

The combination of a new President and a serious economic crisis has led to tremendous changes in the tax law. Many of the changes are designed to reinvigorate the economy and we want to assist you in taking advantage of several opportunities. We have highlighted below the items we feel are likely to be the most beneficial. We anticipate additional changes before the year is out and will continue to update you on important changes. We encourage you to contact us throughout the year if you have questions.

### New Tax Law Changes - Individual

- **Making Work Pay Credit** – This credit will potentially be available to you when filing your 2009 income tax return. The credit is based on a percentage of your “earned” (wages or self-employment income) income for the year. The maximum credit is \$400 for single taxpayers and \$800 for married (filing jointly). In an effort to spur the economy the government attempted to give this credit to taxpayers now (as opposed to waiting until you file your 2009 income tax return) by lowering the income tax withholding tables on wages. This credit is phased out when your income exceeds \$75,000 if single, or \$150,000 if married. For retirees that received the one-time \$250 payment earlier this year from Social Security, the amount of the credit will be reduced by the payment you received. Dependents (typically your children) claimed by another taxpayer are not eligible for the credit. We have some concerns that withholding tables have been lowered on individuals that may not qualify for the credit, or will only qualify for a reduced amount of credit. The result could mean that you will not have enough taxes paid in for 2009 and that could potentially generate an underpayment penalty. If you are concerned because you noticed a significant drop in your federal withholdings we encourage you to call us to help you project your tax situation for the year so that modifications can be made in your withholdings if necessary. In order to assist you we will need a current paystub that includes year-to-date figures.
- **First Time Homebuyer Credit** – This is a refundable credit equal to the lesser of 10% of the purchase price of the home (which must be your principal residence) or \$8,000. The credit applies to homes purchased after December 31, 2008 and before December 1, 2009 (note that the cut-off is the 1<sup>st</sup> of December, not year-end). To be eligible a taxpayer must not have had any home ownership for three years prior to the purchase date. The credit begins to phase out when income exceeds \$75,000 if single, or \$150,000 if married. If you sell the qualifying home (or convert the house from being your residence) within three years you must pay back the credit. Homes purchased from related parties (family members) do not qualify. Typically this credit will be requested on 2009 tax returns, however, you may be able to claim the credit on an amended 2008 tax return (even if the home purchase occurred during 2009) to expedite the refund.
- **Vehicle Sales Tax Deduction** – A deduction will be available on 2009 tax returns for sales taxes on certain new vehicles purchased, whether the taxpayer itemizes or takes the standard deduction. The purchase must occur after February 16, 2009 and before January 1, 2010. This new incentive is referred to as an “above-the-line” deduction. Eligible vehicles include cars, light trucks (gross vehicle weight less than 8,500 pounds), motorcycles and motor homes (no weight restrictions). The deduction is calculated on the lesser of the purchase price or \$49,500. As with many tax incentives the benefits are phased out for higher income taxpayers. The phase outs begin at \$125,000 if single and \$250,000 if married. So what is it worth to me? Say you purchase a \$40,000 vehicle in Indiana (7% sales tax rate) and that you are in the 25% tax bracket. The real benefit to you would be  $\$40,000 \times 7\% \times 25\% = \$700$ .
- **Unemployment Benefits** – Historically all unemployment benefits were taxable, however, beginning in 2009 the first \$2,400 of benefits is exempt from income taxes.
- **COBRA** – If you involuntarily lost your job between September 1, 2008 and December 31, 2009 the IRS will subsidize 65% of the cost of continuing health care insurance. The COBRA period remains 18 months, but the subsidy only lasts for 9 months. Again, the benefits phase out for higher income taxpayers. The phase outs begin at \$125,000 if single and \$250,000 if married. Call us for details, or discuss with your employer if you find yourself in this situation.
- **Education Credits** – A new “American Opportunity” credit replaces the “Hope” credit, and is much more lucrative. The new credit applies for the first four years of post-secondary education at a qualified institution. The credit increases to \$2,500 (from \$1,800) per student. When computing the credit allowable amounts include tuition, fees, books and course materials (previously books and course materials did not count), but not room and board costs. The student must be full-time for at least half the year. The credit begins to phase out when income exceeds \$80,000 if single or \$160,000 if married. For students that attended a college in a

federally declared disaster area in 2008 or 2009, where they would have been eligible for a \$3,600 credit, the larger amount will still be available for you.

