

## 2009 Mid Year Newsletter

It has been a treacherous ride for businesses and individuals for the last several quarters. The standard of living in American households has drastically declined as a result of turmoil in the stock market, loss of home equity, rising unemployment, and the dwindling values of pension and retirement funds. The business sector was squeezed by the credit crunch created by a lack of short term financing by banks. The economy was in a dire state and in desperate need of some intervention by the government.

Congress, with the intention of stimulating the ailing economy and trying to create more jobs and growth by encouraging capital expenditure and consumer spending, passed the American Recovery and Reinvestment Act of 2009 (ARRA) which provides a number of incentives for businesses and individuals. This stimulus package was signed into law February 17, 2009. Let us briefly discuss the provisions that may be crucial for tax savings and putting money in your pocket.

### ▪ **50 Percent Specials Depreciation Allowance/Bonus Depreciation Plus Section 179 Expansions**

Consider investing in Capital Assets. Qualifying property placed in service in 2009 is eligible to receive a 50 percent bonus depreciation allowance plus an increased limit of \$250,000 on Section 179 qualifying expenditures.

The following example will make it easier to understand the benefit of this excellent incentive:

<u>2009 Equipment Purchases:</u>	<u>\$400,000</u>
First Year Write Off: (Under the new law, \$250,000 is the Maximum Section 179 write-off in 2009)	\$250,000
Bonus First Year Depreciation: (On remaining value: \$400k-\$250k. \$150k x 50% = \$75k)	\$ 75,000
Normal First Year Depreciaton: (Depreciation calculated at 5 years, Meaning 20% per year. \$75k x 20% = \$15k)	\$ 15,000
Total First Year Deduction: (\$250k + \$75k + \$15k = \$340k)	\$340,000
Tax Savings: (Assume 35% tax rate. \$340k x .35 = \$119k)	\$119,000
Total Equipment Cost: (\$400k less all tax deductions of \$119k)	\$281,000



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▪Also, a corporation that acquires eligible business property has one additional year to accelerate certain tax credits in lieu of bonus depreciation deduction.

▪**Extended Net Operating Loss Carry Back**

Small businesses with average gross receipts of less than \$15 million over a three year period can carry back losses to five years instead of the usual two years. This could mean a special tax refund for several businesses who suffered in this recessionary economy.

▪**Estimated Tax Requirement Modification**

Individual and small business owners can defer a major portion of their tax obligations until the end of 2009. Eligible individuals can make quarterly estimates equal to either 90% of their 2009 taxes or 90% of their 2008 tax liability.

▪**Discharge of Business Indebtedness**

This tax provision allows certain businesses that repurchase specific types of debt in 2009 and 2010 to pay taxes on cancellation of debt income over a five year period starting with tax year 2014.

▪**Exclusion of gain on sale of Small Business Stock**

There will be an excellent opportunity for business owners who are in the market to sell their business or looking to retire in the near future.

The new tax law provides an increase in Section 1202 exclusion from 50% (60% for enterprise qualified business stock) to 75% for any gain or exchange of qualified small business stock acquired after February 17, 2009 and before January 1, 2011 and held for more than five years. This provision is limited to individual investors only and not available to corporations.

▪**S Corporations Built in gains holding period**

For tax year beginning in either 2009 or 2010, the new law eliminates the corporate level tax on the built in gains of an S Corporation that converted from C Corporation status at least seven tax years before the current tax year.

▪**Cobra Premium Assistance**

Under the new law employers who were involuntarily terminated after August 2008 and before January 1, 2010, and who elect Cobra Health continuation coverage are entitled to receive 65% subsidy on their Cobra premiums. In other words, an employee can pay 35% of the health insurance premiums, and the employer can recover the balance of 65% of the premiums by taking the subsidy amount as a credit against their quarterly employment taxes.

### **•Making Work Pay Tax Credit**

New optional withholding provisions are available which can help taxpayers keep more money in their pockets by withholding a lower amount of tax from their paychecks. However, a word of caution, if you are not eligible for the “Making Work Pay Credit,” the withholding changes mean smaller refunds in next Spring’s tax filing season or in certain cases may result in taxes being owed.

### **•First Time Homebuyer Credit Expands**

The new provision provides for an increase in the first time homebuyer credit to \$8,000 for purchases made during 2009 but before December 1, 2009. This credit does not have to be repaid unless the home ceases to be the taxpayer’s main residence within a three year period following the date of purchase. Additionally, if the purchase closing occurs before April 15, 2009, the taxpayer can still claim the credit on their 2008 tax return by requesting an extension to file or even filing an amended tax return if the return has already been filed.

