

Ten New Tax Savings on 2009 Form 1040

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Thomson Reuters Tax Analyst identifies new or expanded deductions and credits for 2009

NEW YORK, Feb 11, 2010 /PRNewswire via COMTEX/ -- "The payoff for grasping new tax breaks can be substantial on the 2009 version of Form 1040," said Bob D. Scharin, senior tax analyst for the Tax & Accounting business of Thomson Reuters. "Yet, you will miss out on the tax savings if you rely on last year's return as a template for this year's filing."

But beware - many of the new tax breaks come with strings attached, such as income limitations for eligibility and mid-year effective dates. "You need to read the fine print and not rely on what was true in the past," says Scharin. Here is a rundown of 10 new taxpayer-friendly provisions available for 2009 returns:

- **Motor vehicle sales tax.** The sales tax you paid on the purchase of a new motor vehicle from February 17 through December 31, 2009 is deductible, regardless of whether you itemize your deductions, or claim the standard deduction. The deduction is limited to the tax on up to \$49,500 of the vehicle's purchase price, and the deduction phases out ratably for a taxpayer with modified adjusted gross income (MAGI) between \$125,000 and \$135,000 (\$250,000 and \$260,000 on a joint return).
- **Homebuyer credit.** First-time homebuyers are entitled to a refundable tax credit of 10% of the purchase price, with credit maximum of \$8,000. For home purchases after November 6, 2009, a first-time homebuyer is defined in an oddly expansive manner to include those who owned a home for at least five consecutive years out of the eight-year period preceding the purchase. The maximum credit for 'long-time resident' homebuyers is \$6,500. The homebuyer credit phases out for MAGI of \$75,000 to \$95,000 (\$150,000 to \$170,000 for joint filers) for purchases before November 7, 2009, and \$125,000 to \$145,000 (\$225,000 to \$245,000 for joint return filers) for purchases made after November 6. This change in the phaseout rule means that timing counts, Scharin points out. "The precise date in 2009 that you purchased the home can determine whether your income level lets you qualify for the credit." Another tax return complication is that you can claim the credit on a 2008 amended return if you prefer (e.g., doing so may get you the cash faster or may produce a larger credit due to the income restrictions).
- **College expenses tax credit.** "Thanks to higher income limitations and increased years of student eligibility, many more families qualify for the Hope Scholarship credit in 2009 than in the past," Scharin observes. This tax credit has been expanded and renamed the American Opportunity Tax Credit. In this latest incarnation, the maximum credit is expanded to \$2,500 (from \$1,800), the credit is allowed for the first four years (rather than only two years) of post-secondary education, and the MAGI range for phaseout of the credit is increased from \$80,000 to \$90,000 (\$160,000 to \$180,000 for joint filers)--from \$50,000 to \$60,000 (\$100,000 to \$120,000 for joint filers).
- **Making work pay credit.** Income tax withholding was reduced during 2009 to reflect the new making work pay credit, which slashes tax liabilities by up to \$400 (\$800 on a joint return). "Employers had to shoulder all the work of the withholding adjustment, but employees now need to claim the credit on their tax returns in order to hold on to that extra take-home pay," Scharin explains. Tricky aspects of this credit arise from the eligibility rules; some folks whose withholding was reduced are not actually eligible for the credit. Ineligibility could arise because the credit phases out in the MAGI range of \$75,000 to \$95,000 (\$150,000 to \$190,000 for joint returns).
- **Unemployment compensation.** Up to \$2,400 of unemployment compensation benefits are completely tax-free in 2009. "These benefits are not included in your adjusted gross income, and that could help you to qualify for other tax benefits that have AGI restrictions," Scharin points out.
- **Child tax credit.** The child tax credit itself remains at \$1,000 for each qualifying dependent child under age 17, but the refundable portion of the credit is increased to 15% of earned income above \$3,000 (rather than 15% of earned income above \$10,000). The net effect of this change is that lower-income families will receive larger refunds in excess of any tax they may have paid in.
- **Energy credit.** Claim up to \$1,500 for making energy efficiency improvements to your home. The credit is calculated as 30% of the purchase price (subject to the \$1,500 credit limit) of such items as qualifying insulation, windows, doors, roofs, heat pumps, hot water heaters, or boilers. The products must meet energy efficiency standards, and the \$1,500 credit ceiling applies to the aggregate credit amount you claim for 2009 and 2010.
- **Standard deduction.** The basic standard deduction amounts are \$11,400 for joint return filers and surviving spouses, \$8,350 for heads of households, and \$5,700 for others in 2009 (increased from \$10,900, \$8,000, and \$5,450, respectively, in 2008). "Some individuals who itemized deductions in prior years may find that they are better off claiming the standard deduction for 2009, especially since they can claim additional standard deduction amounts for such expenditures as sales tax on the purchase of a motor vehicle and real property taxes," Scharin observes.
- **AMT exemption.** The maximum alternative minimum tax (AMT) exemption (which operates somewhat like a standard deduction in computing AMT liability) has increased to \$70,950 for joint return filers and surviving spouses, \$46,700 for unmarried individuals, and \$35,475 for married individuals filing separately in 2009. The corresponding figures for 2008 were \$69,950, \$46,200, and

\$34,975, respectively.

- **Kiddie tax threshold.** The "kiddie tax" rules generally tax excess investment income of those under age 19--or under age 24, if full-time students--at their parents' highest marginal tax rate. For 2009, the threshold to which these rules apply is unearned income in excess of \$1,900. The figure was \$1,800 for 2008.

"Tax return preparation is a chore, and the desire to take shortcuts is common. But make sure you take the time to check for tax breaks, and if you are using the services of a professional tax return preparer, ask questions and gather the information they will need to calculate the tax deductions and credits to which you are entitled," advises Scharin.

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