INTERNAL REVENUE SERVICE

IRS Fact Sheet

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2009 Tax Law Changes Provide Saving Opportunities for Nearly Everyone

Video: Tax Filing Season 2010: English | ASL
Video: Education Tax Credit-Claim It-Students: English | ASL
Video: Education Tax Credit-Claim It-Parents: ASL
Video: Energy Tax Credits-Claim It: English | ASL

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In 2009, numerous new and expanded deductions and credits came into being for a broad cross-section of taxpayers: College tax benefits for parents and students; energy credits for homeowners who are going green; and even tax breaks for home buyers and car buyers.

Following is a summary of these and other key changes taxpayers will find when they start preparing their 2009 federal income tax returns.

Note: See Fact Sheet 2010-6 for more information on the first-time homebuyer credit and Fact Sheet 2010-7 for details on the making work pay credit.

American Opportunity Credit Helps Pay for First Four Years of College

More parents and students can use a federal education credit to offset part of the cost of college under the new American Opportunity Credit. This credit modifies the existing Hope credit for tax years 2009 and 2010, making it available to a broader range of taxpayers. Income guidelines are expanded and required course materials are added to the list of qualified expenses. Many of those eligible will qualify for the maximum annual credit of $2,500 per student.

In many cases, the American Opportunity Credit offers greater tax savings than existing education tax breaks. Here are some of its key features:

- Tuition, related fees and required course materials, such as books, generally qualify. In the past, books usually were not eligible for education-related credits and deductions.
- The credit is equal to 100 percent of the first $2,000 spent and 25 percent of the next $2,000. That means the full $2,500 credit may be available to a taxpayer who pays $4,000 or more in qualified expenses for an eligible student.
- The full credit is available for taxpayers whose modified adjusted gross income (MAGI) is $80,000 or less ($160,000 or less for filers of a joint return). The credit is reduced or eliminated for taxpayers with incomes above these levels. These

income limits are higher than under the existing Hope and lifetime learning credits.

- Forty percent of the American opportunity credit is refundable. This means that even people who owe no tax can get an annual payment of the credit of up to $1,000 for each eligible student. Existing education-related credits and deductions do not provide a benefit to people who owe no tax. The refundable portion of the credit is not available to any student whose investment income is taxed, or may be taxed, at the parent's rate, commonly referred to as the kiddie tax. See Publication 929, Tax Rules for Children and Dependents, for details.

Though most taxpayers who pay for post-secondary education qualify for the American Opportunity Credit, some do not. The limitations include a married person filing a separate return, regardless of income, joint filers whose MAGI is $180,000 or more and, finally, single taxpayers, heads of household and some widows and widowers whose MAGI is $90,000 or more.

There are some post-secondary education expenses that do not qualify for the American Opportunity Credit. They include expenses paid for a student who, as of the beginning of the tax year, has already completed the first four years of college. That's because the credit is only allowed for the first four years of a post-secondary education.

Students with more than four years of post-secondary education still qualify for the lifetime learning credit and the tuition and fees deduction.

For details on these and other education-related tax benefits, see Publication 970, Tax Benefits for Education.

Many Energy Improvements Qualify for Expanded Tax Credits

People who weatherize their homes or purchase alternative energy equipment may qualify for either of two expanded home energy tax credits: the non-business energy property credit and the residential energy efficient property credit.

Non-business Energy Property Credit: This credit equals 30 percent of what a homeowner spends on eligible energy-saving improvements, up to a maximum tax credit of $1,500 for the combined 2009 and 2010 tax years. This means that a homeowner can get the maximum credit by spending at least $5,000 on qualifying improvements. Homeowners must make the improvements to an existing principal residence; this tax credit is not available for new construction. Due to limits based on tax liability, other credits claimed by a particular taxpayer and other factors, actual tax savings will vary. The cost of certain high-efficiency heating and air conditioning systems, water heaters and stoves that burn biomass all qualify, along with labor costs for installing these items. In addition, the cost of energy-efficient windows and skylights, energy-efficient doors, qualifying insulation and certain roofs are also eligible for the credit, though the cost of installing these items does not count.

Residential Energy Efficient Property Credit: Homeowners going green should also check out a second tax credit designed to spur investment in alternative energy equipment. The residential energy efficient property credit, equals 30 percent of what a homeowner spends on qualifying property such as solar electric systems, solar hot water heaters, geothermal heat pumps, wind turbines, and fuel cell property. Qualifying property purchased for new construction or an existing home is eligible for the credit. Generally, labor costs are included when calculating this credit. Also, no cap exists on the amount of credit available except in the case of fuel cell property.

Not all energy-efficient improvements qualify for these tax credits. For that reason, homeowners should check the manufacturer's tax credit certification statement before purchasing or installing any of these improvements. The certification statement can usually be found on the manufacturer's Web site or the product packaging. Normally, a homeowner can rely on this certification. The IRS cautions that the manufacturer's certification is different from the Department of Energy's Energy Star label, and not all Energy Star labeled products qualify for the tax credits. Use Form 5695, Residential Energy Credits, to figure and claim these credits.

