

The Rudolph Report

www.rudolphcpa.com

Opening Day 2009

To all our clients:

We just finished another successful tax season at Rudolph, and we'd like to say thank you. It is truly a pleasure to serve you.

We also appreciate a disciplined hitter, so it warms our heart to see Fukudome finding his swing again. This is the year, *(that our Cubbies will find a brand new way to rip out our hearts.)*

2009 is also the year of significant tax changes. We have packed this newsletter with the tax changes that will likely affect you. Because we cannot detail the complexities of the each tax provisions in this newsletter, we encourage you to email or call the office to discuss anything that concerns you. We also encourage you to contact our firm with any other tax or finance-related question that you have.

As mentioned in our last newsletter, we are pursuing the purchase of an office condo in Libertyville. So far, our efforts have been as successful as my mother-in-law's Easter tofu lamb cake.

As a reminder, we do offer small business accounting services. Many of our clients have made the jump from unemployed worker to entrepreneur. If you are considering starting or purchasing a business, we would be delighted to assist you in this endeavor.

We're here year round to serve you, so please feel free to utilize our expertise.

Go Cubbies,

Chris Rudolph CPA

2009 TAX CHANGES

Many of you have inquired about whether you will have to pay back the tax savings from the **reduction in withholding tax** in your paychecks. The answer is *probably not*. Here's a brief description of the program:

You should have been receiving slightly more take home pay as a result of a reduction in federal withholding tax starting April 1st. When we file your income tax return, you may be eligible for the "Making Work Pay" credit of up to \$400 per spouse. This \$400 credit is intended to replenish the reduction in withholding tax that occurred throughout the year so that you do not owe additional taxes. This credit will phase out for individuals making more than \$75,000 and couples with AGI over \$150,000.

For non-working taxpayers such as **retirees**, you will be eligible to simply file for a \$250 tax credit on your 2009 income tax return.

First-time homeowners who buy a home in 2009 may be eligible for an **\$8,000 credit** on your 2009 income tax return. The credit does phase out with income limitations: Phase out provisions begin at \$75,000 for individuals and \$15,000 of AGI for married couples. The credit does have to be repaid if you live in the home for less than three years. Like all tax legislation there are complexities involved, so please feel free to contact our office to discuss your eligibility for the credit.

A **new sales tax deduction** is available for the purchase of a new vehicle. This sales tax

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deduction is above the line, which means that it does not have to be listed with your itemized deductions. To qualify, the vehicle must be a passenger vehicle, light truck, motorcycle, or motor home. Also, only the tax on the first \$50,000 qualifies for the deduction so hold off on the Lamborghini.

College tax credits have changed significantly. The former Hope and Lifetime Learning Credits are being replaced by the American Opportunity Tax Credit. This credit increases the maximum credit to \$2,500 per student per year. 100% of the first \$2,000 of tuition qualify plus 25% of the next \$2,000 of tuition expense. 40% of the credit is refundable which means you can receive a benefit even if it negates your tax liability. Qualifying expenses extend to all four years and now include books and materials. Finally, the AGI limitations are greatly expanded to \$80,000 for single taxpayers and \$160,000 for married taxpayers.

Unemployment compensation will be partially excluded from income tax. Under the new law, the first \$2,400 of benefits will be excluded from federal income tax.

For those who **commute to Chicago**, now up to \$230 of monthly reimbursement for transportation such as parking, burro, and Metra passes can be excluded from your income. Before March 2009, the monthly limitation was \$120.

AMT has received another patch for 2009. The 2009 exemption is \$1,000 higher than the 2008 exemption patch. This change

essentially assures taxpayers that they will not use pre-patch exemption amounts which would have resulted in thousands of dollars more in AMT tax. Congress will likely continue with these patches for another year or two before overhauling AMT.

Energy efficient improvements to your home now qualify for a credit that had been disbanded in 2008. You may have seen advertisements, promoting a \$1,500 tax credit. Please be careful about assuming that your purchases will qualify you for the entire \$1,500 in credits. As in past years, there is a limitation per category of purchase. For example, the credit for windows caps at \$600. There is also a maximum credit for items such as insulation or ceiling fans. Despite what the salesman may tell you, the credits do not cap at \$1,500 individually but rather collectively.

Credits also exist for the purchase of solar paneling and other renewable energy sources. These credits are both significant and complex. So, if you're considering investing in alternative energy products for your home, please email the office for guidance on the tax benefits.

COBRA coverage will be partially subsidized by the government. New tax law allows involuntarily terminated employees to pay 35% of COBRA coverage and have it treated as having paid the full amount. The former employer must pay the remaining 65% of coverage, but can later receive full reimbursed by the government on the next payroll tax return.