INFORMATION THAT WORKS FOR YOU
BY THE NUMBERS

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CPAs and Advisors

Special Edition

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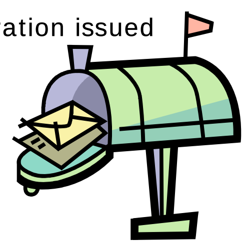
Recent Developments

2009 has begun by presenting us with many challenges: the troubled economy, rising unemployment, government bail-out plans, shrinking retirement savings, and continuing fraud. In our Special Edition of *By the Numbers* we are addressing what has been done to help seniors with their retirement savings and the recent fraud alert for small businesses. "*The American Recovery and Reinvestment Act of 2009*", which was signed into law on February 17, 2009 is summarized to offer insight into the new administration's first attempt at facing the economic challenges ahead**.**

"Fraud Alert" for Small Businesses



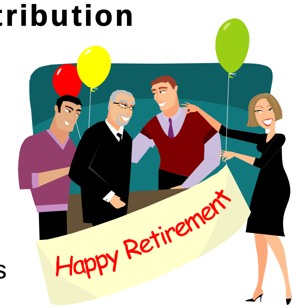
The U.S. Small Business Administration issued a scam alert to small businesses, warning them not to respond to letters falsely claiming to have been sent by the SBA asking for bank account information in order to qualify them for federal tax rebates.

The fraudulent letters were sent out with what appears to be an SBA letterhead, advising recipients that they may be eligible for a tax rebate under the Economic Stimulus Act, and that SBA is assessing their eligibility for such a rebate.

These letters have not been sent by or authorized by the SBA, and all small businesses are strongly advised not to respond to them. The scheme is similar in many ways to e-mail scams often referred to as "phishing" that seek personal data and financial account information that enables another party to access an individual's bank accounts or to engage in identity theft.

The SBA is working with the SBA Office of Inspector General to investigate this matter. The Office of Inspector General asks that anyone who receives such a letter report it to the OIG Fraud Line at (800) 767-0385, or e-mail at OIGHotline@sba.gov.

Required Minimum Distribution Relief



A key provision in the recently passed *Worker, Retiree and Employer Recovery Act of 2008* is designed to help alleviate the financial burden facing seniors who have seen their retirement savings shrink dramatically. The new provision provides relief to senior citizens by allowing them to continue to keep money in retirement accounts that they are typically required by law to withdraw once they reach age 70 1/2. Amounts thus left in the account are given more time to recover in value. Here's a brief summary:

- The tax law generally requires individuals with retirement accounts to make annual withdrawals based on the size of their account and their age every year after age 70 1/2. Any individual who fails to take a required minimum distribution (RMD) is heavily penalized by the IRS, which taxes the amount not withdrawn at 50%.

- The new law suspends the required minimum distribution for 2009. This waiver, available to everyone regardless of their total retirement account balances, applies to all defined-contribution plans, including 401(k), 403(b), 457(b), and IRA accounts.

"The American Recovery and Reinvestment Act of 2009" - What does it mean for you?

Tax Changes Affecting Individuals and Families

"Making Work Pay" credit

If you work you may be eligible for the "Making Work Pay" credit which is available in 2009 and 2010. The new credit will reduce a person's tax liability on a dollar-for-dollar basis.

- Wage earners who don't earn enough to pay income taxes will be able to claim the difference as a tax refund.

- The new law provides an individual tax credit in the amount of 6.2 percent of earned income not to exceed $400 for single returns and $800 for joint returns in 2009 and 2010.

- The credit is phased out at adjusted gross income (AGI) in excess of $75,000 ($150,000 for married couples filing jointly).

- The credit can be claimed as a reduction in the amount of income tax that is withheld from a paycheck, or through a credit on a tax return.

- Under the credit, workers can expect to see perhaps $13 a week less withheld from their paychecks starting around June. Next year, the extra take-home pay will go down to around $7.70 per week.

Economic recovery payment

If you are retired, the new law provides for a one-time payment of $250 to:
… Retirees,
… Disabled individuals,
… Social Security beneficiaries,
… SSI recipients receiving benefits from the Social Security Administration,
… Railroad Retirement beneficiaries,
… Veterans receiving disability compensation,
… Pension benefits from the U.S. Department of Veterans' Affairs, and
… Retired government workers who are generally ineligible for Social Security.

- The one-time payment is a reduction to any allowable Making Work Pay credit.

- The Social Security Administration expects all payments to be delivered by late May 2009.

- Beneficiaries should not contact Social Security unless they do not receive their payment by June 4th.

Health Insurance Assistance for the Unemployed - COBRA benefits

For Individuals.