New Vehicle Purchase Incentive

New car buyers can deduct the state or local sales or excise taxes paid on the purchase of new cars, light trucks, motor homes and motorcycles. There is no limit on the number of vehicles that may be purchased, and eligible taxpayers may claim the deduction for taxes paid on multiple purchases. However, the deduction is limited to the tax on up to $49,500 of the purchase price of each qualifying new vehicle. Qualifying new vehicles must be purchased, not leased, after Feb. 16, 2009, and before Jan. 1, 2010.

Taxpayers who buy a new vehicle may deduct state or local fees or taxes that are similar to a sales tax whether or not their state imposes a sales tax. To qualify, the fees or taxes must be assessed on the purchase of the vehicle and must be based on the vehicle's sales price or as a per-unit fee.

The amount of the deduction is reduced for taxpayers whose modified adjusted gross income is between $125,000 and $135,000 for individual filers and between $250,000 and $260,000 for joint filers. This deduction is available regardless of whether a taxpayer itemizes deductions on Schedule A. Itemizers claim the deduction on either Line 5 or Line 7 of Schedule A. See the Schedule A instructions for details. Non-itemizers claim the deduction on new Schedule L, Standard Deduction for Certain Filers.

Tax Credits Increased for Low and Moderate Income Workers

More workers and working families are eligible for the Earned Income Tax Credit. In particular, expanded benefits are now available for those with three or more qualifying children and married couples. The EITC helps taxpayers whose incomes are below certain income thresholds, which in 2009 rise to:

- $48,279 for families with three or more qualifying children
- $45,295 for those with two or more children
- $40,463 for people with one child
- $18,440 for those with no children

One in six taxpayers can claim the EITC, which, unlike most tax breaks, is refundable, meaning that individuals can get it even if they owe no tax and even if no tax is withheld from their paychecks.

In addition, the earned income formula for the additional child tax credit is revised for tax years 2009 and 2010. As a result, more low and moderate income families qualify for the full $1,000 child tax credit. See Form 8812 for more information.

Standard Deduction Increases for Most Taxpayers

Nearly two out of three taxpayers choose to take the standard deduction rather than itemizing deductions such as mortgage interest and charitable contributions. The basic standard deduction is:

- $11,400 for married couples filing a joint return and qualifying widows and widowers, a $500 increase compared with 2008
- $5,700 for singles and married individuals filing separate returns, up $250
- $8,350 for heads of household, up $350.

Higher amounts apply to blind people and senior citizens. The standard deduction is often reduced for a taxpayer who qualifies as someone else's dependent.

In addition, eligible taxpayers can further increase their standard deduction by any of the following three deductions:

- State or local real estate taxes paid in 2009
- A net disaster loss reported on Form 4684 and
- State or local sales or excise taxes on the purchase of a qualifying new motor vehicle.

Use new Schedule L, Standard Deduction for Certain Filers, to claim these additional deductions.

AMT Exemption Increased for One Year

For tax-year 2009, Congress raised the alternative minimum tax exemption to the following levels:

- $70,950 for a married couple filing a joint return and qualifying widows and widowers, up from $69,950 in 2008
- $35,475 for a married person filing separately, up from $34,975
- $46,700 for singles and heads of household, up from $46,200

Under current law, these exemption amounts will drop to $45,000, $22,500 and $33,750, respectively, in 2010. Form 6251 and the AMT Calculator provide more information.

Other Changes

The standard mileage rate for business use of a car, van, pick-up or panel truck is 55 cents for each mile driven. The standard mileage rate for the cost of operating a vehicle for medical reasons or as part of a deductible move is 24 cents per mile. The rate for using a car to provide services to charitable organizations is set by law and remains at 14 cents a mile.

The value of each personal and dependency exemption is $3,650, up $150 from 2008. Most taxpayers can take personal exemptions for themselves and an additional exemption for each eligible dependent. This is one of more than three dozen individual and business tax provisions that are adjusted each year to keep pace with inflation. A complete rundown of these changes can be found in 2009 Inflation Adjustments Widen Tax Brackets, Change Tax Benefits.

The amount of taxable investment income a child can have without it being taxed at the parent's rate is $1,900, up $100 from 2008. For details, see Form 8615.

There are several modifications to the definition of a qualifying child. For example, the child must be younger than the taxpayer, unless the child is totally and permanently disabled. These changes affect who can claim various tax benefits including the dependency exemption, child tax credit, credit for child and dependent care expenses, head of household filing status and the EITC. See the instructions for Forms 1040 or 1040a for more information.

A new rule applies to the noncustodial parent in situations where a couple is divorced or legally separated after 2008. To claim a child as a dependent, the noncustodial parent must attach Form 8332 or a similar statement to his or her tax return. For pre-2009 divorces and separations, the noncustodial spouse still has the option of attaching certain pages from the divorce decree or separation agreement, instead of Form 8332. See Form 8332 for further details.

A $3,500 or $4,500 voucher or payment made for such a voucher under the CARS “cash for clunkers” program is not taxable to the consumer buying or leasing a new car.

Unemployment benefits up to $2,400 received in 2009 are tax free for unemployed workers. Every person who receives unemployment benefits can exclude the first $2,400 of these benefits on their return. Unemployment benefit amounts over $2,400 are taxed.