

# Tax Tidbits

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## Responding to Economic Need

As we covered in the last issue of Tax Tidbits, the Housing Assistance Tax Act of 2008 was signed into law on July 30, 2008. The Emergency Economic Stabilization Act of 2008, which included the Tax Extenders and Alternative Minimum Tax Relief Act of 2008 was also signed into law on October 3, 2008. These laws include many important tax changes, including alternative minimum tax relief, the first-time homebuyer credit, and many tax benefits, extensions and new tax provisions for businesses and individuals.

The Worker, Retiree and Employer Recovery Act of 2008 became law on December 23, 2008 when it was signed by President Bush. It contains several provisions designed to lighten requirements for retirement plans and for people who are anxious about the present economic crisis. Of these provisions, the relaxing of the minimum required distributions from qualified retirement plans such as IRAs, 401(k) plans and similar plans for retired persons, *only in 2009*, was of great significance. Other provisions dealt with plan funding rules and rules for plan administrators.

On February 17, 2009, President Obama enacted the American Recovery and Reinvestment Act of 2009 (ARRA), which was referred to as “the most sweeping economic recovery package in the nation’s history”. The \$789 billion bill was designed to cover the costs of tax cuts, additional spending programs, aid to states, communities, schools and the unemployed. This issue of Tax Tidbits will cover some of the pertinent provisions of the ARRA, as well as retirement issues.

These are no longer simple times. Whether dealing with investments, taxes or business, life is complicated, sophisticated and intricate. Ultimately, faith in the system is the foundation.

~ Paul E. Hornbuckle, CPA  
Tax and Business Services Manager

“Today, it takes more brains and effort to make out the income tax form than it does to make the income.”

- Alfred E. Neuman



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## Identity Theft

All of us should be aware of our exposure to identity theft, especially as it pertains to our income tax records. The theft of someone's social security number provides a thief with the following opportunities:

1. The ability to file a tax return using the victim's social security number for the purpose of receiving a fraudulent refund.
2. The ability to use a stolen social security number to obtain employment. The thief's employer would report income earned to the IRS using the victim's social security number. The victim would be notified by the IRS of underreporting his/her income for the period worked by the thief.
3. The ability for someone to use another person's social security number illegally to obtain credit, run up the account balance and never make payments on the account. If the credit company writes off the balance, it becomes income to the victim.

The IRS will notify taxpayers regarding a possible identity theft by issuing a notice or letter to alert taxpayers of the following:

1. More than one tax return was filed for the taxpayer in the calendar year.
2. Inform taxpayer of wages reported from an employer.

The IRS has developed a form to be used by taxpayers when they believe they are an actual or potential victim of identity theft. Form 14039 (Identity Theft Affidavit) should be completed by a taxpayer who believes he/she may be at risk due to a lost/stolen purse or wallet, questionable credit card activity or credit report. Form 14039 requires the taxpayer to submit a copy of a valid Federal

and State issued identification, such as a social security card, driver's license or passport, along with a copy of a police report, if available.



By notifying the IRS, taxpayers have a better opportunity to avoid being a victim. They protect their assets and ultimately protect themselves from having to pay taxes on stolen proceeds. This process allows the IRS to seek income tax and criminal charges for non-reporting of income against the thief.

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## E-File Hits Record 90 Million

By April 24, the IRS had accepted 90.6 million income tax returns through e-file, up almost 6 percent compared to the same time last year.

For the first time, more than 30 million individual income tax returns were filed from home computers. By April 24, the IRS had accepted 31.2 million returns filed from home computers, up 19.3 percent from the same time last year.

People can receive a refund in as little as 10 days if they use electronic filing and direct deposit. Those who owe can also pay electronically by debiting their bank account or using a credit card. At Valicenti Advisory Services, Inc. we do not charge for e-filing or direct depositing of your refund.

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## 2009 Home Purchases

The ARRA changed the conditions for taxpayers who

qualify for the first-time homebuyer credit. You are considered to be a first-time homebuyer if you, and/or your spouse, have not owned a primary home during the three year period ending on the date of the purchase.

