

Overview of 2009 Income Tax Law Changes

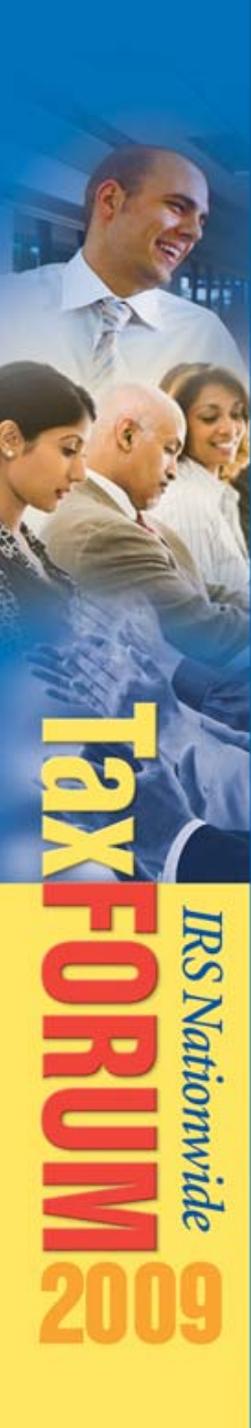
Presented by:

Bob Erickson, Senior Technical Advisor &

**Virginia Tarris, Tax Law Specialist
(Reviewer)**

IRS Tax Forms & Publications

Washington, DC



Unemployment Compensation



The first \$2,400 of unemployment compensation is excluded from income in 2009

Retirement Plan Distributions

- ❑ The minimum required distribution from IRAs and most defined contribution retirement plans has been waived for calendar year 2009
- ❑ Still required for calendar year 2008, even if distribution is not made until 2009
- ❑ Not required in 2010 as long as distribution is for calendar year 2009



COBRA Premium Assistance

- ❑ Effective for periods of coverage beginning after February 16, 2009, employers can take a refundable employment tax credit equal to 65% of the COBRA premiums paid for continuation coverage for an assistance eligible individual for up to a 9-month period
- ❑ The assistance eligible individual must pay the remaining 35%
- ❑ An assistance eligible individual is one who:
 - Is eligible for COBRA coverage during the period beginning September 1, 2008, and ending on December 31, 2009,
 - Elects such coverage,
 - Qualified for COBRA coverage during the above period as a result of the involuntary termination of the covered employee's employment
- ❑ The premium assistance payments are excluded from gross income
- ❑ The premium assistance payments are partially or fully recaptured as an additional tax for higher income individuals. The tax phases in over a modified AGI range of \$125,000-\$145,000 (\$250,000-\$290,000 if married filing jointly).
- ❑ A taxpayer can avoid any recapture tax by electing to waive the right to premium assistance.

Economic Recovery Payments

- Payment of \$250 made to recipients of social security benefits, supplemental security income, railroad retirement benefits, and veterans disability compensation or pension benefits
- Had to be entitled to benefits for November or December 2008 or January 2009 to be eligible for this payment
- No AGI limits
- Must live in a U.S. state, District of Columbia, Puerto Rico, Guam, U.S. Virgin Islands, American Samoa, Northern Mariana Islands
- Only one economic recovery payment per person; this payment reduces the amount of the making work pay credit
- Payment is not included in taxable income

Commuter Transportation Benefits

- ❑ For any month beginning after February 2009, the exclusion from income for commuter highway vehicle transportation and transit passes provided by an employer to an employee is increased to \$230 a month
- ❑ For tax years beginning after 2008, a new exclusion from income (subject to an annual limit) is provided for reimbursement by an employer to an employee for reasonable expenses for the purchase of a bicycle, improvements, repair, and storage if the bicycle is regularly used for commuting



Sale Of Main Home



- ❑ Gain on sale of main home no longer excludable from income if allocable to periods after 2008 where neither you nor your spouse (or your former spouse) used the property as a main home (with certain exceptions)
- ❑ Gain allocated to nonqualified use by multiplying the gain by the following fraction:
$$\frac{\text{Total nonqualified use during period of ownership after 2008}}{\text{Total period of ownership}}$$

Qualified Tuition Programs

- ❑ During 2009 and 2010, qualified education expenses for qualified tuition programs (section 529 plans) will include certain purchases of computer technology, equipment, or Internet access and related service
- ❑ Items purchased must be used by beneficiary and beneficiary's family during years beneficiary is enrolled at an eligible educational institution
- ❑ Excludes expenses for computer software designed for sports, games, or hobbies unless predominantly educational in nature.



