

## **FEDERAL TAX UPDATE**

On February 17, 2009, President Obama signed into law the *American Recovery and Reinvestment Act of 2009* (“often referred to as *ARRA*”). This bill made over 300 changes to the Internal Revenue Code.

Some of the relevant highlights are as follows:

- **Sales Tax Deduction for New Vehicle Purchases.** Taxpayers who purchase a new car, light-duty truck, RV or motorcycle during 2009 can deduct the state sales tax paid on the purchase. This deduction is subject to a phase-out for single taxpayers with adjusted gross income over \$125,000 or \$250,000 for those who file joint returns.
- **Refundable First Time Home Buyer Credit.** Taxpayers who purchase homes between January 1, 2009 and November 30, 2009 are eligible for a credit equal to the lesser of 10% of the cost of the home or \$8,000. The credit is recaptured if the home is resold within three years. The credit phases out for single taxpayers with adjusted gross income over \$75,000 or \$150,000 for those who file joint returns.
- **“American Opportunity” Education Tax Credit.** Taxpayers who pay college tuition in 2009 and 2010 are eligible for a credit equal to 100% of the first \$2,000 of tuition and books; plus 25% of the next \$2,000, for a maximum credit of \$2,500. Forty percent (40%) of the credit is refundable (\$1,000). The credit phases out for single taxpayers with adjusted gross income over \$80,000 or \$160,000 for those who file joint returns.
- **529 Education Plans.** The bill expands the definition of “qualified education expenses” that 529 plans can be used for to include computers and computer technology. Tuition, room, board, books and mandatory fees are already eligible uses of these funds.
- **Extension of Small Business Expensing.** Small businesses with capital expenditures during 2009 of less than \$800,000 are eligible to expense up to \$250,000 of these expenditures rather than capitalizing the cost and depreciating over a period of years. After 2009, the law reverts to a maximum expense of \$125,000 and a \$500,000 eligibility threshold.
- **Five Year Net Operating Loss Carryback for Small Business.** In order to recapture more dollars for companies to use in their operations, *ARRA* increases the NOL carryback period from two to five years for losses incurred beginning with tax year 2008 for small businesses with gross receipts of up to \$15 million.
- **Bonus Depreciation for Small Business.** Small businesses that make capital expenditures during calendar year 2009 are eligible to deduct 50% of the expenditure in 2009, regardless of the amount. The balance of the expenditure would be depreciated over its useful life.

- **Making Work Pay Tax Credit.** Employed taxpayers are eligible for a credit equal to the lesser of 6.2% of their earned income or \$400 if single, \$800 if married. The credit phases out for single taxpayers with adjusted gross income over \$75,000 or \$150,000 for those who file joint. This credit can be claimed on the taxpayers' return or through payroll withholding.
- **Economic Recovery Payment.** Retirees who currently receive social security benefits are eligible to receive a one-time payment of \$250 from the U.S. Treasury.
- **Tax Credit for Energy-Efficient Improvements to Existing Homes.** Taxpayers that make a qualified improvement to their home during 2009 and 2010 are eligible to receive a credit equal to 30% of the cost of the energy efficient improvement up to a maximum credit of \$1,500.
- **Extension of Emergency Unemployment Compensation.** Workers that exhaust their regular benefits are eligible for an additional 33 weeks of extended unemployment benefits through December 31, 2009.
- **Subsidies for COBRA Coverage.** Taxpayers who have been involuntarily terminated are eligible to receive a subsidy equal to 65% of the cost of COBRA premiums to continue health insurance coverage for themselves and their family for up to nine months. To be eligible, single taxpayers must attest that their same year income will not exceed \$125,000 or \$250,000 for those who file joint.

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