The Stimulus Bill provides that 65% of COBRA premiums on or after February 17, 2009 will be paid for by the government for up to nine months, or the time that the eligible individual becomes covered under another health care plan, if earlier.

- An eligible single person's income must be below $125,000, $250,000 for joint filers.

- Individuals must have been involuntarily terminated from employment between September 1, 2008 and December 31, 2009 and elected or were eligible to elect continued health coverage under COBRA.

- The person is responsible for paying 35% of the COBRA premium amount in a timely manner, and must notify the group health plan administrator once he or she becomes eligible for coverage under another plan.

- The reduction in COBRA premiums does not result in taxable income to the individual.

- This provision is not available to those covered by COBRA benefits as a result of divorce.

If a person would otherwise be eligible for the reduced premium but initially failed to elect COBRA coverage, he or she may do so now under the provisions of the Stimulus Bill.

For Employers:

The former employer will be required to pay the remaining 65% but will be reimbursed through a credit against payroll taxes and withholding that is submitted to the federal government.

Since the reduction in COBRA premiums is effective immediately, employers need to react quickly. During the period of the COBRA premium reduction program (2/17/09 – 12/31/09), employers need to provide notice to eligible individuals of the reduction in premiums. The notice needs to include:

… necessary forms to establish eligibility for premium reduction,
… contact information for the group health administrator,
… a description of the extended election period,
… a description of the obligation of the individual to notify the plan of eligibility for subsequent coverage, and
… a description of the individual's right to reduced premium and any conditions on entitlement to the reduction.

For persons who have elected COBRA prior to February 17, 2009, employers currently have 60 days from the date of enactment to provide the notice, i.e. by April 18, 2009.

The Secretary of Labor is required to issue model notices no later than 30 days after the date of enactment (by March 19, 2009) for use in the notification process. They will also provide outreach consisting of public education and enrollment assistance.

Unemployment compensation exclusion

Currently, unemployment benefits are included in an individual's gross income for federal income tax purposes.

- A provision temporarily suspends federal income tax on the first $2,400 of unemployment benefits received by a recipient in 2009.

Expanded earned income tax credit

The new law provides tax relief to families with three or more children and increases marriage penalty relief. The changes apply for 2009 and 2010.

Expanded child tax credit

Currently, a taxpayer receives a $1,000 tax credit for each qualifying child under the age of 17. To the extent the child credit exceeds the taxpayer's tax liability, the taxpayer is eligible for a refundable credit (the additional child tax credit) equal to 15% of earned income in excess of a threshold dollar amount. The threshold dollar amount was $8,500 in 2008.

- The new law increases the eligibility for the refundable child tax credit in 2009 and 2010 by lowering the threshold to $3,000.

- This means that working families with earnings above $3,000 may qualify for at least a partial credit.

Expanded and revised higher education tax credit

The new law creates a new American Opportunity tax credit for 2009 and 2010, replacing and expanding the Hope tax credit for those years.

The maximum credit is $2,500 (up from a maximum credit of $1,800 under the Hope credit). The American Opportunity tax credit is available for the first four years of college, unlike the Hope credit which was only available for the first two years of undergraduate education.

- The credit is based on 100% of the first $2,000 of tuition and related expenses (including books) paid during the tax year and 25% of the next $2,000 of tuition and related expenses paid during the tax year, subject to a phase-out for AGI in excess of $80,000 ($160,000 for married couples filing jointly). Forty percent of the credit is refundable.

- This means that someone who has at least $4,000 in qualified expenses and who would thus qualify for the maximum credit of $2,500, but who has no tax liability to offset that credit against, would qualify for a $1,000 (40% of $2,500) refund from the government.

Section 529 Plans - Computers as an education expense

The definition of qualified education expenses has been expanded to include the purchase of computers and computer technology, including internet access, using withdrawals from Sec. 529 education plans for tax years beginning in 2009 and 2010.

Expanded credit for first-time home buyers

In 2008, Congress provided taxpayers with a refundable tax credit that was equivalent to an interest-free loan equal to 10% of the purchase of a home (up to $75,000) by first-time home buyers. The provision applied to homes purchased on or after April 9, 2008 and before July 1, 2009.

Taxpayers receiving this tax credit were required to repay any amount received under this provision back to the government over 15 years in equal installments (or earlier if the home was sold). The credit phased out for taxpayers with adjusted gross income in excess of $75,000 ($150,000 in the case of a joint return).

- The new law enhances the credit by eliminating the repayment obligation for taxpayers that purchase homes on or after January 1, 2009.

- It also extends the credit through the end of November 2009, and bumps up the maximum value of the credit from $7,500 to $8,000.

- The new law retains the recapture provisions if the house is sold within three years of purchase.