Qualified Motor Vehicle Taxes

- New deduction for qualified motor vehicle taxes on purchase of certain new cars, trucks, motorcycles or motor homes
- Can add to the standard deduction or take as an itemized deduction (if not electing sales tax deduction)
- Limited to tax imposed on the first \$49,500
- Phased out over modified AGI range of \$125,000-\$135,000 (\$250,000-\$260,000 if married filing jointly).
- Applies only to purchases made after February 16, 2009, and before January 1, 2010



Personal Casualty & Theft Losses

- ❑ Each personal casualty or theft loss is allowed as an itemized deduction (or as an addition to the standard deduction) only to the extent the loss exceeds \$500
- ❑ No change to AGI limit on losses



Definition of Qualifying Child

- ❑ Your qualifying child must be younger than you
- ❑ Child cannot file a joint return unless filed only as a claim for refund
- ❑ If parent of a child can claim the child as a qualifying child, but no parent so claims the child, no one else can claim child as a qualifying child unless that person's AGI is higher than the highest AGI of any parent of the child
- ❑ Your child is a qualifying child for child tax credit only if you can and do claim an exemption for him or her



Exemption for Child of Divorced or Separated Parents

- ❑ A noncustodial parent claiming an exemption for a child can no longer attach certain pages from a divorce decree or separation agreement instead of Form 8332. This new rule applies only if the decree or agreement was executed after 2008
- ❑ The noncustodial parent must instead attach Form 8332 (or a similar statement signed by the custodial parent and used only to release a claim to the exemption)
- ❑ Form 8332 (Rev. February 2009) also may be used to revoke a previous release of an exemption claim starting with the following tax year

Alternative Minimum Tax

- ❑ Offset of all of nonrefundable personal tax credits against AMT continues through 2009
- ❑ Exemption amount increases for 2009
 - \$46,700 if single or head of household
 - \$70,950 if married filing jointly or surviving spouse
 - \$35,475 if married filing separately
- ❑ Tax-exempt interest on private activity tax-exempt bonds issued in 2009 and 2010 is not included in alternative minimum taxable income. This includes private activity bonds issued to currently refund a private activity bond issued in calendar years 2004 through 2008



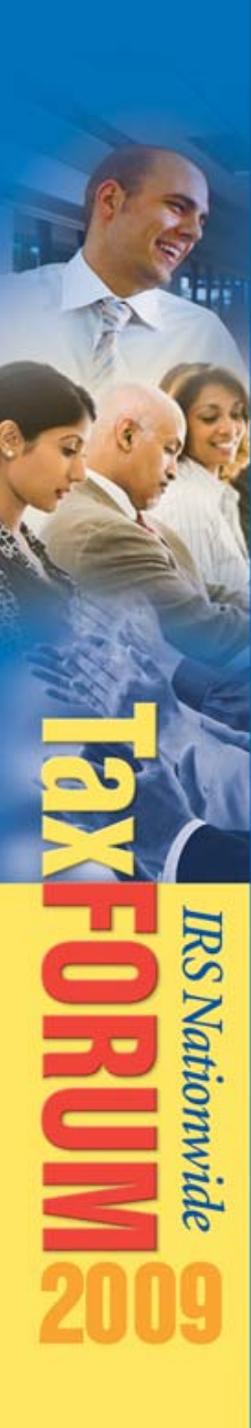
Residential Energy Credits

- ❑ Nonbusiness energy property credit
 - Amount of credit increases from 10% to 30%
 - Credit limited to \$1,500 for the total of all 2009 and 2010 purchases
 - Credit expanded to include certain asphalt roofs and stoves that burn biomass fuel
 - Definition of qualifying property revised, primarily to update energy efficiency requirements
- ❑ Residential energy efficient property credit
 - Credit for qualified solar hot water property and geothermal heat pumps no longer limited to \$2,000 per year
 - Credit for qualified small wind energy property no longer limited to the smaller of \$500 for each half kilowatt of capacity or \$4,000