The credit amount has been increased from \$7,500 to \$8,000. You can claim 10% of the purchase price up to \$8,000, or \$4,000 for married filing separate. The amount of the credit begins to phase out when the taxpayer's adjusted gross income is more than \$75,000, or \$150,000 for joint filers.



The criterion is that the home be purchased after December 31, 2008 and before December 1, 2009 and that it has to be the first-time homebuyer's principal residence. The best part of this change is that this credit does not have to be paid back as long as the home remains the taxpayer's principal residence for three years following the purchase.

A taxpayer, who has purchased a home after April 15, 2009 and has already filed his/her 2008 tax return, has the option of claiming this credit for 2008 by filing an amended return. This will put some extra cash in your pocket right now. If you do not choose this option, you will still be able to claim the credit on your 2009 tax return that is filed by April 15, 2010.

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## Tax Break for New Car Purchases

As part of the ARRA, taxpayers who purchase a new

vehicle in 2009 may be entitled to deduct the paid state and local sales and excise taxes on their 2009 tax return. The deduction is limited to the taxes paid on a vehicle purchase price of up to \$49,500. The vehicle has to be purchased after February 16, 2009 and before January 1, 2010.



To qualify for the deduction, the vehicle has to be new, not used, and can be a car, light truck, motor home or motorcycle. The credit is phased out for taxpayers whose modified adjusted gross income is between \$125,000 and \$135,000 for individual filers and between \$250,000 and \$260,000 for joint filers. This special deduction will be available whether or not a taxpayer itemizes deductions on his/her tax return. If you are thinking about purchasing a new vehicle this year, this new deduction may be the incentive to help you make your decision.

### **Residential Energy Property Credit**

Once again, taxpayers will be able to claim credits on home and business energy improvements on their 2009 tax returns. A similar credit was available for 2007 but was not available for 2008. The new credit will be limited to 30% of the cost of qualifying improvements and raises the maximum credit limit to \$1,500. The improvements must be completed on the taxpayers existing home and the

improvements must be done in the 2009 and 2010 tax years. Adding insulation, putting in energy efficient exterior replacement windows, installing energy efficient heating and air conditioning systems are just a few of the improvements that will qualify for the energy credit. Be aware that the energy standards are higher for products that qualify as "energy efficient" for purposes of the tax credit. Until the IRS issues the new guidance rules to manufacturers, homeowners will have to rely on the manufacturers' certifications that were provided under the old guidance rules. This gives taxpayers the incentive to improve their homes and save money on energy costs over the next several years.

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### **Long-Term Care Insurance**

Long-term care insurance provides individuals with the opportunity to help minimize high medical bills. The attractiveness of long-term care insurance was enhanced by the introduction of tax deductibility rules. The Health Insurance Portability Act of 1996 included provisions to recognize long-term care insurance (LTCI) contract premiums as a deductible medical expense. The amount of the LTCI premium treated as a medical expense is limited to the eligible LTCI premiums, as defined by Internal Code 213(d) based on the age of the insured individual. That portion of the LTCI premium that exceeds the eligible LTCI premium is not deductible as a medical expense for federal income taxes.

New York State provides a credit for 20% of the qualifying LTCI premium paid. New York State taxpayers are permitted to carry over to future tax years, any credit amount in excess of the taxpayer's tax liability for the year.

New York State employers are eligible for a credit equal to 20% of the premiums paid during the tax year or for continuing coverage under a LTCI policy. The credit is not refundable and the credit may not reduce the tax to less than the minimum tax due.

Self-employed individuals can deduct 100% of his/her out of pocket long-term insurance premiums up to the eligible premium amounts listed. A self-employed individual will not be eligible to deduct LTCI premiums during any calendar month in which he/she or his/her spouse is able to participate in a subsidized LTCI plan.

