

Client NEWSLETTER

July 2009



MILEAGE RATES

2009
(cents per mile)

Business	55.0
Medical	24.0
Moving	24.0
Charity	14.0

IMPORTANT DATES



Extended Individual tax returns due:
October 15, 2009

Individual federal/state estimated tax payments due:
September 15, 2009
January 15, 2010

Extended Corporate tax returns due:
September 15, 2009

Extended Partnership/estate/trust tax returns due:
October 15, 2009

VT Homeowner Prebate / Renters' Rebate Claims:
September 1, 2009

American Recovery & Reinvestment Tax Act of 2009

"Making Work Pay" Tax Credit (2009 and 2010)

Taxpayers with adjusted gross income (AGI) less than \$75,000 (\$150,000 if married filing a joint return) qualify for this tax credit. The credit is calculated as 6.2% of earned income up to a maximum of \$400 (\$800 if married filing a joint return). Rather than sending out a check for the lump sum amount of the credit, as in 2008, the credit will be paid via a reduction in wage withholdings. Taxpayers with AGI between \$75,000 and \$95,000 (\$150,000 and \$190,000 if married filing a joint return) will qualify for a portion of the credit while taxpayers with AGI that exceeds the limit will not qualify. Other taxpayers not qualifying for the credit include nonresident aliens and those who are dependents of another.

**** Warning:** If a taxpayer holds more than one job (i.e. collects a W-2 from more than one source) the amount of the credit will be duplicated since each employer will be reducing wage withholdings. We recommend filing a revised W-4 with all but one employer in order to increase the withholdings back to pre-credit amounts.

**** Warning:** Married taxpayers whose combined incomes exceed the AGI phase-out thresholds will want to file revised W-4s with their employers to "opt out" of the withholding reduction.

**** Warning:** Married taxpayers will want to calculate the annual effect of the wage withholding difference in their paychecks. There have been some cases where each spouse is receiving a withholding reduction of \$800, thereby doubling the amount of the credit received. This can cause problems at the end of the year.

**** Warning:** Taxpayers who are making estimated tax payments due to other non-withholding source income (interest, dividends, capital gains, rent, nonemployee compensation) may want to "opt

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(Tax Act, continued)

out” of the withholding reduction so as not to be put, involuntarily, in a penalty situation at the end of the year.

Economic Recovery Payment

A one-time credit of \$250 is available to recipients of Social Security benefits, Railroad Retirement benefits, veterans' disability compensation or pension benefits, or qualifying individuals who are eligible for Supplemental Security Income (SSI) benefits. The ERP will reduce the amount of any “Making Work Pay” credit for which the taxpayer may be eligible. The payment will be made by one of the agencies (i.e. Social Security Administration) automatically.

** Warning: If a taxpayer qualifies for both the Economic Recovery Payment and the “Making Work Pay” Tax credit, we recommend opting out of the credit by filing a revised W-4 with the employer.

First-Time Homebuyer Credit

The new Act increases the First-Time Homebuyer credit from a maximum of \$7,500 to a maximum of \$8,000. In addition, for homes purchased between January 1, 2009 and December 1, 2009 the credit does not have to be repaid unless the home ceases to qualify as the taxpayer's primary residence within 3 years of purchase. The same income phase-out ranges from the 2008 credit still apply to the 2009 credit.

Deduction for Taxes on Car Purchases

Vehicles purchased between February 17, 2009 and December 31, 2009 may qualify for a tax incentive. The deduction is equal to the amount of sales tax or excise tax paid on the vehicle up to a maximum purchase price of \$49,500. The deduction is available whether the taxpayer itemizes deductions on Schedule A or uses the standard deduction but is not available if the taxpayer elects to deduct state and local sales taxes rather than state and local income taxes. The deduction phases out when adjusted gross income is between \$125,000 and \$135,000 (\$250,000 and \$260,000 if married filing a joint return). Qualifying vehicles generally include cars, SUVs, light trucks and motorcycles that do not exceed 8,500 gross pounds. Some motor homes may also qualify.

American Opportunity Tax Credit (Tuition Credit)

Previously, two tuition credits were available: the Hope Credit and the Lifetime Learning Credit. In 2009 and 2010, the Hope Credit becomes the American Opportunity Tax Credit. The maximum credit is increased from \$1,800 to \$2,500 and is expanded to include up to four years of higher education rather than only the first two years. The new credit phases out for taxpayers with adjusted gross income between \$80,000 and \$90,000 (\$160,000 and \$180,000 if married filing a joint return). In addition, if the taxpayer does not have enough income tax liability to take full advantage of the credit, up to 40% of the credit may become refundable under certain circumstances.

Temporary Income Exclusion for Unemployment Compensation

The first \$2,400 of unemployment benefits received in 2009 may be excluded from gross income. There are no phase-outs due to income.

Energy Tax Incentives (2009 and 2010)

They're back and bigger than ever! The credit for qualifying home improvements increases from 10% to 30%. The maximum credit increases to \$1,500. For full details on credit amounts and qualifying improvements go to www.energystar.gov.



Vermont Department of Taxes

Return Processing Issues

Since April 15th we have seen several letters from the Vermont Department of Taxes claiming that Forms IN-112 and HI-144 were not received with the tax returns. The State changes the tax return based on the forms available and issues either an additional refund or a bill for additional taxes owed. In all instances, the letters are incorrect and are due to a computer scanning issue within the Department. Should you receive such a letter, do not pay any additional tax and do not deposit any additional refund check. Simply send a copy of the letter to our office and we will provide the State with the “missing” information.