

AHLBECK & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

UPDATE ON TAX CHANGES AND ISSUES

PERSONAL INCOME TAXES

- Dependents under age 19 and dependent full-time students under age 24 with investment income over \$950 are subject to income tax.
- The maximum tax rate for qualifying dividends and long-term capital gains of 15% (lower tax brackets subject to a 0% rate) expires after 2010.
- All cash contributions require substantiation. Donations of household items and clothing must be in good used condition or better and be properly supported.
- Gains from a principal residence sale cannot be excluded from gross income for periods the home is not used as a principal residence. The portion of the gain that cannot be excluded is based on non-qualified usage after 2008.
- The first \$2,400 of unemployment compensation is excluded from 2009 gross income. Eligible employees involuntarily terminated 9/1/08 – 2/28/10 will receive a nontaxable subsidy for 65% of COBRA continuation premiums for up to 15 months after termination.

ESTIMATED TAXES

- Taxpayers are subject to penalty unless total 2010 quarterly estimated tax payments or withholding are the lesser of 90% of the expected 2010 tax liability or 100% of the actual 2009 tax liability (110% if adjusted gross income is greater than \$150,000 for married filing joint).

EDUCATION

- Coverdell Education Savings Account (Education IRA) contributions are \$2,000.
- Qualified distributions from Section 529 plans are generally tax-free. For 2009 and 2010, qualified expenses now include computer technology/equipment and internet services. Plan contributions are

subject to gift tax and if in excess of the annual gift tax exclusion, they may be spread ratably over five years.

- The maximum Lifetime Learning Credit is \$2,000 subject to income limits.
- The American Opportunity Tax Credit expands the Hope Credit for 2009 and 2010 making it available to more taxpayers such as those with higher income or who owe no tax. Subject to higher income phaseouts, the \$2,500 maximum credit (40% is refundable) is available for the first 4 years of post-secondary education and includes course materials.
- Alternatively, through 2009, you may deduct up to \$4,000 for qualified post-secondary expenses. You are not required to itemize but income limits apply.
- All student loan interest is deductible up to \$2,500 based on income limitations.

CHILD AND DEPENDENT CARE

- “Qualifying” child (the definition of which has been revised) and dependent care expenses are eligible for a credit.

DEDUCTIONS AND CREDITS

- Qualified first-time homebuyers can take a credit up to \$8,000 for a principal residence purchased 1/1/09 – 4/30/10.
- Qualified move-up/repeat homebuyers (existing homeowners) are eligible for a credit up to \$6,500 for a principal residence purchased 11/7/09 – 4/30/10.
- For new vehicles purchased 2/17/09 – 12/31/09, buyers can claim a deduction for sales and excise tax paid regardless of whether they itemize. Limitations apply.
- Non-itemizers can claim an additional standard deduction for state and local real property taxes paid in 2008 up to \$1,000 for married filing jointly.

- The 2009 and 2010 standard mileage rates for medical and moving expenses are 24 cents and 16.5 cents, respectively. The charity mileage deduction is still 14 cents.
- A nonbusiness energy property credit up to \$1,500 total is available for qualified energy-efficient home improvements (e.g. exterior windows and doors) and residential energy property purchases (e.g. central air conditioning, furnaces and water heaters) in 2009 and 2010.

RETIREMENT PLANNING

- The maximum IRA contribution is \$5,000 in 2009 and 2010. If age 50 or older, the allowable catch-up contribution is an additional \$1,000.
- For 2009 and 2010, participants in 401(k), 403(b), SEP or 457 plans can defer up to \$16,500 and up to \$11,500 to a SIMPLE plan. Individuals age 50 or older are eligible for catch-up contributions of \$2,500 for SIMPLE IRAs or SIMPLE 401(k) plans and \$5,500 for other qualified plans.
- Annual employer contributions to profit sharing and stock bonus plans, as well as SEPs, are 25% of compensation (reduced for self-employed individuals). Overall, contributions are limited to \$49,000 for 2009 and 2010.
- Taxable direct rollovers from qualified plans to Roth IRAs are allowed.
- Starting in 2010, income and filing status limits are removed on conversion of a traditional to a Roth IRA. Income from 2010 conversions may be spread ratably over 2011 and 2012 unless an election is made to fully recognize it all in 2010.

BUSINESS

- You may be able to deduct up to 6% in 2009 (9% in 2010) of your qualified

domestic production activities income from certain business activities.

- IRS Code Section 179 depreciation expense is limited to \$250,000 for 2009 (\$134,000 for 2010), subject to phase-out when asset purchases exceed \$800,000 (\$530,000 for 2010). Vehicles are excluded (except those over 6,000 pounds, which are then limited to \$25,000).
- A bonus first-year depreciation deduction of 50% is allowed for qualified property placed in service before 2010.
- The 2009 standard mileage rate for business is 55 cents (50 cents in 2010).
- Self-employed health insurance and qualified long-term care insurance for you or your family are deductible, subject to limitations.
- In 2009 and 2010, wages up to \$106,800 are subject to FICA.
- Eligible taxpayers may elect to increase the carryback period for an applicable net operating loss to 3, 4 or 5 years from 2 years.

ESTATES AND TRUSTS

- For 2010, the estate tax is repealed but returns in 2011 pending future legislation. The 2010 exclusion for gifts of present interests remains at \$13,000.
- The IRS allows 65 days after year-end for distributions of trust income, if elected.

ABOUT AHLBECK & COMPANY

Ahlbeck & Company offers a diverse menu of services. We are more than an accounting firm. We are your business partner, willing to assist in all aspects of your individual and business needs. To review any of these items or any other tax issues, please contact us.

This newsletter (based on the law as of 12/19/09) is also available at www.ahlbeck.com.

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