



Dear Reliance Accounting Clients,

As we approach the end of 2009, it seems evident that taxes will soon go higher. In the past decade, tax legislation has provided lower tax rates and many targeted tax deductions and credits. Most of these provisions will expire at the end of 2010. That fact and the current search for revenue to fund health care reform will lead inevitably to higher taxes. The only questions are when, at what income levels, and by how much?

This Letter is being sent to remind you that right now is the ideal time to identify actions you can take before year-end to cut your 2009 taxes. It's also the right time to review your overall tax strategy in light of the coming tax changes. Please call us at (708) 478-3982 if you have questions or if you would like to get together to discuss your tax-cutting options. And if you have friends or associates who might be interested in tax planning information, feel free to share this Letter with them.

Beginning in early December we will have the Letter up on our website ([www.relianceaccounting.com](http://www.relianceaccounting.com)). Also please e-mail us ([mstan@relianceaccounting.com](mailto:mstan@relianceaccounting.com)) with your e-mail address if you want to receive tax planning updates throughout the year.

## Extension of 2008 Tax Provisions:

### **Energy Incentives**

Lower your 2009 taxes through energy-efficient home upgrades. Installing qualified windows and skylights can provide a tax credit, as can installing exterior doors, roofing, and insulation that meet energy-saving standards. What's more, a tax credit is available for up to 30% of the cost of major energy-savers, such as a qualified solar water heater or geothermal heat pump.

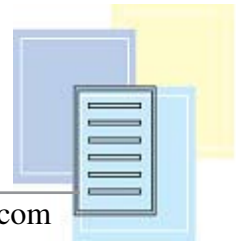
### **Standard Deduction For Non-Itemizers:**

- Real Estate Taxes (\$500/\$1,000)
- Sales Tax on New Vehicles

Need a new car? The American Recovery and Reinvestment Act of 2009 provides a deduction for sales taxes paid on new cars, light trucks, motorcycles, and even motor homes. The deduction is limited to the tax on \$49,500 of the purchase price. You don't have to itemize to take the deduction, and if you live in a state without sales tax, you can still deduct other fees and taxes associated with the sale.

The deduction is subject to phase-out for singles with adjusted gross income (AGI) exceeding \$125,000 and married couples with AGI exceeding \$250,000.

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### **Mortgage Forgiveness Debt Relief Act**

Prior to this Act, taxpayers would have to pay tax on the difference between the FMV of their principal residence and the amount of the remaining mortgage (there were a couple of exceptions under the old law) on a foreclosure or short sale. The Act, in most cases, excludes the debt forgiveness on principal residences.

### **15 Year (vs. 39 years) depreciation of certain leasehold improvements (also qualifies for 50% bonus depreciation)**

### **Tax Relief for Midwestern Disaster Area (MWDA)**

Double the maximum Hope credit (to \$3,600) and maximum lifetime learning credit (to \$4,000) for students attending institutions in the MWDA area. Applies to tax years 2008 & 2009.

### **Required Minimum Distributions (RMD) for defined contribution plans and IRA's are suspended for 2009 only.**

This means that instead of liquidating and withdrawing the funds, you can leave your investments intact to help recover from last year's devastating losses. This is also true for those who inherited a retirement account subject to RMD rules.

### **Section 179 (depreciation) is \$250,000 for qualifying property purchases**

The Recovery Act restored the higher Section 179 equipment expensing limit, allowing small businesses to write off as much as \$250,000 of new or used equipment purchased this year.

### **50% Bonus Depreciation**

New equipment, software, and leasehold improvements can qualify for a 50% first-year bonus depreciation deduction if purchased and placed in service before the end of 2009.

## **American Recovery and Reinvestment Act of 2009:**

### **First Time Home Buyer Credit** (see next page for extension of credit)

For purchases up to 11/30/09

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### **American Opportunity Credit (AOC) – Replaces Hope Credit**

- For 2009 & 2010 Only – Maximum amount of AOC credit increases from \$1,800 to \$2,500 (100% of first \$2,000 of qualifying expenses and 25% of next \$2,000)
- The AOC is available for the first 4 years (the Hope credit was only available for the first 2 years) of post-secondary education in a degree or certification programs.
- Course materials now qualify for the AOC credit
- There are phase-out ranges for “high income” individuals.

