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Tax Letter

2009 Tax Specials

Dear clients and friends,

Between later part of 2008 and beginning part of 2009, there are numerous new and/or changes made to the tax code. It is near impossible to explain or to list all changes, therefore, we can only made an attempt to sum up the significant and broadly applicable ones.

1) **RMD Holiday** - For retirees 70.5 years or older, their retirement accounts, such as IRA, 401K, etc., must be distributed annually. There is an annual Required Minimum Distribution (RMD) based on certain formula or life expectance of the retiree. Penalty for failure to make this RMD is 50% of the amount of under distribution. For 2009 only the RMD is ZERO.

2) **Vehicle Sales Tax** – The sales tax paid for buying a new Vehicle during 2009 can be deducted as a special “standard” deduction on schedule A. This is true whether you itemize or not. This deduction is subject to : (a) the maximum amount of deduction is limited to the sales tax on \$49,500 vehicle selling price. Any sales tax charged for selling price exceeding \$49,500 is not deductible. (b) AGI (Adjusted Gross Income) limitation at \$125,000 single and \$250,000 married filing jointly.

3) **Ponzi and/or Madoff loss** - financial scam victims can deduct any financial scam loss as a “theft loss”. In 2009, IRS provided a guideline that this particular type of loss will be treated as a “theft loss” on Schedule A with the following exceptions:

- a. No \$100 and 10% AGI floor,
- b. Exempt from overall itemize deduction limitation, i.e.
3% of AGI in excess of \$ 166,800 for both single and married couple.
- c. Safe harbor methods to determine amount of loss including
a 75% multiplier for taxpayer decided to pursue certain 3rd
party recovery. The multiplier is 95% for taxpayer not going
to pursue any 3rd party recovery

4) **Unemployment pay exclusion** - for 2009 only the first \$2,400 of unemployment benefit received is not taxable. If both husband and wife receive unemployment benefits, then, each spouse has his and her own \$2,400 exclusion.

5) **First time home buyer credit** – Any qualified first time buyer of a principle residence from January 1, 2009 to November 30, 2009 can claim a tax credit equal to 10% of the purchase price up to \$8,000 on their 2009 Form 1040. AGI limitation for phase-out are \$75,000 to \$95,000 for single and \$150,000 to \$170,000 for married filing

jointly. This is a personal, refundable credit. (Note: this \$8,000 credit is not subject to the 15-year repayment, but subject to a 3-year recapture if the home purchased will be sold, rented out, or cease to be his/her principle home.

6) **\$250 special payment** – for 2009 only, any fixed income retired person up to a certain AGI limit (i.e. on social security payment, RR Retirees, disable Veterans, etc.) will be able to receive a \$250 payment from the Federal Government. The IRS has not provided any exact method for the claiming or paying of this \$250. However, the method will most likely be similar to or same as the 2008 \$600 payment.

7) **Section 179 expensing** – The 2008 high limit \$250,000 allowance plus a high phase-out total purchase level at \$800,000 will be carried over to 2009 only. 2010 and thereafter the amount of IRC 179 expensing will return to the pre-2008 standard rules with indexing.

8) **Energy Tax Incentives** – For both 2009 and 2010 there are the residential energy saving non refundable, personal tax credits. They are :

- a. Installing qualified energy efficient “Personal Energy Properties” such as insulation, exterior window & door, heating & air conditioning, heat pump, hot water boiler, etc. may claim a tax credit equals to 30% of total costs up to a maximum of \$1,500. The total cost cap and individual item credit cap have been abolished for 2009 and 2010.
- b. Installing qualified solar energy systems for water heating may claim a tax credit equal to 30% of total costs up to a maximum of \$ 2,000.
- c. Installing qualified solar electric or photovoltaic system may claim 30% of total costs as a tax credit. No maximum amount of credit for 2009 and 2010.

If you wish to discuss the above further please give us a call at 415-381-0681.

Sincerely,

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