

Important Tax Law Changes for 2009 Tax Returns

Economic Recovery Payment

The \$250 Economic Recovery Payment was paid in 2009 to recipients of certain benefits administered by the Social Security Administration, Department of Veterans Affairs, and the Railroad Retirement Board. Any economic recovery payment received during 2009 is not taxable, but it **does reduce** any 'making work pay tax credit'.

Making Work Pay Tax Credit

The making work pay tax credit is a refundable tax credit of **up to \$400** for working individuals (\$800 for Married Filing jointly). This credit is calculated at a rate of 6.2% of earned income.

Most Form W-2 wage earners have already benefited from the credit with a larger paycheck, as a result of the changes made to the federal income tax withholding tables in early 2009. The amount of the credit must still be claimed on the taxpayers 2009 return (Use Schedule M for Form 1040 and 1040A. 1040EZ filers will calculate the amount of the credit directly on the Form 1040EZ.)

TIP: Nonresident aliens and taxpayers who can be claimed as dependents on someone else's tax return **are not eligible** for the credit.

Special Credit for Certain Government Retirees

A one-time refundable credit of \$250 is available in 2009 for certain government retirees who receive a pension from work and are not covered by social security. This one-time credit must be claimed on the 2009 income tax return and is a reduction to any 'making work pay tax credit'. Individuals who receive an economic recovery payment must reduce the government retiree credit by the amount of the payment. Schedule M (Form 1040 or 1040A) is used to claim the credit.

American Opportunity Tax Credit – Expanded Hope Credit

For tax years 2009 and 2010, the American Opportunity Tax Credit makes temporary changes to the education credit known as the Hope credit. This new credit modifies the existing Hope credit, making it available to a broader range of taxpayers, including higher income taxpayers and those who owe not tax. It **adds** required course materials to the list of qualifying expenses and allows the credit to be claimed for four years of post-secondary education instead of two years. The maximum amount of the credit is increased to \$2,500 per student. In addition, 40% of the credit may be refundable. The credit is phased out for taxpayers with a modified AGI between \$80,000 and \$90,000 (\$160,000 and \$180,000 if Married Filing Joint).

First-time Homebuyer Credit

For homes purchase in 2009, taxpayers can qualify for a refundable credit of 10% of the purchase price up to \$8,000 (\$4,000 if Married Filing Separate). Generally, the credit for qualifying home purchase after December 31, 2008, and before December 1, 2009, do not have to be repaid, as long as the home remains the taxpayer's main home for 36 months after the purchase date.

The amount of the credit begins to phase out for taxpayers whose modified AGI is more than \$75,000 (\$150,000 for Married Filing Joint). For purposes of the credit, taxpayers are considered to be first-time homebuyers if they did not own any other main home during the three-year period ending on the date of purchase.

Sale of Main Home

Gain from the sale or exchange of the main home is no longer excludable from income if allocable to periods of nonqualified use. Generally, nonqualified use means any period after 2008 where neither the taxpayer nor spouse (or former spouse) used the property as a main home (with certain exceptions).

Standard Deduction Amount Increased.

The standard deduction for taxpayers who do not itemize deductions on Schedule A (Form 1040) has increased for 2009:

- \$11,400 - Married Filing Joint or Qualifying Widow(er)
- \$8,350 – Head of Household
- \$5,700 – Single or Married Filing Separate

Deduction Allowed for New Vehicle Purchase

For 2009, there is an additional deduction for state and local sales and excise tax (including certain fees in states that do not have a sales tax) on the purchase of qualified motor vehicles. A qualified motor vehicle must be new and includes passenger automobile or light truck, a motorcycle, or a motor home.

The deduction is limited to eligible taxes and fees paid on the first \$49,500 of the purchase price on the vehicle. The deduction phases out for taxpayers with modified AGI of more than \$125,000 (\$250,000 if Married Filing Joint).

