John H. Dietershagen, C.P.A.
Jerry E. Mickelson, C.P.A.
Thomas K. Van Derzee, C.P.A.
Debbie Conley Jordan, C.P.A.
Patrick S. Jordan, C.P.A.
Duane R. Shoen, C.P.A.
Lesley L. Horner, C.P.A.
D. Leslie Spurgin, C.P.A

Frederick J. Ciaschi, C.P.A.

Ciaschi • Dietershagen • Little • Mickelson & Company, LLP

Certified Public Accountants and Consultants

Tax Law Changes

For 2009:

Homebuyer Credit **–** First-time homebuyers who purchase a home after April 8, 2008, and before May 1, 2010, can receive up to an $8,000 refundable tax credit. Phase-out of this credit starts at $75,000 ($150,000 for joint filers). After Nov. 6, 2009, the phase out of the credit starts at $125,000 ($225,000 for joint filers). Also, after Nov. 6, 2009 the homebuyer credit was expanded to provide up to $6,500 credit for long-time homeowners who purchase a replacement home.

Home Energy- Savings Improvement Credit **–** Taxpayers who invest in energy improvements, such as new windows and doors to their homes, can claim a tax credit of up to $1,500 lifetime maximum. The credit applies to 2009 and 2010 tax returns.

Residential Energy Efficient Property Credit **–** Homeowners who invest in energy property such as solar heating and geothermal pumps will receive an increased tax credit when filing their 2009 to 2016 tax returns.

Unemployment Compensation **–** You do not have to pay tax on unemployment compensation of up to $2,400 per recipient. Amounts over $2,400 are still taxable.

American Opportunity Tax Credit **–** An enhanced Hope Credit can be applied to qualified education expenses for the first 4 years of higher education. Maximum credit is $2,500, of which 40% is refundable. The credit begins to phase out for individuals with adjusted gross income over $80,000 ($160,000 for joint filers).

Section 529 Plan Distributions **–** The expanded definition of qualified higher education expenses now includes the purchase of computers and related equipment for college.

Vehicle Purchase **–** If you bought a new vehicle from Feb. 16, 2009 to Dec. 31, 2009, you can get a tax deduction for the state and local sales or excise tax. The deduction is for the tax on up to $49,500 of the cost of the vehicle and the benefit begins to phase out for individuals with modified adjusted gross income of $125,000 ($250,000 for joint filers). You may claim this benefit on your 2009 tax return even if you don't itemize.

Making Work Pay Credit **–** This refundable credit is available to individuals who are employed or self-employed. The credit is 6.2% of earned income, up to $400 for individuals ($800 for joint filers). The credit begins to phase out when modified adjusted gross income reaches $75,000 for individuals ($150,000 for joint filers). This credit applies to 2009 and 2010 tax returns.

CORTLAND
39 Church Street
Cortland, New York 13045
607-753-7439
fax 607-753-7874

ITHACA
401 East State Street ~ Suite 500
Ithaca, New York 14850
607-272-4444
fax 607-273-8372
www.cdlm.com

WATKINS GLEN
108 West Fourth Street
Watkins Glen, New York 14891
607-535-4443
fax 607-535-6220

***Buying U.S. Series I Savings Bonds with your Refund* –** You can now receive up to $5,000 of U.S. Series I Savings Bonds as part of your income tax refund without setting up a Treasury Direct account in advance.

***Additional Standard Deduction for Real Estate Taxes* –** The additional standard deduction for state and local property taxes for non-itemizers was extended through 2009. The maximum deduction is $500 ($1,000 for joint filers).

***Sales Tax Deduction* –** The choice to deduct state and local sales taxes instead of state and local income taxes on Schedule A was extended through 2009.

***PMI Deduction* –** The deduction for mortgage insurance premiums paid on a qualified residence was extended through 2009.

***Tuition and Fees Deduction* –** The above the line deduction for up to $4,000 of qualified higher education expenses ($2,000 for higher income taxpayers) was extended through 2009.

***Educator Expenses* –** The $250 above the line deduction for out of pocket classroom expenses for teachers K - 12 was extended through 2009.

For 2010:

***Roth Conversions Liberalized* –** Beginning in 2010, the $100,000 modified adjusted gross income limit on conversions of traditional IRAs to Roth IRAs is eliminated. For conversions made in 2010, the taxpayer can elect to include the income on his or her 2010 return or include one-half of the conversion income in 2011 and the other half in 2012.

***The Zero Capital Gains Rate Expires After 2010* –** 2010 is the final year that taxpayers will enjoy a capital gains rate of zero to the extent that their regular tax bracket is less than 25%. But before you make plans to sell everything in 2010, remember that the gain itself adds to your income, impacts income-based limitations, and possibly pushes you into a higher regular tax bracket, so it is a balancing act to take advantage of this zero rate.

***Required Minimum Distributions* –** The minimum required pension distribution requirement for individuals age 70 ½ or older returns in 2010. It was temporarily suspended in 2009.

***Qualified Charitable Distributions* –** Taxpayers age 70 ½ or older may no longer contribute up to $100,000 tax-free from an IRA to a qualified charity.

Ciaschi, Dietershagen, Little, Mickelson & Company LLP