

RESIDENTIAL ENERGY CREDITS

These credits are actually comprised of two different credits that have some common rules:

NONBUSINESS ENERGY PROPERTY CREDIT

This credit is available for energy-saving improvements made to the taxpayer's principal residence. A principal residence can be a house, houseboat, mobile home, or a condominium. Qualified energy efficiency improvements include items that comply with Energy Star requirements and are designed to reduce heat gain or loss, such as the following:

- Insulation material or system (excluding installation)
- Exterior windows, including storm windows and skylights (excluding installation)
- Exterior doors, including certain storm doors (excluding installation)
- Certain metal or asphalt roofs with pigmented coatings or cooling granules (excluding installation)
- HVAC systems (including installation)
- Water Heaters (including installation)

The allowable percentage of the amount paid for qualified energy efficiency improvements has been raised from 10% to 30%. A cumulative credit of \$1,500 for 2009 and 2010 replaces the previous \$500 lifetime limit. The credit is available for property placed in service from January 1, 2009 through December 31, 2010.

RESIDENTIAL ENERGY EFFICIENT PROPERTY CREDIT

This credit is available for any residential property owned by an individual taxpayer.

- Solar Panels (including installation)
- Solar Water Heaters (including installation)
- Geothermal Heat Pumps (including installation)
- Wind Energy Systems (including installation)
- Biomass Stoves and Fuel Cells (including installation)
- The allowable percentage for these expenditures is also 30%.

PLUG-IN ELECTRIC VEHICLE CREDIT

As part of the Energy Improvement and Extension Act of 2008, a tax credit is available for plug-in electric drive passenger vehicles and light trucks. The credit ranges from a minimum of \$2,500 to a maximum of \$7,500 to \$15,000 depending on kilowatt hours of battery capacity. The credit is available for vehicles purchased in 2009. For 2010 and later the maximum credit is \$7,500, with a base amount of \$2,500 and an additional \$417 per kilowatt hour of battery capacity in excess of five kilowatt hours.

There is also a credit for 2-wheeled, 3-wheeled and low speed plug in electric vehicles. The credit is 10% of the purchase price with a maximum of \$2,500. This credit applies for vehicles purchased after February 17, 2009 through December 31, 2011. Additional credits are available for converting vehicles to plug-in electric or for converting to alternative fuel.

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**FIRST TIME HOMEBUYER CREDIT**

In 2008, Congress enacted the first-time homebuyer tax credit equal to \$7,500 or 10% of the purchase price of the home. Unlike other credits, this one had to be repaid, making it unattractive to many taxpayers. For 2009, the first time homebuyer credit was modified and expanded. It was increased to the lesser of \$8,000 or 10% of the purchase price and applies to home purchases on or after January 1, 2009, and before December 1, 2009. This expiration date was subsequently extended to April 30, 2010; however if a binding contract is in place by that date, homebuyers have until June 30, 2010 to close on the purchase. To be a first time homebuyer, the taxpayer cannot have owned a home in the United States during the previous three years. For married persons filing separately, the maximum credit is \$4,000. Unlike the 2008 credit, there is no repayment if the taxpayer uses the home as his or his spouse's principal residence for at least 36 months, starting on the date of purchase. Credits begin phasing out when modified adjusted gross income exceeds \$125,000 for singles and \$245,000 for married taxpayers. Homes costing more than \$800,000 do not qualify for the credit.

CHILD TAX CREDIT

The current \$1,000 child tax credit begins to phase out for those with adjusted gross income above \$110,000 (Married) and \$75,000 (Single). The credit can be refundable. The new law increases the refundable portion of the child tax credit for 2009 and 2010. Taxpayers are eligible for a refundable credit equal to 15% of their earned income in excess of \$3,000 subject to certain restrictions and phase-outs. The credit is for a qualifying child under the age of 17.

LONG TIME HOMEBUYER CREDIT

This new credit is eligible to homeowners who have owned the same principal residence for any five consecutive years during the eight year period ending on the date of purchase of a subsequent principal residence. These long-time homeowners are treated as first-time homebuyers. However, the credit for these taxpayers is 10% of the purchase price, with a maximum of \$6,500. Married taxpayers filing separately are limited to a maximum credit of \$3,250. This provision is effective only for homes purchased after November 6, 2009 and before April 30, 2010 (or June 30, 2010, if a binding written contract is in place by April 30, 2010).

