

# FRANKLIN & FRANKLIN, PA

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## TAX LAW SUMMARY & HIGHLIGHTS FOR 2009

### NEW FOR 2009:

**Unemployment Compensation:** For 2009, each recipient of unemployment compensation can exclude from gross income up to \$2,400 of the amount he or she received during the year.

**Deduction for Sales Taxes on Purchase of New Motor Vehicles:** In 2009, you can deduct the state or local sales and excise taxes on the purchase of a qualified vehicle after 2/16/2009, and before 1/1/2010, with certain limitations.

**Making work pay credit:** You may be able to take this credit (up to \$400 or \$800 filing jointly) if you have earned income from work. Even if your federal income tax withholding is reduced during 2009 because of the credit, you must claim the credit on your return to benefit from it.

**Economic recovery payment:** These \$250 payments are being made to most people who: 1 -Receive social security benefits, supplemental security income (SSI), railroad retirement benefits, or veterans disability compensation or pension benefits **AND** 2- Live in a U.S. If you are married and you and your spouse both meet these requirements, each of you may get a \$250 payment. It is not taxable and you should have received it automatically.

**First Time Home Buyer Credit:** This valuable credit has evolved over the past year as follows:

\* For qualifying buyers of new residences **4/9/08-12/31/08** not owning a primary residence in previous three years: A 10% tax credit of the purchase price (maximum \$7,500) is offered, **but is to be paid back \$500 per year.**

\* For qualifying buyers of new residences **1/1/09-11/6/09** and not owned a primary residence in previous three years: A 10% tax credit of the purchase price (maximum \$8,000) is offered **and does not need to be paid back unless house is sold or no longer used a primary residence within 36 months of purchase.**

\* Qualifying buyers of new residences from **11/7/09-4/30/10** is expanded to include taxpayers who have owned and lived in existing primary residence for **5 or more years.** A 10% tax credit of the purchase price (maximum \$8,000 or \$6,500 for non first-time qualifiers) is offered **and does not need to be paid back unless house is sold or no longer used as a primary residence within 36 months of purchase.**

**Gain from the sale or exchange of the main home:** The entirety of gains from the sale or exchange of the main home is no longer excludable from income if allocable to periods of nonqualified use.

**COBRA Health Insurance Continuation Premium Subsidy:** An employer-provided subsidy for employees who involuntarily lose their jobs is available for qualifying individuals.

### UPDATED/RENEWED PROVISIONS:

**Child Tax Credit:** \$1,000 per qualifying dependent child under age 17 continues through 2010.

**Kiddie Tax Change:** Unearned income, in excess of \$1,900, for children under 19 or full-time students under age 24 at the end of the year will be taxed at their parents tax rates if: the child is under 18; or is under 19 and has earned income of less than half of their support; or is 19-23, a full time student and has earned income of less than half of their support.

**Charitable Contribution Receipts:** Receipts from a 501(c)3 non-profit organization are required for contributions over \$250. *ALL cash contributions* require a receipt, cancelled check or other reliable evidence and all non-cash contributions must be in good used or better condition and must be accompanied by a receipt. Additionally, non-cash items not in good used condition claimed over \$500 will require a qualified appraisal.

### **IRA (Individual Savings Account):**

**Traditional and Roth IRAs:** The annual deductible contribution limit for 2009 is \$5000, with an additional \$1000 catch-up for taxpayers 50 or older (making it \$6000) for either Traditional or Roth IRAs.

**Savers Credit:** 10% to 50% credit for first \$2,000 of contributions to retirement savings plans : Applies to Married Filing Joint taxpayers with adjusted gross income of \$55,500 or less (\$27,750 or less for single taxpayers).

**Individual Tax Rates:** 10%, 15%, 25%, 28%, 33% & 35%

**NC Tax Rates:** 6%, 7% & 7.75% with an additional surtax for taxable incomes over \$100,000

**Standard Deduction:** \$11,400 Married Filing Joint/\$8,350 head of household/\$5,700 Single Filers

**Exemption Deduction:** \$3,650 per exemption, subject to income limitation, but cannot phase out below \$2,433 each.

**Adoption Credit:** Credit of \$12,150 of expenditures for each child adopted for 2009 (\$12,150 regardless of expenditures for each child adopted with special needs. NC now offers 50% of the federal credit allowed.

