

Summer 2009 Tax Newsletter

RETIREMENT PLAN DISTRIBUTIONS

The minimum required distributions from IRAs and most defined contribution retirement plans has been waived for calendar year 2009.

They are not required in 2010 as long as the distribution is for calendar year 2009.

COMMUTER TRANSPORTATION BENEFITS

For any month, the exclusion from income for 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 is provided by an employer to an employee for reasonable expenses limited to the purchase of a bicycle, improvements, repair, and storage if the bicycle is regularly used for commuting. The monthly exclusion is a whopping \$20.

GAIN ON SALE OF MAIN HOME

The gain on the sale of a main home is no longer completely excludable from income if there are periods after 2008 where neither you nor your spouse uses the property as a main home (with certain exceptions).

The gain is calculated using the formula:

Total non-qualified use after 2008 / the total period of ownership X the actual gain.

UNEMPLOYMENT COMPENSATION

The first \$2,400 of unemployment compensation is excluded from income in 2009. This translates to about five weeks worth of benefits.

QUALIFIED TUITION PROGRAMS

During 2009 and 2010, qualified educational expenses for qualified tuition programs (section 529 plans) will include certain purchases of computer technology, equipment, or Internet access and related service.

The beneficiary and his family must use items purchased during the years he is enrolled at an eligible educational institution.

Expenses for sports and gaming software are not allowed.

QUALIFIED MOTOR VEHICLE TAXES

This is a new deduction for qualified motor vehicle taxes on new vehicles and applies to vehicles purchased between February 16, 2009 and January 1, 2010.

It can add to the standard deduction or be taken as an additional itemized deduction for those who were not claiming a sales tax deduction.

It is limited to the tax paid on the first \$49,500 in vehicle value, and applies to a sales tax or other registration fee based on the value of the newly purchased vehicle.

PERSONAL CASUALTY & THEFT LOSSES

For 2009 and all future years, each personal casualty or theft loss will be allowed as an itemized deduction to the extent the loss exceeds \$500. Previously it had been \$100.

Alternative Minimum Tax

The offset of all nonrefundable personal tax credits against AMT continues through 2009.

The AMT exemption amount increases in 2009. It will be \$46,700 for single or head of household filers, and \$70,950 if married filing joint.

Most importantly for investors, tax-exempt interest on private activity bonds issued in 2009 and 2010 will not be included alternative minimum taxable income. Presumably interest on private activity bonds previously issued will not be affected.

HOPE EDUCATION CREDIT

The Hope Credit is modified for 2009 and 2010. The maximum credit is \$2,500 (100% of the first \$2,000 of expenses and 25% of the next \$2,000)

It is now available for the first four years of post-secondary education and qualified expenses now include course materials as well as tuition and fees.

It is phased out for AGI in the range of \$80,000-90,000 (\$160,000-\$180,000 if married filing jointly).

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%.

Qualifying individuals must certify that more than 50% of their 2008 gross income was from a small business. A small business is defined as averaging fewer than 50 employees.

This provision only applies if gross income for a married filing joint return is less than \$500,000.

CALIFORNIA CHANGES

Gov. Schwarzenegger signed laws that made many changes. Most notable were increases to the state sales tax rate of 1%, increases to the marginal individual income tax rates, significant increase in the annual vehicle tax, and an acceleration of estimated income tax payment requirements. The new payment schedule is 30% in each of the first two quarters and 20% in the last two quarters

In addition, Franchise Tax Board has stated that any amount received from the federal government from the "Cash for Clunkers" program will be taxable as income in California.

Additional pending legislation is again changing the estimated tax schedule, this time with 40% in the first quarter, 30% in the second quarter, nothing in the third quarter and 30% in the fourth quarter.

Also keep in mind that unlike the California, we at Woods Financial Services do not accept IOUs.

MASSACHUSETTS CHANGES

Recently, Governor Patrick signed into law a bill that increases the state sales tax from 5% to 6.25%. It also enables local municipalities to create their own local meals taxes. Most importantly, it also now includes satellite television service to the sales tax, which include San Diego boxes with a Boston service address watching NESN and CSNE.

In other news, the Supreme Judicial Court has not yet ruled on the case of Towne Fair Tire. The facts of the case were that Towne Fair's New Hampshire locations were selling and installing tires on Massachusetts registered vehicles. The Department of Revenue's position is that the sales are subject to use tax and that the tire company should be collecting use tax on tires that will be returning to Massachusetts to be "used". In retaliation, New Hampshire recently passed legislation that prohibits a retail establishment located in the state from divulging information regarding sales to an out of state revenue authority. I will keep you posted of any developments.