

THE LIGHT

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2009 STIMULUS ACT PROVIDES TAX BREAKS FOR INDIVIDUALS AND SMALL BUSINESSES

These changes are in effect for 2009 and 2010, unless otherwise noted. If any of these tax breaks may apply to yourself, your family or your business, please call us to determine whether you are eligible and to discuss how to take the best advantage of them.

FOR INDIVIDUALS

First Time Homebuyer Credit

If you haven't owned a home in 3 years or more, and you buy one in calendar year 2009, you may be eligible for this credit, worth 10% of the purchase price of a home, up to a maximum of \$8,000. The new law not only increases the maximum credit, but eliminates the repayment requirement that previously existed for first home purchase credits. The credit starts to phase out for taxpayers with taxable income of \$75,000 or more (\$150,000 married filing jointly). The credit can also be taken by filing an amended 2008 return, so talk to us before you buy if you think you may qualify.

New Car Sales Tax Deduction

If you buy a new (not used) vehicle between February 17 and December 31, you may be able to deduct the state and local sales and excise taxes for up to \$49,000 of the purchase price. The vehicle can be a car, minivan, light truck, motor home or motorcycle under 8,500 lbs. Non-itemizers will also benefit from this deduction.

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TALK TO US ABOUT YOUR BUSINESS PAYROLL NEEDS

Streamline your payroll with our web-based, hassle-free payroll system. Direct deposit and electronic filing included. Call Neil or Cynthia for more information.

FOR SMALL BUSINESS

Estimated Taxes

Individuals who make more than 50% of their income from a small business may be allowed to make estimated payments that equal only 90% of last year's income, as long as the individual's adjusted gross income is less than \$500,000.

Depreciation

The Bonus Depreciation rule is extended to the end of 2009. This allows small businesses to expense business property in the year purchased rather than depreciate it over years. The rule covers up to \$250,000 of equipment costs, and 50% of the cost of certain newly acquired assets.

Work Opportunity Credit Expansion

Employers who hire unemployed veterans or youth during 2009 or 2010 may now be eligible for this credit, if the employee meets the new guidelines.

Making Work Pay Credit

The IRS has issued new payroll withholding tables for this tax credit, which provides a modest reduction in Social Security withholding for most employees. Call us if you have any questions about bringing your payroll withholding into compliance. (See also **Making Work Pay Credit under Individuals**)

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2009 STIMULUS ACT FOR INDIVIDUALS

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Making Work Pay Credit

A temporary offset to the employee portion of federal withholding taxes, up to \$400 for individuals with annual income below \$75,000 (\$800 for married filing jointly with income below \$150,000), this credit will provide a modest increase to each paycheck. Retirees receiving certain government pensions may be eligible for a one-time \$250 credit.

Education Credits

The Hope scholarship credit is expanded from \$1,800 to \$2,500, becomes 40% refundable, and can be applied to all 4 years of college. Income phaseouts have also been increased and some additional education expenses such as course materials are included. If your family is also liable for the changes in the kiddie tax, its especially important that you discuss your situation with us.

529 tuition plans can be used to cover computers and related technology as long as the student is enrolled at a qualifying institution.

Transportation Fringe Benefit

From March 2009 through 2010, the transportation fringe benefit exclusion (employer-provided public transportation) increases to \$230 from \$120 per month.

Unemployment Income Exclusion

An individual taxpayer may exclude up to \$2,400 of unemployment income received in 2009.

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**2009 STIMULUS ACT FOR INDIVIDUALS**

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Proceeds from Sale of Second Home

For sale of second homes after 2008 the exclusion of \$250,000 per taxpayer (\$500,000 joint returns) will not apply to any gain allocated to a period of "nonqualified use". Nonqualified use is defined as any period of time a property is not a principal residence. No period before January 1, 2009 will be considered a period of nonqualified use.

The portion of the profit that's subject to tax is based on the ratio of the time after 2008 when the house was a second home or a rental unit to the total time you owned it.

So if you have owned a vacation home for 18 years and make it your main residence in 2011 for two years before selling it, only 10% of the gain (two years of non-qualified second home use divided by 20 years of total ownership) is taxed. The rest qualifies for the exclusion of up to \$500,000.

Low Income Credits

The child tax credit reduction has been extended, and the Earned Income Credit has been increased for taxpayers meeting certain qualifications.

Residential Energy Property Credit

The new law increases the energy tax credit for homeowners who make energy efficient improvements to their homes. A similar credit was in place in 2007 but not in 2008. The rate is increased to 30% of the cost of all qualifying improvements, to a maximum credit of \$1,500 for improvements placed in service in 2009 and 2010.

The credit applies to adding insulation, energy efficient exterior windows, heating and air conditioning systems. The IRS will issue guidance that will allow manufacturers to certify that their products meet the new 2009 standards. Until the guidance is released, homeowners generally may continue to rely on manufacturers' certifications that were provided under the old guidance. This includes Energy Star labels until June 1, 2009.

2009 STIMULUS ACT FOR SMALL BUSINESS

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Section 179 Property Deduction

For businesses which qualify for the Section 179 property expense deduction, from 2009 forward property can be expensed up to \$250,000 instead of \$133,000. However, the existing \$25,000 limit for SUVs remains in effect. (see also **Depreciation** above)

Discharge of Business Indebtedness

Certain businesses may be allowed to recognize as income cancellation-of-indebtedness over a five-year period starting in 2004.

Small Business Investment Tax Break

Investors in small business who hold their small business Schedule C stock for 5 years can exclude from taxation 75% of their capital gains when they sell the business.

Operating Loss Carry backs

Qualified small businesses may elect to carry back a net operating loss for a 3, 4 or 5 year period starting in 2008 for federal income taxes.

Built-in-Gains Tax

The recognition period for assets subject to the built in gains tax is reduced to 7 years from 10 years for S corporations in tax years 2009 and 2010.

Energy Credits

Some tax credits for investing in green technology for your business have been added or expanded. Talk to us if you are planning or have recently done any work of this sort. ☪ ☪

AVOID EARLY WITHDRAWAL FROM RETIREMENT ACCOUNTS

In this challenging economy, many people feel that they are forced to withdraw from their IRA's or 401(k)'s to meet emergency expenses or sometimes just to make ends meet. However, early withdrawal is a costly way to obtain cash.

A withdrawal from retirement accounts is always taxable. In most cases you will also have to pay an additional 10% penalty if you are younger than age 59½. Most states also tax early withdrawals.

A few exceptions may allow you to avoid the penalty, but not the tax. These exceptions require the money to be used for specific types of expenses, which vary depending on whether the source of the money is an IRA or a 401(k). Some of these expenses include purchase of a first home, higher education, and medical or health insurance expenses in certain circumstances.

If you are thinking of making an early withdrawal from your retirement account, please call us immediately, so that we can help you find alternatives and avoid these taxes and penalties.



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CONNECTICUT TAX AMNESTY

The Connecticut Department of Revenue currently offers a tax amnesty for most types of taxes and returns for individuals and business. (The amnesty does not apply to property or other local taxes, which are not administered by the state.) **This amnesty expires June 25.** Please call us if you think the amnesty may apply to your situation. ☺ ☻



This publication is not intended to be financial or tax advice, but is intended only to inform the reader of recent developments. If you require financial or tax advice on a particular matter, please contact us directly at (401) 738-2900, or email info@fradincpa.com

THE LIGHT
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