**Annual Gift Tax Exclusion:** Taxpayer may have gifted \$13,000/\$26,000 per couple in 2009 to each donee without filing a gift tax return. A gift of appreciated property is a good way to avoid capital gains tax. An estate of \$3.5M in 2009 is exempt from estate tax if no lifetime gifts have been made above the excluded amount. **Please advise us if you have neared the annual gift exclusion. (ALSO: NC repealed the gift tax, for gifts made on or after 1/1/09) (over)**

**Capital Gain & Qualified Dividend Rates:** For tax years beginning after 2007, the 5% maximum tax rate on qualified dividends and net capital gain (the excess of net long-term capital gain over net short-term capital loss) is **reduced to 0%**. The 15% maximum tax rate on qualified dividends and net capital gain has not changed.

**Education Credits & Benefits:**

**American Opportunity Credit** – Available *first four years* of post-secondary, up to \$2,500 (\$1,000 refundable)

**Lifetime Learning Credit** – 20% of first \$10,000 paid for any qualified tuition & fees: \$2,000 max

**Education Deduction**- Deduction (up to \$4000) of qualified higher education expenses instead of A.O.C. or L.L.

**Student loan interest:** You may be eligible to deduct up to \$2,500 of student loan interest paid.

(For tax years 2009 and 2010, the definition of qualified higher education expenses is expanded to include required course materials)

**Deductible Mileage Rates:**

Business mileage rate for 2009: \$0.55 (.50 for 2010)

Medical & Moving mileage rate for 2009: \$0.24 (.165 for 2010)

Charitable mileage rate for 2009: \$0.14 (.14 for 2010)

**Contribution of Vehicles:** Have been significantly limited: Deduction limited to the amount that the charity receives for the sale of the vehicle and a form 1098C is required to be filed.

**PMI (Private Mortgage Insurance):** Qualifying individuals may deduct home mortgage insurance premiums for 2009.

**New Refundable AMT Credit for Individuals:** Effective for 2007 and before 2013 the refundable AMT credit is the greater of; a.i)the lesser of \$5000 or a.ii)the total long-term unused AMT credit, or b) 20% of the long-term unused credit

**Wage base for Social Security:** The wage base for social security is \$106,800 for 2009 & 2010.

Social Security: Depending on the recipients income, up to 85% of benefits may be taxed.

**Energy-Efficient Improvements and Various Alternative Fuel Vehicle tax incentives:** Credit available for qualifying equipment purchased in 2009.

**Small Business Equipment Deduction and Bonus Depreciation:** Small businesses can deduct first \$250,000 spent for depreciable property placed in service during 2009 (Including Pick-up trucks and Vans over 6,000 lbs but limited to \$25,000 for SUV's). In addition, for qualified property, 50% bonus depreciation available the first year put into service.

**Self-Employed Health Insurance:** 100% Deduction for health insurance of qualified self-employed individuals, their spouses and dependents.

**Increase in Deductible Limit for Long-Term Care Premiums:** For 2009, the maximum amount of qualified long-term care premiums you can include as medical expenses has increased. You can include qualified long-term care premiums, up to the amounts shown below, as medical expenses on Schedule A (Form 1040):

Age 40 or under - \$320; Age 41 to 50 - \$600; Age 51 to 60 - \$1,190; Age 61 to 70 - \$3,180; Age 71 or over - \$3,980.

**Dues for Social & Entertainment clubs are not deductible, but dues for various trade organizations, etc. are.**

**Work opportunity Credit:** Credit available to employers hiring targeted groups (veterans, felons, etc).

**Contributions directly from IRA:** Taxpayers over 70½ may contribute to charitable organizations directly from IRA.

**1099C New tax break on Discharge of Qualified Home Mortgages:** Inquire if you believe this may apply.

**No Required Minimum Distribution for 2009:** Retirees not required to take "RMD" in 2009.

**NC Changes:**

**NC 529 Plan Deduction:** Contributions to a NC529 college savings plan qualifies for a NC deduction of \$5,000married/\$2,500single.

**NC Severance Wages Deduction:** NC offers deduction for Severance wages received up to \$35,000.

**NC Honorable Discharge Property tax credit:** Beginning in 2009 all taxpayers who have received an honorable discharge from the military may qualify for a property tax credit for the first \$45,000.

**NC Refundable Earned Income Credit:** NC will offer a refundable credit equal to 5% of the Federal EIC.

**NC Excludes 80% of appraised value of Solar Systems from taxation.**

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