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New Rules for Purchases, Savings, Investments, And Business Incentives (2009-10) – Part I

In these extraordinary times, the economic landscape is changing dramatically. To help you journey through this landscape, we have authored a four-part series called "***New Rules for Purchases, Savings, Investments, and Business Incentives***," summarizing some of the more important developments and their likely impact. We hope you find these helpful.

We begin below with the first of the four-part series.

PART 1

1. New Rules for Purchases.

Recent changes in the law afford special benefits that you should consider when buying or improving your home or when buying a car.

1.1 New Homebuyer. A first time home buyer is eligible for a 10% federal income tax credit (to a maximum of an $8,000 tax credit) on the purchase price of a principal residence which is acquired between January 1 and December 1, 2009, if he/she owned no U.S. residence in the preceding three years. To qualify for the credit, a taxpayer must not exceed certain adjusted gross income levels (phased out between $75,000 and $95,000 for single taxpayers, and between $150,000 and $170,000 for joint tax return filers). The credit is recaptured if the house is sold within 3 years of purchase. A purchase in 2009 could qualify retroactively for a credit on a taxpayer's 2008 tax return, if elected by the taxpayer.

TIP: ***For young families just starting out, the 10% tax credit is helpful. The benefit of the credit could be obtained at April 15, 2010 when filing the 2009 return (although W-2 withholding or estimated taxes can be reduced in the meantime), and electing to obtain the credit for 2008 means filing an amended 2008 income tax return and potentially receiving cash from the tax credit refund more quickly. Unlike the Housing Assistance Tax Act of 2008, which first created this credit (with greater limitations than now),***

there is no requirement to repay the credit (as long as the residence is not sold in the 3 years following purchase).

1.2 Residential Energy Property Tax Credit. For purchase of certain home improvements from February 17, 2009 to December 31, 2010 which improve energy efficiency in a principal residence, you may be entitled to a federal income tax credit equal to 30% of the purchase price of such improvements, to a maximum of $1,500 in the aggregate over both years. The qualifying improvements consist of insulation, exterior windows and skylights, exterior doors, heat pumps, furnaces, central air conditioners, water heaters, and advanced main air circulating fans. These improvements must meet strict energy efficiency standards which have been newly issued in 2009.

TIP: ***If you are making a home improvement, the energy efficient property provides a double benefit to the taxpayer. First, it reduces your taxes by a tax credit. Second, you save energy costs over the life of the improvement.***

1.3 New Car Purchase Sales Tax Deduction. For taxpayers who purchase a new (not used) car, light truck, motorcycle, or motor home before January 1, 2010 and after February 17, 2009, an extra federal income tax deduction for sales tax paid on such purchase may be added to the standard deduction claimed by taxpayers who do not itemize and would otherwise not get the benefit of a sales tax deduction. This provision applies to taxpayers whose adjusted gross income does not exceed $125,000 to $135,000 for single taxpayers and $250,000 to $260,000 for joint tax return filers. The deduction can also be claimed against the AMT. The amount of the deduction is limited to the sales tax on the first $49,500 of the vehicle's purchase price (excluding taxes).

TIP: ***This is an attractive benefit for middle income taxpayers who do not itemize or who are faced with AMT.***

1.4 Cash for Clunkers Act. Between July 1, 2009 and November 1, 2009, a taxpayer who (a) turns in his/her fuel inefficient motor vehicle to a registered auto dealer who agrees to crush and shred the vehicles and not re-sell it (except for parts other than engine block and drive train), and (b) purchases or leases a new (not used) fuel efficient motor vehicle, can obtain a federal voucher that will be paid to the dealer to apply to such purchase or lease. The voucher will have a value of $3,500 to $4,500. The trade-in vehicle must be a drivable 1984 model or later which gets 18 MPG or less, and has been owned and insured for at least one year before the trade-in is delivered to the dealer in exchange for the new motor vehicle. A $3,500 voucher is awarded for new passenger cars that get at least 22 MPG and improve MPG by at least 4 MPG over the trade-in; for new light trucks and SUVs that get at least 18 MPG and improve MPG by at least 2 MPG; and for new pick-ups and vans between 6,000 and 8,500 lbs, which get at least 15 MPG and improve MPG by at least 1 MPG. A $4,500 voucher is awarded for new passenger cars that get at least 22 MPG and are an improvement by 10 MPG or better; for new light trucks and SUVs that get at least 18 MPG which are an improvement by 5MPG or more; and for new pick-ups and vans, which get at least 18 MPG and are an improvement of 2 MPG or more. The voucher credit is limited to one per taxpayer.

TIP: ***This is a good deal if your old car, SUV, light truck, or van is worth less than the eligible $3,500 to $4,500 voucher and gets poor gas mileage. But you must act quickly because the program expires November 1, 2009 or when the $1 Billion federal appropriation for this program runs out. (See www.cars.gov)***

1.5 Plug-in Motor Vehicle Credit. For purchase of new electric rechargeable motor vehicles which depend on a rechargeable battery with at least 4 KW hrs of capacity (not a hybrid), you can obtain at least a $2,500 tax credit (but not more than $7,500) for each vehicle purchased in 2010. The 2009 tax law change applicable to 2010 lowers the credit previously available if a new electric motor vehicle is purchased during 2010. During 2009, the credit is based on $2,500 plus $417.00 for each KW hrs of battery capacity in excess of 4 KW hrs, with a maximum of $7,500 for vehicles weighing 10,000 lbs or less; and for vehicles weighing more than 10,000 lbs, but 14,000 lbs or less, the credit is $10,000; and for vehicles weighing more than 14,000 lbs but not more than 26,000 lbs, the maximum credit is $12,500; and for vehicles weighing more than 26,000 lbs, the credit is $15,000. Also, there are a maximum number of vehicles that qualify for the tax credit. The limit is generally 250,000 vehicles in total sold during 2009. In 2010, the limit is changed to 200,000 vehicles per manufacturer, but the determination of the credit is changed and the credit is capped at $7,500.

TIP: ***While these incentives are attractive, and indeed the federal government is loaning billions of dollars to auto manufacturers to build battery-powered plug-in vehicles, it is unlikely that the major manufacturers will mass-produce them in large quantities until late 2010 at the earliest. So, we fully expect that this provision in the law will be renewed after 2010.***

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