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2009 SUMMARY OF TAX CHANGES AND GUIDELINES

- For 2009, **Non itemizers can claim an additional standard deduction** for property taxes paid. The maximum deduction is \$500 for singles and \$1,000 for couples.
- In 2009, the “**kiddie tax**” provision applies to those up to under age 18 and with the threshold amount of \$1,700 and 18-year-olds who have unearned income in excess of \$1,800, as well as to full-time students between the ages of 19 and 23.
- The **Child Tax Credit** remains at \$1,000 per dependent child under age 17, phasing out at **modified adjusted gross income (MAGI)** of \$75,000 for singles and \$110,000 for couples.
- The maximum **dependent care credit** is 35% of child care expenses for qualifying taxpayers, up to \$3,000 (one child) or \$6,000 (more than one). Everyone over \$43,000 receives a 20% credit.
- **Student Loan Interest** is deductible up to \$2,500. The deduction begins to phase out at a modified AGI of \$50,000 for singles and \$100,000 for couples.
- **Education IRAs (Coverdells):** Taxpayers can use these non-deductible funds for elementary, secondary and post-secondary school expenses (until the child reaches age 30). The maximum annual contribution is \$2,000 per child (under age 18 or a special needs beneficiary). Phase-out starts at AGI of \$95,000 for singles and \$190,000 for couples. For 2009 and 2010, expenses incurred for computer technology or equipment, including internet access charges, are also qualified expenses for post-secondary students.
- **Education Credits:** The American Opportunity Tax Credit (formerly the Hope Credit) has been increase to a maximum credit at \$2,500 beginning in 2009. The credit is now allowed for the first four years of post-secondary education and 40% of the credit is refundable. The credit is phased-out at \$80,000 for single and \$160,000 for couples. The **Lifetime Learning Credit** remains at 20% of qualified expenses up to a maximum credit of \$2,000. Only one type of credit per student is allowed.
- The elementary and secondary educators may deduct \$250 for **certain classroom material expenses**.
- Taxpayers will again have the option of **deducting state and local sales tax** as an itemized deduction on their tax returns, **instead of** deducting state and local **income** taxes. In addition to the table amounts, an additional deduction for sales tax paid on motor vehicles, boats and other items specified by the Secretary may be taken. Taxpayers may also deduct the total amount of general sales taxes paid by accumulating receipts showing the taxes paid.
- No deduction is allowed for any **contribution** of cash, check or other monetary gift unless the donor can show a bank record or a written communication from the charity indicating the name of the charity, along with the amount and date of the contribution. Also, no deduction is allowed for used clothing and household items unless the items are in “good” condition.
- The amount of contributions or benefits that can be provided for taxpayers as participants under a qualified plan is limited, based on the type of plan. This year, the amount of contributions and benefits that can be provided under both **defined contribution and defined benefit plans** is \$49,000. The compensation used to determine contributions to qualified plans is \$245,000.

- **Credit for Retirement Savings:** Taxpayers may be eligible for a credit of 10% to 50% for qualified retirement savings contributions if adjusted gross income is no more than \$27,000 for singles, \$36,000 if head of household, and \$41,625 if married filing jointly.
- For taxpayers with AGI above \$150,000, the **2009 safe harbor for estimated tax purposes** is 110% of last year's liability or 90% of that for 2008. (The threshold amount of deficiency in withholding and estimated tax payments that actually triggers penalties is still \$1,000.) For others, the safe harbor is 90% of their 2009 tax or 100% of their 2008 tax. **Note:** Pennsylvania strictly enforces its underpayment penalty provisions.
- The official **per-mile rate for business use of a car** in 2009 is 55 cents. Beginning January 1, 2010 the rate will decrease to 50 cents.
- The health **insurance deduction for the self-employed** is 100%. (Employees who pay for their own health coverage still get only an itemized deduction.) There is no deduction allowed if the self-employed had no profit for the year, nor for any month the individual could have participated in a health plan subsidized by an employer (or the spouse's employer).
- **IRAs:** The start of the \$10,000 (for singles) and \$20,000 (for MFJ) phase out for tax-deductible contributions to regular IRAs by "active participants" in employer-sponsored plans is \$55,000 AGI for singles and \$89,000 AGI for couples. Also, taxpayers 50 and over can make "catch-up" contributions to IRAs, 401(k)s and SIMPLEs (see chart below).

