
2009 Tax Laws Changes

Tax laws are constantly changing. Many credits and incentives instituted to stimulate the economy will expire at the end of the year and some tax law changes are slated to take effect in 2010. Though Congress often makes last-minute changes in December, the following tax rule changes are scheduled to take effect soon:

Expiring Tax Incentives

First-time Homebuyer Credit

Certain first-time homebuyers can claim a credit for 10% of the purchase price of their first home (up to \$8,000), but only if the home is purchased before December 1, 2009.

**see "Homebuyer Credit Update", law expanded as of November 6, 2009*

Unemployment Compensation Exemption

During 2009, the first \$2,400 of unemployment compensation is exempt from taxation. Unemployment compensation received after 1/1/2010 will again be taxable.

Charitable Contributions from an IRA

Since 2006, taxpayers age 70½ or older have been able to make donations to tax-exempt charities directly from IRA accounts. Distributions directly to charities have been exempt from tax, which is especially attractive to charity-minded individuals required to make distributions. This option expires at the end of 2009.

New Vehicle Sales Tax Deduction

You can deduct the sales and excise taxes paid on a new vehicle purchased this year. You may only deduct the taxes on the first \$49,500 of the vehicle price, meaning up to a \$2,700 deduction for Wisconsin residents. The deduction expires on 12/31/2009.

Significant Tax Changes in 2010

- ❖ **Roth IRA Conversions** – Beginning in 2010, anyone (regardless of income) can convert a traditional IRA to a Roth IRA. The income limits for people with adjusted gross incomes over \$100,000 have been lifted. For taxpayers that convert an IRA in 2010, the taxable income that results from the conversion can be spread over 2 years (½ in 2011 and ½ in 2012).
- ❖ **Depreciation for Businesses** – The Section 179 deduction in 2009 allows businesses to expense (immediately deduct, as opposed to depreciate) up to \$250,000 worth of new equipment. There is also 50% bonus depreciation in 2009, which allows businesses to take 50% of the depreciation for new equipment during the first year. For equipment put into service during 2010, the maximum Section 179 write-off falls back to about \$130,000 and bonus depreciation is no longer allowed.

- ❖ **Estate Tax** – The federal estate tax is scheduled to be repealed on 1/1/2010. Most observers expect Congress to extend the estate tax in some manner, but current law calls for the estate tax to expire at the end of 2009 and be restored in 2011 at the same rates as 2001. Under current law, the estate tax exemption is \$3.5 million and the restoration in 2011 would lower that to \$1 million.

HOMEBUYER CREDIT UPDATE
Effective November 6, 2009

Effective November 6, 2009, the First-time Homebuyer Credit was extended to cover home purchases through July 1, 2010 as long as a contract is entered into by the end of April 2010. The maximum credit is still \$8,000 for first-time buyers, and there are expanded provisions compared to the original act, including the following:

- Expanded definition of qualifying homebuyer to include a credit of up to \$6,500 is available to homebuyers who lived in the same home for five years before buying a new home.
- Increased income phaseout limits to start at \$125,000 for single individuals and \$225,000 for married couples.

The new rules also added some restrictions including that it is unavailable in the following situations:

- Individuals claimed as a dependent by a parent or guardian.
- Those under age 18.
- Home purchase from related party.
- Home purchase for more than \$800,000.

The expanded homebuyer credit will cover many more individuals and homebuyers still have the ability to amend their 2008 income tax return in order to receive the refund prior to filing their 2009 or 2010 personal tax returns.

We recommend anyone looking at a new home be familiar with the updated credit since it can be a significant financial incentive to become a first time homebuyer or to upgrade.