Vehicle Credits

- ❑ For tax years beginning after 2008, the personal use part of the alternative motor vehicle credit is allowed against the AMT
- ❑ New plug-in conversion credit of 10% of the cost of converting any motor vehicle (new or used) to a qualified plug-in electric drive motor vehicle. The maximum credit is \$4,000 per vehicle. This credit is part of the alternative motor vehicle credit and applies to property placed in service after February 17, 2009
- ❑ New credit of 10% of the cost of a new plug-in electric vehicle (claimed on Form 8834). The maximum credit is \$2,500 per vehicle. Applies to vehicles acquired after February 17, 2009
- ❑ New plug-in electric drive motor vehicle credit (claimed on Form 8936). The amount of the credit varies depending on the battery capacity and ranges from \$2,500 to \$15,000. Applies to tax years beginning after 2008
- ❑ For tax years beginning in 2009 and 2010, the alternative fuel vehicle refueling property credit (claimed on Form 8911) is increased. For property that relates to hydrogen, the maximum credit per location is increased to \$200,000. For all other property, the credit percentage is increased to 50% and the maximum credit per location is increased to \$50,000 (\$2,000 for nondepreciable property)



Build America Bonds

- ❑ Build America bonds must be issued after February 17, 2009, otherwise qualify as tax-exempt bonds that are not private activity bonds, and for which an election is made by the issuer.
- ❑ Credit to bondholders
 - Tax credit of 35% of interest payable on Build America bonds
 - Amount of credit is taxable as interest income
 - Unused credit is not refundable, but can be carried forward to succeeding tax years
 - Use Form 8912 to claim the credit
- ❑ Alternatively, payments to issuers of the bonds
 - Issuer can elect to receive payments equal to 35% of the interest payable on the bond in lieu of a credit to the bondholders
 - Use Form 8038-CP to receive the payments



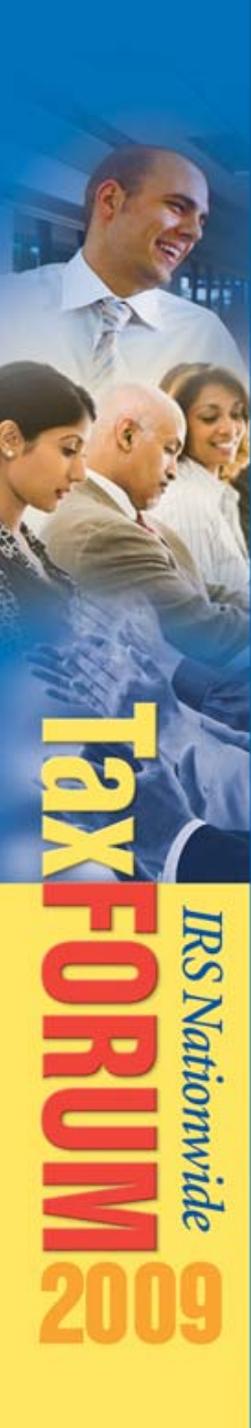
Making Work Pay Credit

- Maximum credit is \$400 (\$800 if married filing jointly)
- Credit is refundable
- Credit limited to 6.2% of earned income
- Can be an employee or self-employed
- Phased out over modified AGI range of \$75,000-\$95,000 (\$150,000-\$190,000 if married filing jointly).
- Available for tax years 2009 and 2010



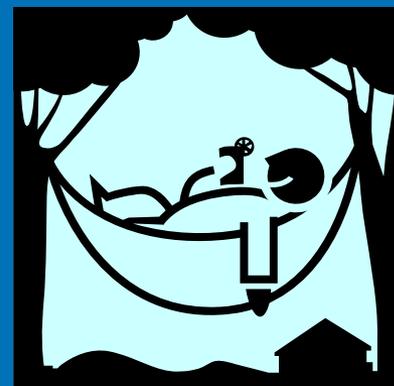
Making Work Pay Credit (continued)

