

## Tax Planning Letter

**To our clients and friends** - As the tax season is approaching, and the 2009 year end tax planning presents a unique set of challenges. Many tax breaks are temporary this year; so now is the time to determine if you can qualify for some of these often overlooked tax breaks. Some may apply to you, some to family members and other to your business.

### Personal Income Tax Strategies

**Making work Pay**-Last year the government mailed out stimulus checks. This year, it's offering the Making Work Pay tax credit. For 2009 and 2010, the Making Work Pay tax credit will provide certain workers with a credit of up to \$400, or \$800 on a joint return. For individuals with earned income below \$6,452 (\$12,904 for married couples), the maximum credit is 6.2 percent of earned income. To qualify for the full credit, your modified adjusted gross income must not exceed \$75,000 for singles or \$150,000 for joint filers. Above those incomes, the credit begins to reduce. If your modified adjusted gross income exceeds \$95,000 for singles or \$190,000 for joint filers, there is no credit available.

Note: Because of the new withholding tables under the American Recovery and Reinvestment Act, some employees might want to adjust their 2009 FITW by submitting a new W-4 now. The Act reduced FITW to reflect the Make Work Pay tax credit. But for some employees, that adjustment may result in paying less than the required 90% of FIT by Dec. 31, 2009, which may lead to penalties.

Employees most likely to have too little withheld under the new tables are: two-earner married couples; individuals with more than one job; a dependent on another's tax return (they are not eligible for the credit), those receiving a pension; and individuals also receiving Economic Recovery Payments (they are not eligible for the credit).

**First-time Homebuyer Credit** – First-time homebuyer is someone who has not owned a home during the prior three years. This credit was introduced in late 2008, has increased from \$7,500 to \$8,000 for home purchases between January 1, 2009 and November 30, 2009. More importantly, the stimulus legislation also deleted a previous requirement to repay the credit over 15 years. And the \$8,000 credit does not have to be repaid if the buyer keeps the home for at least three years. For a qualified principal residence purchase between 1/1/09 and 11/30/09, the maximum credit equals the lesser of; (1) 10% of the purchase price of a principal residence, (2) \$8,000, or (3) \$4,000 for those who use married filing separate status.

To qualify for the full credit, your modified adjusted gross income must be less than \$75,000 for singles or \$150,000 for joint filers. If your modified adjusted gross income exceeds these limits there is no credit available.

**Vehicle Sales Tax Deduction** - Stimulus legislation passed earlier this year a new federal income tax deduction for state and local sales and excise taxes paid on new (not used) vehicles that are purchased (not leased) between 2/17/09 and 12/31/09. The write-off is limited to the amount of taxes on the first \$49,500 of purchase price. You can claim the break whether you itemize or not, and it's allowed even if you owe the AMT.

You can claim the deduction on as many vehicles as you care to buy within the designated time frame. Qualifying vehicles include almost all passenger autos, pickups, and SUV's as well as motorcycles and RV's. However, a phase-out rule can reduce or completely eliminate the tax break for higher-income taxpayers.

**Hybrid Vehicle Credit** - A federal income tax credit is allowed for buying (not leasing) a qualifying new (not used) hybrid vehicle. The credit can be used to offset your 2009 federal income tax bill even if you owe the AMT, and high income won't disqualify you. Credits for most qualifying vehicles range from around \$1,500 to \$3,000. However, credits are phased out once the manufacturer has sold over 60,000 hybrids in the U.S. Credits for Toyota and Lexus hybrids disappeared after 2007, and credits for Honda Hybrids vanished after 2008. Credits for Ford and Mercury hybrids are being phased out now.

**Lean burn Diesel Vehicle Credit** - A federal income tax credit is also granted for buying (not leasing) a new (not used) qualifying lean-burn diesel vehicle. The credit will offset your 2009 federal income tax bill and even if you owe AMT and regardless of how high your income might be. Lean-burn diesel credits are subject to the same phase-out rule as hybrid credits. They will be reduced and eventually disallowed after a manufacturer has sold 60,000 units. Credits range from \$900 to \$1,800.