UNEMPLOYMENT COMPENSATION

Many individuals are surprised to learn that unemployment benefits are taxable. The new law excludes up to \$2,400 in unemployment compensation from a recipient's gross income in 2009.

EARNED INCOME TAX CREDIT

An enhanced EITC is available for 2009 and 2010. For taxpayers with three or more children, the credit is enhanced. Income phase out levels have been increased for joint filers to allow more married couples to benefit from the credit.

SECTION 179 EXPENSE DEDUCTION

The maximum amount of equipment placed in service in 2009 that businesses can expense stays at \$250,000. And the annual investment limit remains \$800,000. The allowance drops to \$135,000 for tax years beginning in 2010.

EDUCATION

The Tax Code includes a number of incentives to help bring down the cost of education. The new law expands the current Hope education credit from a maximum of \$1,800 to \$2,500. The new credit is renamed the American Opportunity Tax Credit. More individuals will be able to take advantage of this credit because of expanded income phase-outs (\$80,000 Single / \$160,000 Married). The new law also raises the maximum credit, extends it over four years of post-secondary school education, and makes 40% of the credit refundable. Also worthy of note is that the credit is expanded to allow course materials in addition to tuition. In a related development, the new law permits beneficiaries of qualified tuition plans (known as "529" plan) to use tax-free distributions to pay for computers, computer technology, and internet access.

Educators may deduct up to \$250 of classroom supplies that they purchased with their own funds. This deduction is scheduled to end after 2009.

SALES TAX DEDUCTION FOR NEW VEHICLES

Buyers of new vehicles can deduct the sales tax paid on the purchase, even if they don't claim sales taxes as itemized deductions. They can add the tax they pay to their standard deduction. This break applies to new cars, motor homes, light trucks and motorcycles purchased after February 16, 2009 and before January 1, 2010. Sales tax paid on the first \$49,500 of cost qualifies. The benefit begins phasing out for married couples with Adjusted Gross Income (AGI) over \$250,000 and singles with AGI over \$125,000. It is completely gone for single filers with AGI of \$135,000 or more, or joint filers with AGI of at least \$260,000.

PAYROLL TAX CREDIT

For 2009 and 2010, Congress gave workers a credit of 6.2 % of their earned income, capped at \$400 for single filers and \$800 for joint filers. For single filers, the credit starts phasing out at \$75,000 of Adjusted Gross Income and dries up at \$95,000. The phaseout zone for couples is \$150,000-\$190,000. Employees receive the credit in advance via lower income tax withholding in each paycheck, not as a rebate check.

Self-employed taxpayers can reduce their quarterly estimated payments to get an advance benefit from the credit. The exact amount of the payroll tax credit for the year will be calculated on the filers tax returns. Recipients of Social Security benefits, Railroad Retirement benefits, Supplemental Security Income or veteran disability pensions received a one-time \$250 check for 2009. Federal retirees who don't receive Social Security payments also received a \$250 check.

BONUS DEPRECIATION

Businesses can take advantage of bonus depreciation throughout 2009 (and longer for certain types of property). Bonus depreciation accelerates depreciation deductions. While it can be valuable in the short term, keep in mind that a large current depreciation deduction results in smaller future deductions. Also good news in applying bonus depreciation to vehicles, the new law extends the first-year depreciation cap limits by \$8,000 to \$10,960.





NET OPERATING LOSSES

Businesses are generally eligible for up to a 5-year carryback period for NOLs arising in tax years ending after December 31, 2007, and beginning before January 1, 2010. 2009 NOLs are limited in the amount of the NOL that can be carried back to the fifth preceding taxable year. This amount cannot exceed 50% of the taxable income for the fifth carryback year. However, the NOL remaining after applying the 50% limitation in the fifth carryback year is fully available to offset taxable income in years subsequent to the fifth carryback year.

