

# New Tax Incentives

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## **Opportunities With Recent Tax Law Changes**

As a way to spur the economy and help ease the burden of the recession on the population, Congress and the Obama administration enacted a myriad of tax credits and/or law changes that may impact a client's financial situation. The purpose of this report is to summarize the changes that may be most attractive to individuals and businesses. *This document does not provide tax advice. It is only designed to provide a summary of what the new incentives are. Each individual should consult with their own personal tax advisor prior to taking any action.*

## **Incentives For Individuals**

### **New Vehicles**

Buyers of new vehicles and motor homes will receive a sales tax deduction for state and local taxes. Available for new vehicles (passenger autos, light trucks, motorcycles, and motor homes) on up to \$49,500 of the purchase price. Vehicles must be purchased between February 17, 2009 and December 31, 2009. The deduction is phased out and then eliminated for singles with modified adjusted gross income of between \$125,000 to \$135,000 and \$250,000 and \$260,000 for married filing jointly.

For those purchasing a new hybrid vehicle during 2009, a credit of up to \$3,400 is available. The amount of the credit depends on the hybrid you purchase and some of the most popular models are no longer eligible for the credit. No income phase-out limits.

### **Education**

The Hope Credit is temporarily re-named the American Opportunity credit. For 2009 and 2010, the credit equals 100% of the first \$2,000 of qualified post secondary education expenses paid during the year plus 25% of the next \$2,000. Maximum annual credit is \$2,500. Appropriate expenses include the cost of tuition, fees, and course materials. The adjusted gross income phase-out range is between \$80,000 to \$90,000 for single taxpayers and \$160,000 to \$180,000 for married filing jointly.

For 529 plans, computer costs (including peripheral equipment and software) and charges for internet access are now considered qualified higher education expenses.

### **Real Estate**

Legislation passed in 2008 established a temporary refundable tax credit for first-time homebuyers. This credit was extended for qualified home purchases between January 1st and November 30, 2009.

- For qualified purchases, the maximum credit equals the lesser of 1) 10% of the purchase price, or 2) \$8,000 (only \$4,000 if married filing separate).
- Eligibility is restricted to individuals who have not owned a principal residence in the U.S. during the three-year period ending on the home purchase date. If married, both spouses must pass the three year test.
- No repayment of the credit is required unless you sell the home within three years of the purchase date.
- Exceptions are provided for certain situations (death, divorce).

The adjusted gross income phase-out range is \$75,000 to \$95,000 for single taxpayers and \$150,000 to \$170,000 for married filing jointly taxpayers.

In addition, the residential energy credit was modified and expanded.

- Tax credit for the lower of 30% of expenditures or \$1,500 to install energy efficient property in your home. Aggregate cap of \$1,500 for 2009/2010. This

is a cumulative \$1,500 between the two years. It is not \$1,500 each year.

- Includes energy efficient insulation, windows, doors, roofs, and heating and equipment.
- Note that for certain green home improvements (such as geothermal heat pumps, solar water heaters, and solar panels), there are no dollar caps. You can claim the full 30% of the purchase price.

### **COBRA Premium Subsidy**

Those individuals who involuntarily separated from employment between September 1, 2008 and January 1, 2010, will only have to pay 35% of COBRA coverage. The remaining 65% will be paid by the former employer, but reimbursed by the federal government.

### **Other Individual Taxpayer Benefits**

- Another 1-year patch on the alternative minimum tax (AMT). This prevents millions of taxpayers from being hit with the AMT.
- Making work pay credit is the lesser of 6.2% of earned income or \$400 (\$800 for married filing jointly). The credit is phased out for adjusted gross income between \$75,000 to \$90,000 for single taxpayers and \$150,000 to \$190,000 for married filing jointly. Credit is provided upfront in the sense that new withholding tables were issued (a lower amount is being withheld from paychecks).
- First \$2,400 of unemployment benefits is treated as tax-free in 2009. Unemployment benefits above \$2,400 will still count as taxable income.
- Required minimum distributions have been waived from IRA's for 2009.
- For tax years after 2009, the \$100,000 adjusted gross income limitation is lifted for taxpayers wanting to convert from a traditional to a Roth Ira. Income reported from a 2010 conversion can be included over a 2-year period.

## **Incentives For Businesses**

### **Equipment Expensing and Depreciation**

The \$250,000 Section 179 first-year depreciation deduction is extended by one year, through tax years beginning in 2009. Additionally, for qualifying new (not used) assets, the 50% first-year bonus depreciation is extended for assets placed in service not later than 12/31/2009.

### **Net Operating Loss Carry Back Period**

Businesses with average annual receipts of \$15 million or less, and meet other eligibility requirements, can elect to carry back 2008 net operating losses for three, four, or five years to obtain refunds of taxes paid (instead of the normal two years).

### **Small-Business Stock Exclusion**

- If an investor buys stock in a small-business between February 17, 2009 and January 1, 2011 and holds it for at least five years, he or she may exclude up to 75% of the gain.