J W Enterprises, LLC:

2009 Year-End Tax Planning Tips

Dear Client:

Year-end tax planning for 2009 presents a unique chance for you to lower your tax liability, especially in light of the significant tax law changes that were enacted in response to the struggling economy. Although traditional planning techniques remain fundamentally important considerations, new opportunities and risks provide planning variables unique to this year-end.

Managing the income that you recognize or defer in 2009 may be beneficial, but with tax reform on the horizon, balancing tax rates between 2009 and 2010 and beyond becomes more difficult. Proposed increases in income and capital gain tax rates for 2011 make the traditional year-end strategy of deferring your 2009 income into 2010 less attractive. Deferring too much income could result in excessive income in 2010, especially if you also accelerate 2011 income into 2010 to escape higher rates.

However, many of the tax breaks in recent stimulus tax bills are due to expire at the end of this year. Since it is uncertain whether Congress will extend any or all of the expiring tax incentives, taking advantage of this tax relief while it is still available should be considered. Some tax incentives that are set to expire include:

- the above-the-line deduction for teachers' classroom expenses;
- the above-the-line higher education tuition deduction;
- the additional standard deduction for real property taxes;
- the AMT exemption amount patch;
- the itemized state and local sales tax deduction;
- the moratorium on required minimum distributions (RMDs);
- the motor vehicle sales tax deduction, which applies to qualified new vehicle purchases after February 16, 2009 and before January 1, 2010;
- tax-free IRA distributions to charity;
- the nonrefundable tax credit offset of regular and AMT tax liability; and
- COBRA premium assistance for unemployed workers who are involuntarily terminated between September 1, 2008 and December 1, 2009.

In addition to those provisions that are scheduled to expire in 2009, there are others that continue to apply. A variety of popular tax exclusions, deductions and credits for individuals were provided, extended or enhanced by the American Recovery and Reinvestment Tax Act of 2009 (2009 Recovery Act), as follows:

Exclusions from Income:

- Qualified bike commuting reimbursements of up to $20 per month
- Discharged principal residence indebtedness of up to $2,000,000 ($1,000,000 for married separate filers)
- $250 economic recovery payments
- Increased $460 per month limitation for transportation fringe benefits offered by an employer
- Exclusion of the first $2,400 (per person) of unemployment compensation benefits received

- The percentage of exclusion is increased to 75% for sales of small business stock acquired after February 17, 2009 and before January 1, 2011 (stock must be owned and held for more than five years).

Deductions:

- Safe harbor method to calculate theft loss deduction for fraudulent investment (Ponzi) schemes
- Qualified mortgage insurance premiums obtained in connection with acquisition indebtedness
- Computer equipment and technology, and internet access and related service costs are qualified higher education expenses for qualified tuition programs for 2009 and 2010

Tax Credits:

- The American Opportunity Tax Credit replaces the Hope Scholarship Credit for 2009 and 2010, and now applies to the first four rather than the first two years of a student's post-secondary education. The maximum credit is increased to $2,500 per eligible student.
- The refundable earned income credit is increased to a maximum of $5,657 for qualifying families with three or more children.
- Beginning with purchases after December 31, 2008, the maximum first-time homebuyer credit (FTHBC) amount is increased to $8,000 ($4,000 for married separate filers). The FTHBC is extended by the Worker, Homeownership, and Business Assistance Act of 2009 (2009 Worker Act) to include qualifying purchases after April 9, 2008, and before May 1, 2010. In addition, for 2009 and 2010, the 2009 Worker Act waives the recapture of the credit if the home is used as a principal residence for at least three years.
- Certain government retirees can claim a refundable $250 tax credit ($500 on a joint return if both spouses are eligible).
- A refundable Making Work Pay Credit (MWPC) is advanced to eligible workers, generally through reduced income tax withholding. The MWPC is equal to the lesser of 6.2 percent of earned income, or $400 ($800 for married joint filers).
- The refundable portion of the child tax credit (CTC) is increased to 15% of earned income in excess of $3,000 (the previous threshold amount was $12,550, making the maximum increase in the refundable CTC $1,432.50).
- The credit for nonbusiness energy property (CNEP) is extended through 2010, and the credit amount increases from 10 to 30 percent of qualified energy efficiency improvements (including doors, windows, furnaces, central air conditioners, water heaters, heat pumps, biomass stoves, and certain asphalt roofs). The credit is limited to a total of $1,500 over the 2009 and 2010 tax years.
- The residential energy efficient property (REEP) annual credit maximums of $2,000 for solar hot water heaters, $500 for each half kilowatt of electric capacity generated by a wind turbine (not to exceed $4,000 annually), and $2,000 for geothermal heat pumps are eliminated for tax years 2009 through 2016. The maximum annual credit for each half kilowatt of electric capacity from fuel cell plants remains at $500.
- For tax years beginning in 2009, the alternative motor vehicle (AMV) credit is treated as a nonrefundable personal tax credit.
- A credit is available for qualified plug-in electric drive motor vehicles (PEDMVs) placed in service in 2009 through 2014. The maximum PEDMV credit is between $7,500 and $15,000 depending upon the weight of the vehicle.
- A new credit is available for converting an existing motor vehicle into a qualified PEDMV. The maximum credit of $4,000 applies to conversions made after February 17, 2009 and before December 31, 2011.
- The new plug-in electric vehicle credit (PEVC) is modeled on the PEDMV credit, and provides a credit equal to 10% of the cost of acquiring certain electrically powered 2-wheeled, 3-wheeled,

and low-speed vehicles. The PEVC is capped at $2,500, and generally applies to vehicles purchased after February 17, 2009 and before January 1, 2012.

With the year drawing to a close, now is an ideal time to review your tax situation and evaluate strategies that may help minimize your tax bill. Hopefully, this letter provides some alternatives that you would like to discuss in greater detail. Please call our office at your earliest convenience to arrange an appointment. (702) 658-9535

Sincerely yours,

Jake Worline ATP. ECS