



Tax Strategies for 2009

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With 2009 quickly drawing to a close, thoughts turn to the new year ahead and the filing season that will soon be here. Clients will be coming to their appointments with all of their information, hoping for a big tax refund. That's where the tax professional comes in—putting our knowledge and expertise to use for the best possible result for our clients. With the passage of the *American Recovery and Reinvestment Act of 2009 (ARRA)*, there are many ways to reduce the federal income tax bills of our clients.

Starting with higher education, clients may now be eligible for more favorable education benefits. Prior to *ARRA*, the Hope credit was available for only the first two years of a student's education. But the new American Opportunity Tax Credit works differently:

- \$700 more per student than Hope;
- Available for higher income families; and
- Partially refundable.

Make sure your clients bring their information related to higher education expenses; and don't just assume they don't qualify.

Another education-related change made by *ARRA* relates to §529 plans. If clients have these plans for their family members, they'll be interested to know that the law change now adds computer technology to the list of college expenses that can be paid from a §529 plan. Computer technology includes computer equipment or Internet access and related services and computer software to be used by the designated beneficiary of the §529 plan while enrolled at an eligible educational institution. Software designed for sports, games, or hobbies does not qualify, unless it is predominantly educational in nature.

Another credit that you don't want to miss is the Nonbusiness Energy Property Credit. Although expired in 2008, the credit is back for 2009 and in better form. Under its pre-2008 version, the credit was 10 percent of the qualifying expenditures and was limited to \$500. For 2009, taxpayers are entitled to a credit of up to 30 percent of qualifying expenditures, for a credit of up to \$1,500. Since this portion of the Residential Energy Efficient Property Credit was not available last year, many clients may have forgotten about it, so don't forget to

The *ARRA* also provides additional benefits to clients who claim the earned income tax credit (EITC) and have more than two children. For 2009 and 2010 only, it provides an increase in the EITC for taxpayers with three or more qualifying children, providing a maximum credit amount of \$5,657 for this category of taxpayers. The income limits are also raised by the new law. For married taxpayers who file a joint return and who have children, the credit will begin to phase out at \$21,420 and completely phases out at \$40,463 for one child, \$45,295 for two children, and \$48,279 for three or more children. The higher income figures are a surprise to some who only associate EITC with very low income tax returns.

ask them if they have purchased any of these qualifying types of property:

- Exterior windows (including skylights);
- Exterior doors;
- Any insulation material or system that is specifically and primarily designed to reduce the dwelling unit's heat loss or gain;
- Certain metal roofs or asphalt roofs installed on a dwelling unit; and
- Qualified natural gas, propane, or oil furnace.

Next don't forget to ask your clients if they purchased a new vehicle. For 2009, taxpayers have an opportunity to take advantage of the deduction for sales tax paid on the purchase of not only vehicles but other modes of transportation such as light trucks, motorcycles, motor homes, and SUVs.

The deduction is available on new vehicles purchased from February 17 through December 31, 2009. Even in states that don't have a sales tax, the law provides a deduction for other taxes or fees paid.

The deduction is limited to the sales and excise taxes and similar fees paid on up to \$49,500 of the purchase price of a new vehicle. The deduction is reduced for joint filers with modified adjusted gross incomes (MAGI) between \$250,000 and \$260,000 and other taxpayers with MAGI between \$125,000 and \$135,000.

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In addition to the EITC, *ARRA* also makes changes to the additional child tax credit. The changes affect the way the credit is computed for 2009 and 2010 only. Taxpayers who cannot take full advantage of the child tax credit because the credit is more than the taxes they owe may receive a payment for some or all of the credit not used to offset their taxes. *ARRA* reduces the minimum earned income amount used to calculate the additional child tax credit to \$3,000. Before *ARRA*, the minimum earned income amount was set to rise to \$12,550. Reducing the amount to \$3,000 permits more taxpayers to use the additional child tax credit and increases the amount of the payments they may receive.