CANCELLATION OF INDEBTEDNESS

Eligible businesses will be able to recognize income from certain indebtedness income over five years. This treatment applies to specified types of business debt repurchased or cancelled in 2009-2010, the income reporting period is 2014-2018.

ROTH IRA CONVERSIONS

Starting in 2010, individuals with any amount of modified Adjusted Gross Income are free to switch a traditional IRA to a Roth IRA. Conversions are fully taxable at your regular tax rate. For conversions in 2010, taxpayers can spread the tax due over two years. Half the tax will be due in 2011, and the remaining half will be payable in 2012. Removing the limit on conversions effectively eliminates the income limit on contributions to Roth IRAs. A taxpayer with income too high to use a Roth will be able to contribute to a traditional IRA (which does not have income limits for contributions) and immediately convert to a Roth.

CAPITAL GAINS TAX RATES

The tax rate on capital gains from the sale of assets held longer than one year remains at 0% for people in the 10% or 15% tax brackets. The 15% maximum tax rate on long-term capital gains for taxpayers in higher brackets also remains the same. Rates are scheduled to increase in 2011.

DIVIDEND TAX RATES

Similarly, the special 5% maximum rate on dividends of taxpayers in the 10% and 15% tax brackets remains at 0% through 2010. Rates are scheduled to increase in 2011.

DOMESTIC PRODUCTION ACTIVITIES DEDUCTION

In 2010, this deduction increases to 9% of qualifying business net income. This deduction applies to businesses engaged in construction, engineering or architectural services, film production, or the lease, rental or sale of equipment you manufactured. However, the rate remains at 6% for oil and gas companies.

DIRECT DONATIONS OF IRAS TO CHARITY

Beginning in 2010, the opportunity for IRA owners age 70 1/2 to directly donate part of their IRA balance to charity will disappear, unless Congress extends it.

STANDARD MILEAGE RATES

• Business	\$.50
• Charitable	\$.14
• Medical & Moving	\$.165



LONG TERM CARE INSURANCE PREMIUMS

Deductions are increased from \$800 to \$900 for Singles and from \$1,600 to \$1,800 for Married taxpayers.

CREDIT REDUCTIONS

For 2009 and 2010, most, but not all, credits are being reduced to the lesser of 90% of the current and prior year credit or 90% of the current year tax liability. Carryforwards are also reduced by 10%, which is lost forever.

CORPORATE SURTAX

The corporate surtax rate is reduced to 3.05% for 2009 and 2010. The rate is further reduced to 3.0% for 2011 and thereafter. The surtax rate applies to income in excess of \$50,000 in addition to the 4.0% base tax rate.

KANSAS ESTATE TAX

As it stands now, there will no longer be any Kansas Estate Tax for deaths occurring after December 31, 2009.

SALES & USE TAX

The statute of limitations for sales & use tax refund claims is now reduced from 3 years to 1 year.

FRANCHISE TAX

The 2009 tax rate is .0625%. For 2010 the rate is further reduced to .03125%. There will be no franchise tax for 2011 and thereafter.

EMPLOYEE VS. CONTRACTOR

The IRS is continuing its attempts to re-classify workers as employees. Behind this is a basic belief that some of the money paid to contractors will never be reported as income. If you pay contractors, make sure 1099s are sent, as penalties have been increased to severe levels.

Now might be a good time to re-evaluate your practices in this area. Consider the strengths and weaknesses of your arguments if your position were to be challenged.

And consider the consequences if you were to lose. Possibly, the IRS would assess for the taxes that should have been withheld. If that is for one employee for one year, that is one matter, but if it is for 20 employees for three years, the consequences could be devastating.

Admission to one agency opens up issues with other agencies, such as federal unemployment tax, Kansas unemployment tax and Kansas withholding. Please contact us if you have questions or concerns regarding this matter.

IRS CIRCULAR 230 DISCLOSURE

In accordance with IRS regulations, we advise you that any discussion of federal tax issues in this newsletter or any attachment hereto is not intended or written to be used, and cannot be used by you, (i) to avoid any penalties imposed under the Internal Revenue Code, or (ii) to promote, market, or recommend to another party any transaction or matter addressed herein.