The new vehicle deduction is available to taxpayers who claim the standard deduction, as well as taxpayers who itemize deductions on Schedule A (Form 1040). The new deduction can be used to increase the amount of the standard deduction or it can be taken as an itemized deduction (if the taxpayer is not electing to take the state and local general sales tax deduction).

CAUTION: Taxes and fees paid on purchase before February 17, 2009, are not eligible for this special deduction.

CAUTION: Do not confuse this deduction for a new vehicle purchase with the “Cash for Clunkers” program. The Car Allowance Rebate System (CARS) or “Cash for Clunkers” program is handled through the U.S. Department of Transportation, National Highway Traffic Safety Administration, not on a tax return.

Limits Increased for Itemized Deductions

Taxpayers with an AGI above a certain amount may lose part of their itemized deductions. In 2009, this AGI amount is increased to \$166,800 (\$83,400 if Married Filing Separate).

Exemption Amount Increased

The amount each taxpayer can deduct for each exemption increased to **\$3,650 for 2009**

Phase-out of Exemption Amount

Taxpayers with an AGI above a certain amount may lose part of the benefit of their exemptions. The amount at which the phase-out begins depends upon the filing status. For 2009, the phase-out begins at:

- \$125,000 – Married Filing Separate
- \$166,800 – Single
- \$208,500 – Head of Household
- \$250,200 – Married Filing Joint or Qualifying Widow(er)

For 2009, each exemption cannot be reduced to less than \$2,433.

Standard Mileage Rate

- Business-related mileage
For 2009, the standard mileage rate for the cost of operating a car, van, or pickup/panel truck for business use is **55 cents per mile**.
- Medical and move-related mileage
For 2009, the standard mileage rate for the cost of operating a vehicle for medical reasons or as part of a deductible move is **24 cents per mile**.
- Charitable-related mileage
For 2009, the standard mileage rate for the cost of operating a vehicle for charitable purposes remains at **14 cents per mile**.

Earned Income Credit (EIC)

For 2009, the maximum credit is:

- \$3,043 with one qualifying child
- \$5,028 with two qualifying children
- \$5,657 with three or more qualifying children
- \$457 with no qualifying children

Earned income amount increased

To be eligible for a full or partial credit, the taxpayer must have earned income of at least \$1 but less than:

- \$35,463 (\$40,463 if Married Filing Joint) with one qualifying child
- \$40,295 (\$45,295 if Married Filing Joint) with two qualifying children
- \$43,279 (\$48,279 if Married Filing Joint) with three or more qualifying children
- \$13,440 (\$18,440 if Married Filing Joint) with no qualifying children

Investment income amount increased

Taxpayers whose investment income is more than \$3,100 cannot claim the EIC

Advance payment of the credit

Qualifying taxpayers can get advance EIC payments (up to \$1,826) added to their pay, by their employer.

Additional Child Tax Credit

For 2009, the minimum amount of earned income needed to claim the additional child tax credit is reduced to \$3,000.

New Rules for Children of Divorced or Separated Parents

For tax years beginning after July 2, 2008 (the 2009 calendar year for most taxpayers), new rules apply to allow the custodial parent to revoke a release of claim to exemption that was previously released to the non-custodial parent on Form 8332, Release/Revocation of Release of Claim to Exemption for Child by Custodial Parent, or similar form. The revocation is effective no earlier than the tax year beginning in the calendar year following the calendar year in which the custodial parent provided, or made reasonable efforts to provide, the non-custodial parent with written notice of the revocation.

If the custodial parent provides notice of revocation to the non-custodial parent in 2009, the earliest tax year the revocation can be effective is the tax year beginning in 2010. Part III of Form 8332 may be used for this purpose. It must be attached to the tax return for each tax year the child is claimed as a dependent as a result of the revocation.

Income Limits Increased for Lifetime Learning Credit

For 2009, the amount of the lifetime learning credit is phased out for taxpayers with a modified AGI between \$50,000 and \$60,000 (\$100,000 and \$120,000 if Married Filing Joint). If the modified AGI is \$60,000 or more (\$120,000 or more for Married Filing Joint) no credit is allowed.