

Have a Wonderful Summer!
Look for my next newsletter this fall!

Required minimum distributions (RMDs) from qualified plans [i.e., 401(k), 403(b), 457(b), etc.] and IRAs have been waived for 2009 only. Thus, you do not have to take an RMD for 2009 if you are the account owner or a beneficiary. If you already withdrew your RMD for 2009, you may be able to roll it over to an eligible retirement plan within 60 days.

amount is \$2,675 and 79 percent of all returns received a refund. Because retirees typically have withholding from their pension payments, pension plan administrators or pension payors should be aware of the optional adjustment procedure for pension withholding announced in Notice 1036-P, Additional Withholding for Pensions for 2009. Social security beneficiaries, supplemental security income recipients, disabled veterans and railroad retirees that receive this year's one-time \$250 economic recovery payment should be aware that the Making Work Pay credit will be reduced by the \$250 payment amount. They may also want to review their withholding. The IRS withholding calculator on IRS.gov can help a taxpayer compute the proper tax withholding. The worksheets in Publication 919, How Do I Adjust My Withholding?, can also be used to do the calculation. If the result suggests an adjustment is necessary, the taxpayer should submit a new Form W-4, Withholding Allowance Certificate, to his or her employer or adjust the amount of quarterly tax paid.

Check Withholding ... (cont.)

PK Tax Services, L.L.C.

Pat Kolodziej, CPA, MST
627 Arlington Lane
South Elgin, IL 60177
patk@pktaxservices.com
www.pktaxservices.com
847.858.5074

Special Tax Break on New Car Purchases Available in States With No Sales Tax

A tax break for the purchase of new motor vehicles is available in states that do not have a state sales tax. Under the American Recovery and Reinvestment Act of 2009, taxpayers who buy a new motor vehicle this year are entitled to deduct state or local sales or excise taxes paid on the purchase.

Purchases made in states without a sales tax — such as Alaska, Delaware, Hawaii, Montana, New Hampshire and Oregon — can also qualify for the deduction.

Taxpayers who purchase a new motor vehicle in states that do not have state sales taxes are entitled to deduct other fees or taxes imposed by the state or local government. The fees or taxes that qualify must be assessed on the purchase of the vehicle and must be based on the vehicle's sales price or as a per unit fee.

To qualify for this deduction, the vehicle must be purchased after February 16, 2009, and before January 1, 2010. Taxpayers can claim

this special deduction only on their 2009 tax returns to be filed next year.

The deduction is limited to the fees or taxes paid on up to \$49,500 of the purchase price of a qualified new car, light truck, motor home or motorcycle.

The amount of the deduction 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.

The special deduction is available regardless of whether taxpayers itemize deductions on their returns. Taxpayers who do not itemize will add this additional amount to the standard deduction on their 2009 tax return.

**STANDARD MILEAGE
RATE FOR 2009
IS 55 CENTS.**

Check Withholding To Avoid A Tax Surprise

With 2009 nearly half over, the Internal Revenue Service reminds individual taxpayers there is no better time to check their 2009 federal income tax withholding levels to make sure they do not face any surprises when returns are due next spring.

The Making Work Pay Credit lowered tax withholding rates this year for 120 million American households. However, particular taxpayers who fall into any of the following groups should review their tax withholding rates to ensure enough tax is withheld: multiple job holders, families in which both spouses work, workers who can be claimed as dependents by other taxpayers and pensioners.

Failure to adjust your withholding could result in potentially smaller refunds or may cause you to owe tax rather than receive a refund next year. So far in 2009, the average refund

(Continued on the back)



UP to the
MINUTE
TIMELY TAX TIPS

SUMMER 2009

American Recovery And Reinvestment Act Of 2009: Laws Affecting Individuals

Economic Recovery Payment - Are You Eligible?

For 2009 only, you may be entitled to a one-time \$250 economic recovery payment if you are:

- An adult eligible for Social Security benefits;
- An adult eligible for Railroad Retirement benefits;
- An adult eligible for Veterans benefits; or
- An individual of any age eligible for Supplemental Security Income (SSI), other than an individual who receives SSI while in a Medicaid

institution.

To receive an economic recovery payment, you must have been eligible for any of the above four benefits for any part of November 2008, December 2008, or January 2009. You don't have to do anything to receive this payment. The applicable agency will be sending out the payments as early as May or June of 2009. This payment is not taxable, but it reduces any Making Work Pay Credit to which you may be entitled.

Have You Paid Any College Tuition In 2009?

