000 for individual filers and between \$250,000 and \$260,000 for joint filers.