

Tax Update 2009

Form 1040

Dependent Check Box added to line 6c

Unemployment – first \$2400 per person can be excluded from FEDERAL Income (this will cause more adjustments on State returns that start with Federal AGI but do not conform to Federal law)

Standard Deduction flat amounts increased:

\$5,700 – Single

\$11,400 – MFJ or QW

\$8,350 – HOH

\$1,100 for Blind or over 65 (\$1,400 if single or HOH)

Standard Deduction modified (computation is on new “Schedule L” for certain real estate taxes, new motor vehicle taxes or net disaster loss)

Exemption amount is now \$3,650 (if AGI is less than \$125,100 and you did not house MWDI)

Education Credits are split so that part is refundable and part is not. (lines 49 and 66 on 1040)

New Credit – Making Work Pay and Government Retiree Credits (“Schedule M”)

RRC line entry – is eliminated from the return

Schedule A

New Motor Vehicle Taxes

Phase out is changed to \$166,800 (\$83,400 if MFS)

Information entered on "A" screen will automatically carry to Standard Deduction computation if that is advantageous.

- a. Sales Taxes Paid on Vehicle Purchases
 - i. May deduct sales or excise tax for purchases from 2/17/09 through 12/31/09
 - ii. Qualified vehicle – "New" car or truck
 - iii. Deductible as "taxes" if itemized
 - iv. Deductible ad "Additional Standard Deduction" if standard used
 - v. Reduces AMTI
 - vi. Purchase price over \$49,500 NOT deductible
 - 1. \$49500 is limit PER vehicle
 - vii. Phase out is \$250-\$260k Joint - \$125 - \$135 Single
 - viii. Not allowed if deduct state & local sales taxes in lieu of state income tax
- Kerri's Note: Data to calc the amount of deduction will be captured on screen 'A'.*

For itemizers - It will be on Schedule A, Line 7. Schedule A is now 2 pages to show the calculation of the amount of vehicle tax deduction. Page 2 will only produce when the vehicle sales tax deduction is being taken.

For standard deduction – Will be claimed on the new Schedule L, Standard Deduction for Certain Filers, which the program will automatically generate based on existing data entry screens when the (A, 4684)

Schedule L

State and Local Real Estate Taxes (first \$500 per person)

New Motor Vehicle Taxes on first \$49,500

Net Disaster Loss from 4684

Schedule M

Making Work Pay and Government Retiree Credits

Phased out over \$75,000 (\$150,000 for MFJ)

Smaller of \$400 or 6.2% of Earned Income per person

Reduced by Economic Recovery Payment and Government Retiree Credit

Government Retiree Credit is \$250 per person that received Government Pension but did not receive an Economic Recovery payment

Making Work Pay

Credit 6.2% of "Earned Income" MAX \$800, \$400 Single

Max Credit = Earned Income at least \$12,903 (\$6452 single)

Phase out AGI = \$150k-\$190k joint (\$75k - \$95k Single)

MUST have valid SSN

Credit reduced by

\$250 Economic Recovery Payment AND

\$250 Credit for Gov't retirees

Does not apply to nonresident aliens OR if CAN be claimed as dependent of another

Kerri's Note: Schedule M will automatically generate on all taxpayers that qualify for the Making Work Pay credit. A screen 'M' has been added to collect data related to government employees.

May need to use "other" reason for underpayment on 2210

Economic Recovery Payment

\$250 to Veterans, Social Security Recipients, Railroad Retirees or Supplemental Security Income

NO AGI phaseout

Payments were made "no later" than June 17th (NOT BY IRS)

Kerri's Note: They need to tell the software if they received this payment on new screen 'M'

Government Retiree Credit

\$250 refundable credit

Applies to persons receiving retirement from US, State or Local Gov'ts.

To qualify, can't have received Economic Recovery Payment

No AGI Phaseout

Schedule EIC

Earned Income Credit

Child #3 is added to the form (3 children get the Max EIC – so no need to list more)

Child must be YOUNGER than taxpayer and born after 1990 (or full time student and under age 24)

INCREASED EIC

For taxpayers with 3 or more children, EITC credit goes from 40% to 45% of \$12,570.

Max EIC increases \$628.50 to \$5,656.50

Phaseout increases for joint – 3 kids phase out goes from \$21,420 - \$45,295 (was \$19,450 - \$43,415)

Kerri's Note: Forms 8867, 8862 and Schedule EIC have been updated by the IRS to reflect the addition of a 3rd child. The EIC Due Diligence component will also be updated.

- i. Modification of rules for qualifying child
 1. The qualifying child must be younger than the taxpayer claiming the child.
 2. The qualifying child must not have filed a joint return other than for a claim of refund.
 3. A taxpayer other than the parents of a qualifying child is allowed to claim the child, but only if the taxpayer's AGI is higher than the highest AGI of any parent of the child.
 4. The child tax credit is only allowed for a qualifying child for whom the taxpayer is allowed a dependency deduction

Form 8867, Paid Preparer's Earned Income Credit Checklist, will be updated to reflect provisions 1 – 3. The IRS has not yet defined how due diligence will be met for the AGI component o

Form 5405

First-Time Homebuyer Credit and Repayment of the Credit

For 2009 credits, the home must be purchased in Calendar year 2009 before December (unless extended). There is a movement in Congress to extend this.

Credit amount is \$8000 (\$4000 if MFS)

There is no payback of the 2009 credit unless you have to RECAPTURE within 36 months.

There is a payback of the 2008 credit which begins on 2010 tax return.