- 529 Plans – Historically distributions from 529 were tax-free when used for tuition, room and board, fees and books. The definition has been expanded for 2009 to include computers and related software.
- Energy Credits – For residential (non-rentals) properties maximum alternative energy credit caps have been removed for solar hot water heaters, wind turbines and geothermal heat pumps. The alternative energy credit for 2009 equals 30% of the cost of these systems without limitation. In addition, certain improvements qualify for a credit including windows, insulation, exterior doors and certain roofing materials. These improvement credits are capped at \$1,500 per home for 2009 and 2010. This means the combined total credit for both years cannot exceed \$1,500. The credit is based on 30% of the qualifying costs of the windows. These credits are “non-refundable,” which means they can offset taxes down to zero, but any amount beyond that will not be refunded and is essentially lost. Keep in mind that Indiana still has an insulation deduction available for certain energy efficient doors and windows, as well as the addition of insulation. To qualify for the federal credit the improvements must meet certain technical standards. Typically the vendor you work with will be able to assist you in making sure your purchases qualify. However, if you need assistance from us, please don't hesitate to call.
- Pension Required Distributions – Upon reaching age 70½ taxpayers must begin taking “required minimum distributions” from retirement accounts. The intent of the rule is to prohibit a taxpayer from indefinitely deferring taxes on retirement savings. For 2009 the required minimum distribution rule has been suspended for retirement plans including §401(k) plans, §403(b) plans, certain §457(b) plans and IRA's in an effort to help you avoid having to liquidate investments in a down market.

### **New Tax Law Changes – Business**

- For 2008 the Code §179 expensing election for equipment (not including automobiles which have separate rules) was increased to \$250,000. This higher limit was extended through 2009. The Indiana limit, however, remains at \$25,000. In addition, various “bonus” depreciation deductions were extended through 2009. If you plan any significant purchases this year we encourage you to call us to discuss the various options available to maximize your benefit.
- The safe harbor (that is, the minimum payment required to avoid being penalized) for quarterly estimated payments for 2009 was reduced to 90% (instead of 100% or 110%) of your 2008 tax liability if your adjusted gross income was less than \$500,000 and you meet certain other “small business” criteria.
- There are also credits available to businesses that convert motor vehicles to a plug-in electric drive vehicle (not a hybrid). The credit is 10% of the cost up to \$4,000. Call us for details if you wish to pursue. For years after 2009 there will be limited credits for purchases of new plug-in electric vehicles (not hybrids).

### **Other Miscellaneous**

Our office has fielded numerous phone calls and faxes over the past few months related to correspondence received from the “Indiana Corporate Compliance Business Division.” These letters appear to be official documents from the State of Indiana urging you to engage them to update your corporate minutes. These letters are a hoax designed to extract unnecessary payments from you. While maintaining corporate minutes is something we encourage, we recommend that you work with your corporate attorney to remain compliant. The Indiana Secretary of State sent out a press release on June 4, 2009 indicating that they were pursuing legal action against this very deceptive company.

You may have seen recently in the news a blurb regarding employee personal use of company provided cell phones. Since 1989 the IRS has maintained a policy that any personal use of employer provided cell phones should be considered wages to the employee and added to the employee's W-2 for tax reporting. In general the rule says you must keep a record of each call and its business purpose. The percentage of business calls versus personal calls is then applied to the cost of the phone and the monthly service fees to compute the portion taxable (or reimbursable by the employee to the employer) to the employee. Our experience is that this requirement is often overlooked. In fact, we have never seen the issue raised even through several IRS audits. The problem is that the cost of recordkeeping far exceeds the minor taxes that would be raised, and therefore it is easier for everyone to simply ignore the rule. The IRS would like to change this, but they recognize that the administrative cost is overly burdensome. Accordingly they have opened a public comment period to explore ways to simplify the calculation and recordkeeping. We will stay tuned into these future regulation changes and update you as they happen.

Again, if you have any questions regarding these changes, please don't hesitate to contact us. Hope you have a wonderful summer season.

Sincerely,