### **Making Work Pay Credit:**

- Your net payroll checks have probably increased by lower withholding during 2009 (this will occur in 2010 also)
  - Lesser of 6.2% of earned income or \$400 (\$800 for married couples filing jointly)
- There are phase out ranges so if your withholding was reduced in 2009 and you don't qualify for the credit your refund may be lower (or you payment will be more) than in previous years

Exclusion of up to \$2,400 of Unemployment Compensation (per person)

### **529 Expenses (Education Savings Accounts)**

Computer equipment now qualifies for a tax-free distribution from a 529 plan

### **Child Tax Credit Enhancements**

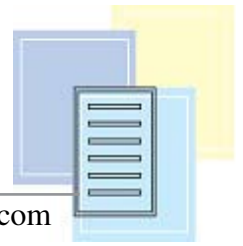
#### **Decrease in tax required to be paid by 1/15/10 in order to not be penalized (only applies to small business owners)**

- 90% of tax shown on the tax return of the current tax year
- 90% (was 100%) of tax shown on the preceding year's tax return

### **COBRA contribution rules:**

If an employer paid for an ex-employee's COBRA and the ex-employee does not qualify for COBRA payment (due to income limitations), the corporation may issue the ex-employee a 1099 for the amount of the COBRA paid by the employer.

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### **Extension of Homebuyer Credit:**

Congress gave final approval to legislation expanding the \$8,000 tax credit for first-time homebuyers. The new bill extends until April 30 the tax credit for first-time homebuyers that would otherwise expire at the end of November.

The legislation will allow the credit for couples earning up to \$225,000 a year and individuals earning up to \$125,000. That's up from the current \$75,000 limit for individuals and \$150,000 for couples.

The legislation also will allow homebuyers who have owned their prior residence for at least five years out of the last 8 years to receive a \$6,500 credit. Those who sell their new home or no longer use it as their main residence within three years would have to repay the credit. Homes worth more than \$800,000 are not eligible.

### **Other Tax Planning:**

#### **Invest in yourself**

Having thoughts about returning to school? Now may be the time. Up to \$4,000 of higher education costs for yourself, your spouse, or a dependent can be deducted from taxable income in 2009 if you meet the income limits (\$65,000 or less for singles, \$130,000 or less for joint filers). If income exceeds these amounts, the deduction drops to a \$2,000 limit. Above income of \$80,000 for singles and \$160,000 for couples, no deduction is allowed.

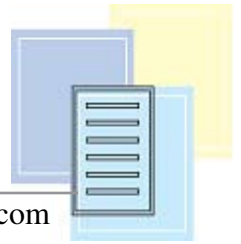
#### **Help your favorite charity**

Recent economic times have probably been hard on your favorite charity, and there are ways for you to help. Last year, Congress extended through 2009 the charitable IRA rollover provision which allows those aged 70½ or older to make tax-free distributions of up to \$100,000 direct from an IRA to a qualified charity. Businesses can help charities as well by taking advantage of the newly enhanced deductions for donations of qualified food, books, and computer equipment.

This is also a good time to look through your closets and donate unneeded clothing and other household items to charity. Just be sure to keep your receipts. Recent tax law changes have ratcheted up the recordkeeping required for both cash and noncash charitable deductions.

If you use your vehicle for charitable activities, take note of a recent IRS clarification on what you can deduct. You can deduct either a standard rate of 14¢ a mile, or with reliable written records, you can deduct actual out-of-pocket expenses for your vehicle usage in charitable volunteer work.

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### **Buying Mutual Funds at the end of the year**

If you are considering an investment in mutual funds, pay special attention to the fund's proposed date for capital gains distributions. Mutual funds generally distribute all capital gains to investors toward the end of the year. If you purchase a mutual fund just before a distribution date, you will receive the distribution and be required to include it in your taxable income. Since the price of the fund shares before and after a dividend distribution reflect the amount of the dividend, you are actually paying income tax on part of your own purchase price. To avoid this outcome, call the fund and ask for the ex-dividend date and the estimated payout and make your purchase after that date.

### **Other Tax-Related Items:**

Beginning with 2009 tax returns, Illinois is now requiring taxpayers' real estate PIN #. Without the PIN #, Illinois will not allow a property tax credit. Please bring in (for in person meetings) or send us (for clients mailing their information) your PIN # (on your real estate tax bill) beginning this upcoming tax season.

The IRS is requiring all federal individual tax returns to be filed electronically (for tax preparers preparing over 10 tax returns) for 2010 tax returns.

Beginning in 2011, the IRS is requiring brokers to report cost basis (the amount the stock was purchased at) information and other security transactions to the IRS and whether the gains or losses are long-term or short-term. This applies to stocks acquired after 1/1/11 and mutual funds acquired after 1/1/12.

The AGI limitations have been eliminated for 2010 only with regard to converting a traditional IRA to a Roth IRA. Further, the tax on the conversions can be deferred (50% taxed in 2011 and 50% taxed in 2012)

For assistance with the year-end tax planning, give our office a call @ 708-478-3982.

Sincerely,

**Marty Staniszewski, CPA**

Reliance Accounting

*NOTE: This newsletter is issued annually to provide you with information about minimizing your taxes. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.*