If they claimed a credit in 2008 but disposed of the home or it is no longer their principal residence, then they may have to reclaim the credit (especially if you sold the home for a profit)

ii. General Provisions (same for 2008 AND 2009)

5. 1st time homebuyer – Neither taxpayer nor spouse owned principal residence during 3 year period ending with date of purchase.
6. Principal Residence located in US
7. NOT purchased from related party, received by gift or bequest
8. May take credit on 2008 return for qualified 2009 purchase
 - a. AGI phaseout based on that year's return
9. Credit claimed on 5405
10. Credit limited to 10% of purchase price
11. Credit is REFUNDABLE
12. Credit is allowed for AMT purposes
13. Phase-Out \$75,000 - \$95,000 S or \$150k - \$170k joint
14. FAQs on IRS.gov, IRS is asking for HUD statements and possibly a copy of the deed.

Kerri's Note May want to mention that fraud related to the 5405 is on the IRS's radar and have already successfully prosecuted at least 1 preparer fraudulently filing claims. We will be adding some due diligence to the 5405 to help guide preparers in ensuring and documenting that it is a legitimate claim.

i. Other items on Homebuyers' Credit

15. First time homebuyer
16. Marital status is determined at the DATE of purchase
 - a. Either spouse can cause disqualification
 - b. Unmarried co-owners – credit “shall be allocated in such manner as the Secretary may prescribe, except that the TOTAL amount of the credits allowed ...shall not exceed \$8,000”.
 - i. The co-owners may allocate to each other in any “reasonable manner”
 - ii. The IRS says we can allocate the entire credit to one owner if only one qualifies

iii. Examples in IRS Notice 2009-12

17. Principal Residence

- a. Living in one home, while renting your prior principal residence is OK
- b. Principal residence is determined under code sec 121
 - i. In general, the home used the majority of the time during the tax year.
 - ii. Other than that, it's FACTS and Circumstances
 - iii. Boats OK, RVs aren't.

18. Purchased

- a. Home must be "Purchased".
 - i. Cannot be "gifted" or bought from related party
 - 1. Family members only include spouse, parent, grandparent, child or grandchild. DOES NOT include brothers, sisters, aunts, uncles, or STEP relatives.
 - ii. For constructed homes, it's the date you OCCUPY the home.

19. Other Items

- a. NON RESIDENT aliens are NOT eligible.
- b. If they move out before the end of the tax year, they're NOT eligible.
- c. State credits offered

Form 5695 --Now a 2 page form

Residential Energy Credits

Many of the items that were deleted in 2008 have been added back in for 2009.

Qualified Energy Efficient Home Improvements and Energy Saving Vehicles

Pre 2008 Credit	2009-2010 Credit (none for 2008)
Max Lifetime \$500	Max \$1,500 aggregate Credit for 2009 & 2010
10% Insulation, windows (max \$200) doors & roofs	30% of costs rather than 100% with NO individual maximums
100% energy efficient fans (max \$50) furnaces (\$150) Heat pumps, water heaters (max \$300)	30% of costs rather than 100% with NO individual maximums
Expenditures from energy subsidized financing do not count	DO count
Must be principal residence in the US	Must be principal residence in the US

Manufacturer MUST receive certification (should be on their website).

Kerri's Notes:

Form 5695, Residential Energy Credits, has been updated to reflect the new energy provisions.

Form 8812

Additional Child Tax Credit

Refundable portion of Child Tax Credit

iii. For 2009 and 2010 base amount decreases

	2008	PreAct 2009	NEW 2009	2010
Earned Income	\$15,167	\$19,217	\$9,667	\$9,667
Less	(\$8,500)	(\$12,550)	(\$3,000)	(\$3,000)
	\$6,667	\$6,667	\$6,667	\$6,667
	15%	15%	15%	15%
REFUNDABLE AMOUNT	\$1,000	\$1,000	\$1,000	\$1,000

Form 8834

Qualified Plug-In Electric and Electric Vehicle Credit

Form 8863 – Now a 2 page form

Education Credits

(American Opportunity, Hope, and Lifetime Learning Credits)

Part of American Opportunity Credit is REFUNDABLE.

You have to fill out this form to determine how much is in each category.

a. Education Credits and Deductions

2008 (HOPE CREDIT)	2009-10 (American Opportunity Credit)
$100\% \times \$1,200 + 50\% \times \$1200 = \text{MAX } \$1,800$	$100\% \times \$2000 + 25\% \times \$2,000 = \text{MAX } \$2,500$
Allowed 1 st 2 years of College	Allowed up to 4 years of college
Not allowed after 2	Not allowed after 4
Phased out AGI from \$100k to \$120 joint, \$50k to \$60k single	Phase out \$160k-\$180k joint, \$80k-\$90k Single
Credit NOT refundable	40% of Credit refundable IF taxpayer is not a student subject to “kiddie” tax
Qualifying expense include tuition and fees	Tuition, Fees AND course materials (ie books)

iv. LIFETIME LEARNING CREDIT may still apply if they don't qualify for the AOC

Kerri's Note: The Hope Credit is only better than the AOC for a student attending school in a Midwestern disaster area. However, if you take Hope for one student you have to take Hope for all students (cannot take Hope for one student and AOC for other qualifying students.)

Form 1040-X

Amended Form 1040 is VASTLY different.

Estimated Tax Relief

100% and 120% of last years tax safe harbor replaced with 90% of last years tax for qualified individuals

90% of prior year tax is paid as estimate

2008 AGI less than \$500k for joint, \$250k for single

More than 50% of gross income in 2008 comes from a “small business” (less than 500 employees)

Must “certify” small business

AMT Relief

– Extended through 2009 Below are the EXEMPTION amounts

	Joint	Single	Separate	
2008	\$69,950	\$46,200	\$34,975	
2009	\$70,950	\$46,700	\$35,475	