Please note: Purchases on or after April 9, 2008 and before January 1, 2009 continue to be governed by the original first-time homebuyer credit enacted last year.

Transportation fringe benefits

Employees may exclude from income, qualified transportation fringe benefits up to a specified dollar limit. The benefits include van pooling, mass transit passes, qualified parking, and qualified bicycle commuting reimbursements.

The 2009 Act increases the maximum monthly exclusion from $120 to $230. The increase is in effect from March 2009 through January 1, 2011.

Tax break for new car purchasers

The new law allows taxpayers to deduct State and local sales taxes paid on the purchase of a *new* automobile, including light trucks, SUVs, motorcycles, and motor homes. The deduction applies to tax amounts paid on the first $49,500 of the vehicle's price.

- The tax break covers new vehicles purchased between February 17, 2009 and December 31, 2009
- The tax break phases out starting with taxpayers earning $125,000 per year ($250,000 for joint returns).
- The deduction is allowed to those who itemize their deductions as well as to nonitemizers.
- The deduction cannot be taken by a taxpayer who elects to deduct State and local sales taxes in lieu of State and local income taxes.

Plug-In Electric Vehicle Credit

Under the plug-in electric drive motor vehicle credit program established last year, the base amount of the credit is $2,500, plus another $417 for each kilowatt hour of battery capacity in excess of four kilowatt hours. (By way of comparison, the current Toyota Prius stores 1.3 kilowatt hours.)

The maximum credit for qualified vehicles weighing 10,000 pounds or less is $7,500. Thus, a light-duty vehicle with a 16-kilowatt hour battery pack, such as the prospective Chevrolet Vol, would get the maximum credit. This may help ease the burden of the expected steep sticker prices of plug-in electric vehicles.

This maximum amount increases:
… to $10,000 for vehicles weighing more than 10,000 pounds but not more than 14,000 pounds,
… to $12,500 for vehicles weighing more than 14,000 pounds but not more than 26,000 pounds, and
… to $15,000 for vehicles weighing more than 26,000 pounds.

Once a total of 200,000 credit eligible vehicles are sold for use in the United States, the credit will be phased out.

Alternative minimum tax (AMT) patch

Brief overview of the AMT.

The AMT is a parallel tax system which recalculates a taxpayer's liability, disallowing several regular deductions including property taxes, state income taxes and personal exemptions. If the liability is found to be greater under the AMT system, the taxpayer owes the differential in addition to their regular tax.

Originally enacted to make sure that wealthy Americans did not escape paying taxes, the AMT has started to affect many more middle-income taxpayers, due in part to the fact that the AMT parameters are not indexed for inflation.

New law provides one-year stopgap fix.

- For tax years beginning in 2009, the new law increases the AMT exemption amounts to $46,700 for individuals and $70,950 for joint returns, and allows the personal credits against the AMT.

Nonbusiness Energy Property Credit

Individual taxpayers are allowed a personal tax credit for energy efficient improvements to a dwelling in the U.S. owned and used by the taxpayer as the taxpayer's principal residence.

Under the pre-2009 stimulus act law, this credit was equal to the sum of:

… 10% of the amount paid or incurred by the taxpayer for qualified energy efficiency improvements (meeting certain requirements) installed during the tax year, and

… the amount of residential energy property expenditures (i.e., $50 for each advanced main air circulating fan, $150 for each qualified natural gas, propane, or oil furnace or hot water boiler, and $300 for qualified energy efficient property, including heat pumps, water heaters, and central air conditioners) paid or incurred by the taxpayer during the tax year.

Under pre-Act law, the credit was subject to a lifetime cap. The total credit for all tax years couldn't exceed $500, no more than $200 of which could be for expenditures on windows.

The credit was set to expire at the end of 2009.

The new law extends the Nonbusiness Energy Property credit through December 31, 2010 and modifies it in the following ways:

- For 2009 and 2010, the amount of the tax credit is increased from 10% to 30% of the amount paid or incurred by the taxpayer for qualified energy efficiency improvements during the tax year.

- The property-by-property dollar caps on the tax credit are also eliminated, and an aggregate $1,500 cap applies to all property qualifying for the credit.

The residential energy efficient property (REEP) credit

Individuals are allowed a nonrefundable personal tax credit for 30% of expenditures made during the tax year for qualified solar water heating, geothermal heat pump, fuel cell, small wind energy, and solar electric property. However, there were limitations.

- The 2009 Recovery Act eliminates the REEP credit caps for qualified solar water heating, geothermal heat pump, and small wind energy property, while retaining the credit cap for qualified fuel cell property.