There is no LTCI premium deduction or tax credit available at the state level to residents/taxpayers of Florida or Pennsylvania.

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### **Working and Social Security**

Retirees who are contemplating a return to the workforce and are either eligible to receive or are already collecting social security payments should be aware of several issues.

Eligibility for full social security benefits is available to retirees who are 66 years old and were born between 1943 and 1955. People who started collecting benefits prior to attaining full retirement age will be subject to an earnings test. A retiree who is not 66 years old and collecting social security benefits would lose \$1 in benefits for every \$2 in earnings above \$14,160.

The additional income anticipated by a retiree under the age of 66 who is re-entering the workforce may evaporate by loss of social security payments. For example, if your earnings from employment in 2009 were \$30,000 that would put you \$15,840 (\$30,000-\$14,160) over

the \$14,160 exemption. By earning an additional \$30,000, a retiree would forfeit \$7,920 in social security payments in 2009.

In the example above, the retiree will not lose the \$7,920 eliminated by the earnings test, because when the retiree attains his 66<sup>th</sup> birthday, his social security payments will be increased to account for the lost benefit (\$7,920 elimination).

The exemption rules are different for retirees who have their 66<sup>th</sup> birthday in 2009. The exemption level is \$37,680. A retiree will lose \$1 in benefits for every \$3 above \$37,680. Once a retiree attains 66, his earnings will no longer be subject to the earnings test.

An additional issue that retirees must consider is the taxability of the social security benefits. Depending on the retiree's modified adjusted gross income (MAGI) and filing status, the percentage of social security benefits to be taxed can be up to 85 percent. The low end of the income threshold is \$25,000 for unmarried taxpayers, \$32,000 for joint filers. If MAGI is lower than these thresholds, social security income is not taxed.

## 2009 Unemployment Benefits

According to the IRS, all or part of the unemployment benefits received in 2009 by unemployed workers, will be exempt from tax. By mid-March, the Bureau of Labor Statistics of the U.S. Department of Labor reported a record 5.6 million people were receiving unemployment benefits and our national unemployment rate was at 8.5%. This confirmed the need for some relief to be provided by the ARRA. Every person who receives

unemployment benefits during 2009 will be eligible to exclude the first \$2,400 of these benefits when they file their 2009 income



taxes.

If both spouses are collecting unemployment benefits they will each be able to exclude up to the first \$2,400 of these benefits. Unemployed workers can choose to have income tax withheld from each check they receive. This will alleviate any tax due balance surprises when they file their 2009 income tax returns.

## “Making Work Pay” Tax Credit

Starting in April, millions of working Americans started to enjoy their small tax credits that they received in their paychecks. The tax credit is to provide up to \$400 to individuals as part of the massive economic recovery package that was enacted by President Barack Obama. The new tax withholding tables will cause millions of taxpayers to be hit with a big surprise when they file their 2009 income tax returns. If you received a small refund on last year's return you will most likely owe for the coming tax year. At-risk taxpayers include:

- Married filing jointly in which both spouses work
- Workers with more than one job

- Retirees who have federal income taxes withheld from their pensions
- Social Security recipients with other taxable income jobs

It is the taxpayer's responsibility to ensure that enough tax is being paid to the federal government throughout the year. If you haven't made adjustments by now with your payroll department to increase your weekly withholding you may want to do that at this time. You also have the option of making estimated tax payments on a quarterly basis. You still have time to take this option as the next estimated tax payment is due June 15, 2009. The Internal Revenue Service is aware of the withholding problem, but has done little to warn taxpayers of the possible outcome. As an added note, we have not seen any report from the IRS to eliminate any penalties generated from the shortage of withholding tax on next year's income tax return.

Our location at 350 West Church Street has become familiar to our clients. With adequate parking in the back, it is a convenient location to meet with tax preparers to discuss tax questions and solutions.

Please call our office at (607) 733-9022 in order to set up appointments and to speak directly with one of our tax specialists.



Located at the northwest corner of West Church and Columbia Streets.

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