**Leverage Standard Deduction by Bunching Deduction Expenditures** - Are your 2009 itemized deductions likely to be just under, or just over, the standard deduction amount? If so, consider the strategy of bunching together expenditures for itemized deductions every other year, while claiming the standard deduction in the intervening years. The 2009 standard deduction for married joint filers is \$11,400; for single filers is \$5,700; head of household is \$8,350. For examples of items you can bunch together every other year to lower your taxes include the interest due on home mortgage, charitable contributions and state income and property tax payments.

## **Business Tax Strategies**

**Bigger Section 179 Deduction** - Your business may be able to take advantage of the temporarily increased Section 179 deduction. Under the Section 179 deduction privilege and eligible business can often claim first-year depreciation write-offs for the entire cost of new or unused equipment and software additions. For tax year beginning on 2009, the maximum Section 179 Deduction is \$250,000 (same as last year). For tax year beginning in 2010, however the maximum deduction is scheduled to drop back to about \$130,000 (depending on the inflation adjustment). Various limitations apply to the Section 179 Deduction privilege.

**50% First-year Bonus Depreciation** - Above and beyond the bumped-up Section 179 deduction, your business can also claim first-year bonus depreciation equal to 50% of the cost of most new (not used) equipment and software acquired and placed in service by December 31st of this year. The first-year bonus depreciation break is scheduled to expire at year-end.

**Longer Carry back Period for Net Operating Losses** - Stimulus legislation passed earlier this year allows qualifying small and medium-sized businesses to carry back Net Operating Losses generated in tax years beginning or ending in 2009 for up to five years. Therefore, if you qualifying business use a fiscal tax year, you may still have time to take actions that will create or increase a NOL for the current tax year. That NOL can then be carried back to five years to recover taxes paid in those years. **Note:** 50% first-year depreciation deductions for qualifying assets placed in service between now and Dec. 31st can create or increase an NOL. However, Section 179 deduction cannot.

**Retirement plans for your business-** Starting a small business retirement savings plan can be easier than many business owners think. A retirement plan has significant tax advantages: Employer contributions are deductible from the employer's income, employee contributions are not taxed until distributed to the employee, and investments in the program grow tax-deferred. Further, the tax law offers a small incentive of a \$500-per-year tax credit for the first three years of a new SEP, Simple or other retirement plan to cover the initial setup expenses.

## Estate and Gift tax Planning

**Gift Tax-** The annual gift tax exclusion for 2009 is increased to \$13,000 per person. Therefore, if you are married, you can gift up to \$26,000 per donee by using the gift-splitting rules without any federal gift ramifications. Gifting is a good way to reduce your taxable estate and may be important in a good estate plan.

**Estate planning** - Time is getting short for Congress to deal with the federal estate tax. The estate tax exemption amount for 2009 is \$3.5 million. The estate tax is scheduled to disappear for 2010 and reappear in 2011 with a \$1 million exemption. It is important that your estate plans remain flexible. Make sure your will distributes your assets in the appropriate manner. If you have younger children, your will should appoint a guardian in the event of the death of both parents, you certainly do not want the probate court making decisions on your behalf.

With states looking for additional revenue to balance their budgets, state inheritance taxes are getting increased attention. Be sure your estate plan minimizes inheritance taxes in your state of residence and in any states in which you own property.

There are literally hundreds of other changes, extensions and deletions that we will consider this year while preparing your return. Because of these changes we are requesting everyone to try to have their tax information in to us no later than March 21, 2010.

In order to best determine your individual income tax liability, **it is important that you complete a tax organizer, and include it with your information.** The miscellaneous questions will help us in determining whether or not recent tax law changes will benefit you and your household. Failure to complete the organizer can result in missed tax benefits to you. Additionally, the IRS has established new rules on tax preparers to validate the information received from the taxpayer/client. As a result, **we will need to receive the completed, signed and dated tax organizer from you before we can begin work on your tax return.**

**Note** – Tax organizer can be downloaded from our website [www.capecoralaccounting.com](http://www.capecoralaccounting.com) later this year. On the last page of the organizer is our engagement letter to you which confirms our mutual understanding of the responsibilities for you tax return engagement. Thank you again for your continued support.

Very truly yours,

Cape Coral Accounting Service LLC