### **•Money Back on Vehicle Purchase**

The new tax law provides an enhanced deduction for state, local, and excise taxes paid on the purchase of new cars, light trucks, motor homes and motorcycles through 2009. The deduction is available regardless of whether a taxpayer itemizes their deductions on Schedule A. Purchases before February 17, 2009, are not eligible for this special deduction.

The deduction is limited to the tax on up to \$49,500 of the purchase price of an eligible motor vehicle. The deduction is phased out for joint filers with modified adjusted gross income between \$250,000 and \$260,000 and other taxpayers with modified AGI’s between \$125,000 and \$135,000.

### **•Unemployment Benefit Taxability**

Under the American Recovery and Reinvestment Act of 2009 the first \$2,400 of unemployment benefit an individual receives in 2009 are now tax free.

### **•Increased Transportation Subsidy**

The monthly tax exclusion for Employer Provided Commuter Highway Vehicle Transportation and Transit Pass Benefit has been increased to \$230 effective March 1, 2009 through December 31, 2009. An employee may exclude from income \$230 per month in transit benefits and \$230 per month in parking benefits up to a maximum of \$460 per month. The monthly exclusion amount will be adjusted for inflation beginning in 2010.

### **•Enhanced Credit for Tax Year 2009/2010**

Under the American Recovery and Reinvestment Act, more parents and students will qualify over the next two years for a new tax credit called the American Opportunity Credit, to help offset some of their college and tuition related expenses.

The American Opportunity Credit is not available on the 2008 returns taxpayers are filing during 2009. The new credit modifies the existing Hope Credit for tax years 2009 and 2010, making the Hope Credit available to a broader range of taxpayers, including many with higher incomes and to those who owe no tax. The credit allows required course materials to be included on the list of qualifying colleges expenses and also allows the credit to be claimed for four post-secondary education years instead of only the first two years. Many of those eligible will qualify for the maximum annual credit of \$2,500 per student.

The full credit is available to individuals whose modified adjusted gross income is \$80,000 or less, or \$160,000 or less for married couples filing a joint return. The credit begins to phase out for taxpayers with incomes above these levels. These income limits are higher than under the existing Hope and Lifetime Learning Credits.

### **•Earned Income Tax Credit**

The American Recovery and Reinvestment Act provides a temporary increase in the earned income tax credit for taxpayers with three or more qualifying children. The maximum EITC for this new category is \$5,657. ARRA also increases the beginning point of the phaseout range for the credit for all married couples filing a joint return, regardless of the number of children. These changes apply to 2009 and 2010.

The earned income tax credit is a refundable credit intended to help people who work but earn modest income. The credit begins to phase out at \$21,420 for married taxpayers filing a joint return with children and is completely phased out at \$40,463 for one child, \$45,295 for two children and \$48,279 for three or more children. For married taxpayers filing a joint return with no children, the credit begins to phase out at \$12,470 and completely phases out at \$18,440.

### **•Additional Child Tax Credit**

Under the American Recovery and Reinvestment Act, more families will be eligible for the additional child tax credit because of a change in the way the credit is figured.

Taxpayers who cannot take full advantage of the child tax credit because the credit is more than the taxes they owe may receive a payment for some or all of the credit not used to offset their taxes. It is a refundable credit, which means taxpayers may receive refunds even when they do not owe any tax.

ARRA reduces the minimum earned income amount used to calculate the additional child tax credit to \$3,000. Before ARRA, the minimum earned income amount was set to rise to \$12,550. Reducing the amount to \$3,000 permits more taxpayers to use the additional child tax credit and increases the amount of the payments they may receive.

This change applies to tax years beginning in 2009 and 2010.

### **•Energy Incentives**

- Extension of Renewable Energy Production Tax Credit
- Election of Investment Credit in Lieu of Production Credit
- Repeal of Certain Limits on Business Credits for Renewable Energy Property
- Coordination with Renewable Energy Grants
- New Clean Renewable Energy Bonds
- Temporary Increase in Credit for Alternative Fuel Vehicle Refueling Property
- Increased Exclusion Amount for Commuter Transit Benefits and Transit Passes

As you read through this article, you probably are overwhelmed by the vastness of this package. However, at AVM DeMars CPA, P.C. we can provide you with excellent guidance and advice. We understand the tax laws. We will use all of the tools and strategies provided by ARRA to save your tax dollars. We listen. We care. We deliver.

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References – IRS – Gov, Sec 179-Org

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