The Hope Credit, which was a tax credit available for tuition expenses paid during the first two years of college, has been expanded and renamed the American Opportunity Tax Credit for 2009 and 2010. Now taxpayers can claim up to \$2,500 per student, per year for the first four years of post-secondary education. This is much better than the Lifetime Learning Credit, which is limited to \$2,000 per return, per year for all eligible students. You cannot claim both credits for the same student in the same year, so you must choose one or the other.

The credit equals 100 percent of the first \$2,000 of qualified tuition and related expenses, plus 25 percent of

the next \$2,000 of such expenses, for a maximum credit of \$2,500. However, the credit is gradually reduced if your modified adjusted gross income is between \$80,000 and \$90,000 (\$160,000 and \$180,000 if married filing jointly).

In general, education credits are nonrefundable. However, 40 percent of the allowable American Opportunity Tax Credit is refundable. Thus, if you have no tax liability, you can still claim a refund of \$1,000 (\$2,500 x 40%) for this credit (assuming you are entitled to a \$2,500 credit after applying the phase-out rules). The balance of the credit is lost and cannot be carried over.

Thinking Of Buying Your First Home In 2009?

The First-Time Homebuyer Credit is still available for homes purchased through November 30, 2009. If you purchase a home in 2009, the credit equals the lesser of 10 percent of the purchase price of the home or \$8,000 (\$4,000 if married filing separately). However, if your income is too high, you may lose some or all of the credit because it is phased-out when your modified adjusted gross income is between \$75,000 and \$95,000 (\$150,000 and \$170,000 if married filing jointly).

This credit is refundable. This means the credit is treated like a tax payment. Therefore, even if you have no tax liability, you will get a refund equal to the amount of the credit (up

to \$8,000).

If you purchased a home in 2009, you can wait to claim this credit on your 2009 tax return and get a refund in 2010. Or, you can choose to claim this credit on your 2008 tax return and get a refund sooner. If you already filed your 2008 return, you can file an amended return.

There is one catch. If you purchased the home in 2009, you must use the home as your principal residence for at least 36 months from the date of purchase. If you don't, you must repay the full amount of the credit on the return for the year you stop using the home as your principal residence.

Want To Make Energy-Efficient Home Improvements?

The nonbusiness energy property credit for energy-efficient improvements to your principal residence was not available in 2008. However, it's back again for two more years in 2009 and 2010.

If you aren't sure which property qualifies for the credit, go to www.energystar.gov and look up "Tax Credits for Energy Efficiency." You shouldn't assume that all ENERGY STAR products qualify for the credit. Make sure you receive proper certification from the manufacturer that the property qualifies for the credit.

In 2009, the credit equals 30 percent of the amount paid for:

- Qualified energy efficiency improvements (i.e., insulation, windows, doors, etc.); and
- Residential energy property expenditures (i.e., central air

conditioners, natural gas furnaces, tankless water heaters, biomass fuel stoves, etc.).

There is a cap of \$1,500 on the total nonbusiness energy property credits allowed. This cap only applies to property placed in service in 2009 and 2010. Thus, you can claim up to \$1,500 even if you already claimed a \$500 nonbusiness energy property credit in 2006 or 2007.

You can claim this credit regardless of your modified adjusted gross income. Unlike the first-time homebuyer credit, it is nonrefundable. To the extent it exceeds your tax liability, you lose it. Therefore, it may be wise to hold off making any improvements until 2010 if you don't expect to owe a lot of taxes this year. Another alternative is to make some improvements each year.

Want To Generate Electricity Using Solar Panels Or A Windmill?

In addition to the energy credit for home improvements, you may also claim a residential energy efficient property credit for property that uses solar energy to generate electricity or heat water for your residence. You can also claim this credit for property that uses a wind turbine to generate electricity in your residence, or equipment that uses the ground or ground water to heat your residence.

The following property qualifies for the credit:

- Solar electric property;
- Solar water heating property;
- Fuel cell property;
- Small wind energy property; and
- Geothermal heat pump property.

This credit equals 30 percent of the cost of purchasing and installing such

property. After 2008, there is no dollar cap on the credit, with the exception of the maximum credit for qualified fuel cell property, which is \$500 for each 0.5 kilowatt of capacity.

Like the energy credit for home improvements, you may claim this credit regardless of your modified adjusted gross income, and it is nonrefundable. However, any unused credit may be carried forward and added to the credit for that year. This credit is available through 2016, so you should benefit from it eventually.

The IRS reminds unemployed workers that the first \$2,400 of unemployment benefits they receive during 2009 are tax-free for federal income tax purposes.

Did you know?

Some tax forms ask you to check a box if you are BLIND?

If you paid real estate taxes in 2009, but don't itemize, you can claim an additional standard deduction of up to \$500 (\$1,000 on a joint return) for state and local property taxes paid.