



Miller Verchota, Inc.  
Certified Public Accountants

July 2009

## Midyear Tax Planning Letter

To Our Clients and Friends:

Although this year is only about half over, we've already had one new tax law (a really big one), and more might be on the way (maybe not so big). Despite confusion created by never-ending legislative changes, the current federal income tax environment is still quite favorable. Now is the time to take advantage of the tax breaks that Congress has provided before they disappear. This letter presents just a few key tax planning ideas to consider this summer while you have time to think. Some of the ideas may apply to you, some to family members, and others to your business. *This letter as well as the attached document retention list can also be found on our website at [www.millerverchota.com](http://www.millerverchota.com).*

### Cash in on First-time Homebuyer Credit

Legislation enacted in 2008 created a temporary tax credit for so-called first-time homebuyers (basically, **taxpayers who haven't owned a principal residence in the last three years**). Stimulus legislation enacted earlier this year extended the credit provision to cover qualified home purchases between 1/1/09 and 11/30/09 and made the maximum credit amounts a bit more generous. More importantly, the stimulus legislation also deleted a previous requirement to repay the credit over 15 years. For a qualified principal residence purchase between 1/1/09 and 11/30/09, the **maximum credit** equals the lesser of: (1) 10% of the purchase price of a principal residence, (2) **\$8,000**, or (3) \$4,000 for those who use married filing separate status. The credit can be used to offset your entire federal income tax bill, including any Alternative Minimum Tax (AMT). **The credit is also refundable.** After your tax bill has been reduced to zero, you are allowed to collect any leftover credit amount in cash.

**Beware:** The credit is phased out (reduced or completely eliminated) if your Modified Adjusted Gross Income (MAGI) is too high. Contact us for details about that and other qualification rules that are not covered here.

### Collect Tax Breaks for Buying New Vehicle

Thanks to the following tax breaks that won't be around forever and a buyer's market, now might be a very good time to purchase a new vehicle.

**Sales Tax Deduction.** Stimulus legislation passed earlier this year created a new federal income tax deduction for state and local sales and excise taxes paid **on new (not used) vehicles** that are purchased (not leased) between 2/17/09 and 12/31/09. The write-off is limited to the amount of taxes on the first \$49,500 of purchase price. You can claim the break whether you itemize or not, and it's allowed even if you owe the AMT. An IRS spokesperson recently confirmed that you can claim the deduction on as many vehicles as you care to buy within the designated time frame. Qualifying vehicles include almost all passenger autos, pickups, and SUVs, as well as motorcycles and RVs. However, a phase-out rule can reduce or completely eliminate the break for higher-income taxpayers. Contact us for details.

**Hybrid Vehicle Credit.** A federal income tax credit is allowed for buying (not leasing) a qualifying new (not used) hybrid vehicle. The credit can be used to offset your 2009 federal income tax bill even if you owe the AMT, and high income won't disqualify you. **Credits for most qualifying vehicles range from around \$1,500 to \$3,000.** However, credits are phased out once the manufacturer has sold over 60,000 hybrids in the U.S. Credits for Toyota and Lexus hybrids disappeared after 2007, and **credits for Honda hybrids vanished after 2008.** Credits for Ford and Mercury hybrids are being phased out right now. You'll get a bigger credit for buying a Ford or Mercury hybrid before October 1. So far, full credits are still allowed for hybrids made by Chrysler, GM, Mazda, and Nissan.

**Lean-burn Diesel Vehicle Credit.** A federal income tax credit is also granted for buying (not leasing) a new (not used) qualifying lean-burn diesel vehicle. The credit will offset your 2009 federal income tax bill even if you owe the AMT and regardless of how high your income might be. Lean-burn diesel credits are subject to the same phase-out rule as hybrid credits. So, they will be reduced and eventually disallowed after a manufacturer has sold 60,000 units (not an issue so far). Right now, you can find Audi, BMW, Mercedes, and Volkswagen diesels that qualify. Credits range from \$900 to \$1,800.

### **Leverage Standard Deduction by Bunching Deductible Expenditures**

Are your 2009 itemized deductions likely to be just under, or just over, the standard deduction amount? If so, consider the strategy of bunching together expenditures for itemized deduction items every other year, while claiming the standard deduction in the intervening years. The 2009 standard deduction for married joint filers is \$11,400; the magic number for single filers is \$5,700; it's \$8,350 for heads of households. Examples of deductible items that can be bunched together every other year to lower your taxes include the interest due with your January home mortgage payment, charitable contributions, and state income and property tax payments. But, watch out for AMT as state income and property taxes are but deductible for AMT purposes.

### **Take Advantage of Generous But Temporary Business Tax Breaks**

Several favorable business tax provisions have a limited shelf life that may dictate taking action between now and year-end. They include the following.

**Bigger Section 179 Deduction.** Your business may be able to take advantage of the temporarily increased Section 179 deduction. Under the Section 179 deduction privilege, an eligible business can often claim first-year depreciation **write-offs for the entire cost of new and used equipment and software additions. For tax years beginning in 2009, the maximum Section 179 deduction is \$250,000 (same as last year).** For tax years beginning in 2010, however, the maximum deduction is scheduled to drop back to about \$130,000 (depending on the inflation adjustment). Various limitations apply to the Section 179 deduction privilege, so please contact us if you want more information.

**50% First-year Bonus Depreciation.** Above and beyond the bumped-up Section 179 deduction, your business can also claim first-year bonus depreciation equal to 50% of the cost of most new (not used) equipment and software acquired and placed in service by December 31 of this year. The first-year bonus depreciation break is scheduled to expire at year-end unless Congress takes further action. Contact us if you want more details about this generous, but temporary, tax break.

**Longer Carryback Period for Net Operating Losses (NOLs).** Stimulus legislation passed earlier this year allows qualifying small and medium-sized businesses to carry back Net Operating Losses (NOLs) generated in tax years beginning or ending in 2008 for up to five years (versus the two-year carryback rule that usually applies). Therefore, if your qualifying business uses a fiscal tax year (say one ending in October), you may still have time to take actions that will create or increase an NOL for the current tax year. That NOL can then be carried back for up to five years to recover taxes paid in those years.

**Note:** 50% first-year bonus depreciation deductions for qualifying assets placed in service between now and December 31 can create or increase an NOL. However, Section 179 deductions cannot. Please contact us for details on the interaction between asset additions and NOLs.

### **Conclusion**

As we said at the beginning, this letter is intended to give you just a few ideas to get you thinking about tax planning moves for the rest of this year. Please don't hesitate to contact us if you want more details or would like to schedule a tax planning strategy session. We are at your service!

Sincerely,

*Miller Verchota, Inc.*

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