- Figured on new Schedule M (Form 1040 or Form 1040A) or on a worksheet on the back of Form 1040EZ and reported on separate line of Form 1040, Form 1040A, or Form 1040EZ
- Reduced if taxpayer received the economic recovery payment or eligible for government retiree credit
- Reduced withholding reflects all or part of the credit
- Not available to nonresident aliens, individuals who can be claimed as dependents on someone else's tax return, or estates and trusts
- Taxpayer claiming the credit must have a social security number; if married filing jointly, at least one spouse must have an SSN



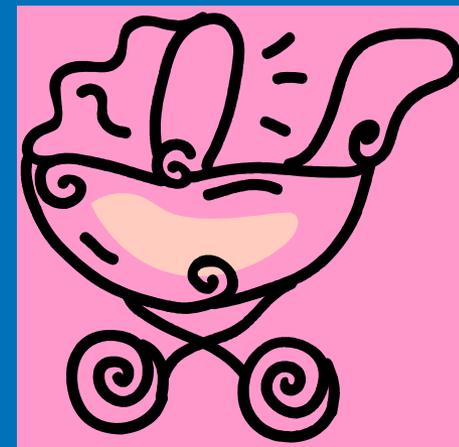
Government Retiree Credit

- Refundable credit of \$250 per individual receiving a pension or annuity for work not covered by social security and performed by an employee of the U.S. federal government or any U.S. state or local government
- Reduced by any economic recovery payment received; reduces any making work pay credit
- No AGI limits
- Figured on Schedule M with the making work pay credit



Additional Child Tax Credit

- ❑ The earned income threshold generally needed to qualify for the additional child tax credit decreases from \$8,500 to \$3,000. As a result, more people will qualify for the credit.
- ❑ Lower threshold applies in 2009 and 2010



Earned Income Credit

- ❑ Credit percentage increases from 40% to 45% for families with 3 or more children (maximum credit is now \$5,657)
- ❑ Addition to the phase-out amount for married taxpayers filing jointly increases from \$3,120 to \$5,000



Hope Education Credit

- Hope credit modified for 2009 and 2010 (unless the taxpayer elects to use the special rules that apply to students attending school in a Midwestern disaster area)
- Maximum credit is \$2,500 (100% of the first \$2,000 of expenses and 25% of the next \$2,000)
- Available for first 4 years of post-secondary education
- Qualified expenses include course materials as well as tuition and fees
- 40% of the credit is refundable (unless section 1(g) applies); new line added to Form 1040 and Form 1040A to claim the refundable part of the credit
- Phased out over modified AGI range of \$80,000-\$90,000 (\$160,000-\$180,000 if married filing jointly).

Health Coverage Tax Credit

- ❑ For coverage months beginning after April 2009, the credit is increased from 65% to 80% of the premiums paid for qualified health insurance
- ❑ For coverage months beginning after February 2009, the definition of eligible TAA recipient is modified to eliminate the requirement that an individual receiving unemployment compensation be enrolled in training
- ❑ Effective as of February 17, 2009, qualified health insurance is expanded to include coverage under an employee benefit plan funded by a voluntary employees' beneficiary association
- ❑ Individuals receiving COBRA premium assistance are not eligible for the credit for any month that assistance is provided



