

2009 TAX LAW CHANGES HIGHLIGHTS.

First Time Homebuyer Credit.

The \$8,000 credit has been extended for first time homebuyers for purchases before May 1, 2010.

Hot off the press! The definition of a first time homebuyer has been expanded to include long time homeowners. For these home buyers the credit is reduced to \$6,500. Many other conditions apply.

Making Work Pay Credit.

Generally, a credit of the lower of 6.2% of earned income or \$800 on a joint tax return is available. The credit phases out for folks with adjusted gross income in excess of \$150,000

Qualified Motor Vehicle Sales Tax

A credit is available for purchases of a qualified motor vehicle after February 17, 2009 and before January 1, 2010. The credit is allowed for state sales taxes paid on qualified vehicles costing less than \$49,501

ROTH IRA's

The \$100,000 adjusted gross income limit for ROTH IRA conversions is eliminated on January 1, 2010. This could be a tremendous tax planning opportunity. Certain rules are applicable that require careful analysis and planning. Please contact us if you would like our assistance in determining the viability of converting your traditional IRA to ROTH IRA.

Cell Phones

Cell phones are "listed property" and subject to strict substantiation requirements to claim a deduction. Legislation that was introduced to eliminate the listed property classification was defeated by the IRS. However the IRS is currently developing less stringent requirements to claim a deduction. We will watch this issue and provide updates.

Gain on the sale of a converted vacation home.

Generally, the gain on the sale of a vacation home could be excluded if your principal home was sold and you occupied the vacation home as your principal residence for more than two years.

For sales of vacation homes after December 31, 2008 the exclusion of gain will not be allowed for the period of non-qualified ownership. Complex rules are applicable here.

Children of divorced or separated parents.

The IRS has issued final regulations for a claim of dependency exemptions and the release of a claim by a parent effective July 2, 2008.

Gift Tax Exclusion

The annual Gift Tax Exclusion amount is \$13,000

PROPOSALS ON THE HORIZON

Tax Rate Increases.

Reinstatement of the pre-2001 36% and 39.6% tax brackets. Implementation is not expected before 2011 and contingent upon economic recovery.

Capital Gains Rates.

The current tax rates on capital gains and dividends would be retained for those in the lower tax brackets but for those who in tax brackets above 28%, the rates are expected to increase to at least 20%

Social Security Tax.

Social security has two components, OASDI of 6.2% and Medicare of 1.45% for a total of 7.65% for the employee and employer. The tax is 15.3% shared equally between the employee and employer. In 2009 the maximum wage subject to OASDI is \$106,800. Current proposals would impose an additional 2% on wages in excess of \$250,000 for the employer and employer equaling an additional imposition of 4%.

S Corporation Earnings.

Currently, distributions and dividends from closely held S corporations are not subject to social security taxes. A popular strategy is to pass income via a distribution/dividend as contrasted to salary, thus, avoiding the social security tax.

The House Ways and Means committee has proposed subjecting all income of S corporations to social security tax whether it is distributed or paid as salary.

The above tax highlights and proposals is a summary of tax legislation, approved and/or proposed and is not a complete analysis. Many other conditions and restrictions apply. This summary is **not** tax advice. Before taking any action, the entire tax implication should be understood and the advice of a tax professional should be sought.

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