Tax Changes Affecting Businesses

Extension of bonus depreciation

Last year, Congress temporarily allowed businesses to recover the costs of capital expenditures made in 2008 faster than the ordinary depreciation schedule would allow by permitting these businesses to immediately write off 50% of the cost of depreciable property acquired in 2008 for use in the United States.

- The new law extends this temporary benefit for qualifying property purchased and placed into service in 2009.

Extension of enhanced small business expensing (Section 179)

In order to help small businesses quickly recover the cost of certain capital expenses, small business taxpayers may elect to write off the cost of this expense in the year of acquisition in lieu of recovering these costs over time through depreciation. Last year, Congress temporarily increased the amount that small businesses could write off for capital expenditures incurred in 2008 to $250,000 and increased the phase-out threshold for 2008 to $800,000.

- The new law extends these temporary increases for capital expenditures incurred in 2009.

The difference between bonus depreciation and Section 179 is that Code Section 179 expensing is available on new or used property.

Small business estimated tax payment relief

The new law decreases required estimated tax payments for individuals whose income comes from a small business in 2009. Rather than quarterly estimated tax payments being based on 100 percent of their 2008 returns, the new law allows computation based on 90 percent.

- Individual's AGI must be less than $500,000

- He/she must certify that 50 percent of the gross income shown on his/her return for prior tax year was income from a small business (a business with an average number of employees of 500 or fewer)

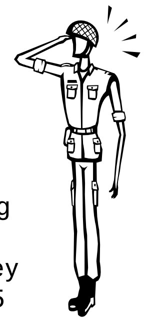
Expanded loss carryback of net operating losses for small businesses

- For 2008, the new law extends the maximum NOL carryback period from two years to five years for small businesses with gross receipts of $15 million or less. The carry forward period remains at twenty years.

Incentives to hire unemployed veterans and disconnected youth

Businesses are allowed to claim a Work Opportunity Tax Credit equal to 40% of the first $6,000 of wages paid to employees of one of nine targeted groups.

The new law expands the credit to include two new targeted groups:



- **unemployed veterans** qualify if they were discharged or released from active duty from the Armed Forces during 2008, 2009 or 2010 and received unemployment compensation for more than four weeks during the year before being hired; and
- **disconnected youth** qualify if they are between the ages of 16 and 25 and have not been regularly employed or attended school in the past 6 months.

Extension of monetization of accumulated AMT and R&D credits in lieu of bonus depreciation

The new law extends the provision contained in the Foreclosure Prevention Act of 2008 and allows AMT and loss taxpayers in 2009 to receive 20% of the value of their old AMT or research and development (R&D) credits to the extent such taxpayers invest in assets that qualify for bonus depreciation.

Delayed recognition of certain cancellation of debt income

To benefit certain businesses that buy their own debt at a discount, the new law lets the businesses recognize cancellation of debt income ("CODI") over 10 years by deferring tax on CODI for the first four or five years and then recognizing this income ratably over the following five tax years. This applies to specified types of business debt repurchased by the business in 2009 or 2010.

Qualified small business stock

The new law increases the exclusion for gain from the sale of certain small business stock held for more than five years from 50% to 75% for stock issued after the enactment date and before 2011.

S corporation holding period

The new law temporarily shortens the holding period of assets subject to the built-in gains tax from ten years to seven years. This provision applies to S corporations that recognize built-in-gain in tax years beginning in 2009 and 2010.

Temporary election to claim the investment tax credit in lieu of the production tax credit

Facilities that produce electricity from solar facilities are eligible to take a 30% investment tax credit in the year the facility is placed in service. Facilities that produce electricity from wind, closed-loop biomass, open-loop biomass, geothermal, small irrigation, hydropower, landfill gas, waste-to-energy, and marine renewable facilities are eligible for a production tax credit, payable over a ten-year period. The Act provides a temporary election to claim the investment tax credit in lieu of the production tax credit.

Long-term extension and modification of renewable energy production tax credit

The new legislation extends the placed-in-service date for wind facilities for three years (through December 31, 2012). It also extends the placed-in-service date through December 31, 2013 for certain other qualifying facilities: closed-loop biomass; open-loop biomass; geothermal; small irrigation; hydropower; landfill gas; waste-to-energy; and marine renewable facilities.

Credit for investment in advanced energy facilities

The new law establishes a new manufacturing investment tax credit for investment in advanced energy facilities, such as facilities that manufacture components for the production of renewable energy, advanced battery technology, and other innovative next-generation green technologies.

More funding for bonds

The new law authorizes additional funds for new clean renewable energy bonds and qualified energy conservation bonds.

We have summarized only the major law changes in the *American Recovery and Reinvestment Act of 2009*. You as an individual or through your business may benefit from any number of the law changes. If you are ready to take a look at your own situation to see how these new provisions may affect you, please give us a call and we will be glad to help.

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