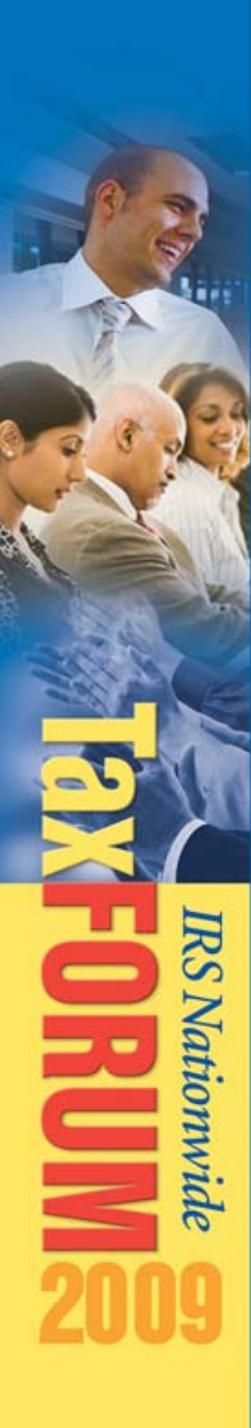
Cancellation of Debt

- ❑ Irrevocable election to delay recognition of income from business debt discharged by reacquisition of the debt instrument in tax years ending after 2008
- ❑ Income is deferred until 5th year after reacquisition (4th year for reacquisitions in 2010), then is included ratably over the following 5 years
- ❑ Debt must be reacquired after 2008 and before 2011
- ❑ Debtor includes election statement with tax return in year debt reacquired clearly identifying the debt instrument and the amount of deferred income
- ❑ If elected, certain exclusions for cancellation of debt income would not apply to the income from the discharge of such debt for the year of the election or any later year



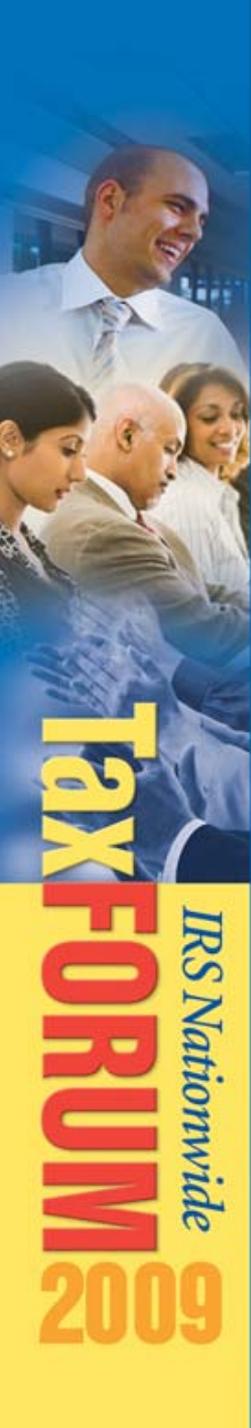
Work Opportunity Credit

- ❑ Two new targeted groups added – unemployed veterans and disconnected youth
- ❑ Generally, an unemployed veteran is one who has been discharged or released from active duty in the Armed Forces at any time during the 5-year period ending on the hiring date and who receives unemployment compensation for not less than 4 weeks during the 1-year period ending on the hiring date.
- ❑ A disconnected youth is one who is certified as:
 - Being at least age 16 but not age 25 or older on the hiring date,
 - Not attending any high school, technical school or post-secondary school during the 6-month period ending on the hiring date, and
 - Not being regularly employed during that 6-month period, and
 - Not being readily employable due to a lack of having a sufficient number of basic skills
- ❑ Applies to employees who begin work after 2008



Estimated Tax Payments

- ❑ For individuals with income from a small business, the required annual payment for 2009 is figured using 90% of the prior year's tax (instead of 100%)
- ❑ Individual must certify that more than 50% of his or her gross income for 2008 was income from a "small business"
- ❑ A "small business" is a trade or business that had an average of fewer than 500 employees for 2008
- ❑ This provision applies only if adjusted gross income for 2008 is less than \$500,000 (\$250,000 if married filing separately for 2009)



Miscellaneous Business Provisions

- ❑ Exclusion of gain from the sale of qualifying small business stock is increased to 75% for stock acquired after February 17, 2009, and before January 1, 2011
- ❑ For tax years beginning in 2009 and 2010, no tax is imposed on the net recognized built-in gain of an S corporation after the 7th tax year in the recognition period



Additional Resources

- ❑ **Draft 2009 forms:**
www.irs.gov/app/picklist/list/draftTaxForms.html
- ❑ **Final 2009 forms:**
www.irs.gov/app/picklist/list/formsInstructions.html
- ❑ **Pub. 553 (Rev. June 2009):**
www.irs.gov/pub/irs-pdf/p553.pdf
- ❑ **What's Hot In Tax Forms, Publications, and Other Tax Products:**
www.irs.gov/formspubs/article/0,,id=97397,00.html
- ❑ **Legislation:** thomas.loc.gov
- ❑ **E-mail:** *taxforms@irs.gov