Retirement Plan Contribution Limits						
Year	401(k)s	401(k)s for Taxpayers 50 & over	IRAs *	IRAs * for Taxpayers 50 & over	SIMPLEs	SIMPLEs for Taxpayers 50 & over
2009	\$16,500	\$22,000	\$5,000	\$6,000	\$11,500	\$14,000
2010	Indexed to inflation		Indexed to inflation		Indexed to inflation	

*Traditional and Roth IRAs

- Eligibility for **home-office** deductions extends to those who regularly and exclusively use the home office for administrative or managerial tasks and have no other fixed location where they conduct such activities.
- The "**Section 179**" expensing provision limit is \$250,000 and the phaseout threshold is \$800,000 for 2009. **Note:** For SUVs (rated between 6,000 and 14,000 pounds gross vehicle weight) placed in service in 2009, the expensing amount is limited to \$25,000.
- The limit on the **automobile depreciation deduction** is \$2,960; it is \$3,060 for light trucks and vans. The vehicle must be used more than 50 percent in a business.
- The maximum **self-employment tax** is \$13,243.20 plus 2.9% of self-employment income above \$106,800. One-half of the tax is deductible as an adjustment to income.
- The **phase-out of personal exemptions** starts at AGI of \$166,800 for singles and \$250,200 for couples, and the **phase-out of itemized deductions** begins at AGI of \$166,800 (couples and singles).
- **Capital gains tax** remains at 15% for transactions made through 2009, decreasing to 0% for lower income taxpayers. Other rates may affect taxpayers, depending on what is sold, when it is sold, the holding period, etc. Taxpayers below or at the 15% rate pay 0% on long term capital gains in 2009.
- The **AMT exemption amount** is currently \$70,950 for married couples and \$46,700 for singles.
- Retired clients with adjusted base income over \$34,000 and couples over \$44,000 are taxed on the lesser of half of their **Social Security benefits** or half of "provisional" income over the base amounts. The maximum amount taxable is 85% of benefits.
- If you receive **Social Security benefits** and you are working, your earnings will reduce your benefit amount only until you reach **your full retirement age** (65 and 10 months for those born in 1942, and 66 for those born from 1943-1954). If you are under full retirement age for the entire year, the deduction is \$1 for every \$2 your income exceeds \$14,160 in 2009. The test applies to each person, not to couples.

For beneficiaries attaining full retirement age in 2008, the deduction is \$1 for every \$3 you earn over the limit of \$37,680 in 2009 before the month you reach your full retirement age.

- **The First-Time Homebuyers** credit amount is equal to the lesser of 10% of the purchase price of the home or \$8,000. The home must be purchased after January 1, 2009 and before April 30, 2010. The phase-out is \$75,000 for singles and \$150,000 for couples for sales occurring on or after January 1, 2009 and on or before November 6, 2009. The phase-out is \$125,000 for singles and \$225,000 for couples for sales occurring after November 6, 2009. However, in cases where a binding sales contract is signed by April 30, 2010, a home purchase completed by June 30, 2010 will qualify.
- The Worker, Homeownership, and Business Assistance Act of 2009 has established a **Move-up/Repeat Homebuyer Tax Credit** of up to \$6,500 for qualified move-up/repeat homebuyers (existing home owners) purchasing a principal residence after November 6, 2009 and on or before April 30, 2010 (or purchased by June 30, 2010 with a binding sales contract signed by April 30, 2010). The phase-out is \$125,000 for singles and \$225,000 for couples.
- **Personal Energy Credit:** A credit of 30% of the cost of energy efficient improvements made to a principal residence is allowed for 2009 up to an aggregate amount of \$1,500.