

## Summer Office Hours

Effective Friday May 22nd through September 4th our office hours will be Monday through Thursday 8am-5pm and Fridays 8am-noon

## Inside this issue

|  |   |
|--|---|
| 2009 Tax Law Changes—An Overview           | 1 |
| Long-Term Care and Medicaid Planning       | 1 |
| QuickBooks Corner - New Withholding Tables | 3 |
| Contact Information                        | 5 |
| About Us                                   | 5 |

## 2009 Tax Law Changes—An Overview

The recently enacted "American Recovery and Reinvestment Act of 2009" contains a wide-ranging tax package that includes tax relief for low and moderate-income wage earners, individuals and families with college expenses, home and car purchasers, and numerous business changes. Below is an overview of the more widely applicable tax changes affecting individuals and businesses in the new law.



### Individual Items

#### "Making Work Pay" credit.

The new law provides an individual tax credit in the amount of 6.2% of earned income not to

exceed \$400 for single returns and \$800 for

joint returns in 2009 and 2010. The credit is phased out at adjusted gross income (AGI) in excess of \$75,000 (\$150,000 for married couples filing jointly). The credit can be claimed as a reduction in the amount of income tax that is withheld from a paycheck, or through a credit on a tax return. Under the credit, workers can expect to see perhaps \$13 a week less withheld from their paychecks starting around June. Next year, the extra take-home pay will go down to around \$7.70 per week.

**Economic recovery payment.** The new law provides for a one-time payment of \$250 to retirees, disabled individuals and Social Security beneficiaries and SSI recipients receiving benefits from the Social Security Administration and Railroad Retirement beneficiaries, and to veterans receiving

(Continued of page 2)

## Long-Term Care and Medicaid—Good News/Bad News (Part 3)

In part 1 (see October 2008), we looked at the costs of nursing home care (averaged around \$74,172 per year) and the assets your spouse can keep if you go into a nursing home. In part 2 (see January 2009), we discussed long-term care insurance to mitigate the cost of nursing home care expenses.

So you say: What if I give all of my assets to my children? Then if I need to go to a nursing home, they will have it and I won't need to spend it on nursing home care, will I?

As with all tax and financial planning, the answer depends on many things, including your personal goals and fears.



(Continued on page 3)

The new law provides for a one-time payment of \$250 to retirees, disabled individuals and Social Security beneficiaries.

The new law allows taxpayers to deduct State and local sales taxes paid on the purchase of a new automobile.

## 2009 Key Changes (continued)

disability compensation and pension benefits from the U.S. Department of Veterans' Affairs. The one-time payment is a reduction to any allowable Making Work Pay credit.

**Refundable credit for certain federal and state pensioners.** The new law provides a one-time refundable tax credit of \$250 in 2009 to certain government retirees who are not eligible for Social Security benefits. This one-time credit is a reduction to any allowable Making Work Pay credit.

**Unemployment compensation exclusion.** A provision temporarily suspends federal income tax on the first \$2,400 of unemployment benefits received by a recipient in 2009.

**Expanded earned income tax credit.** The new law provides tax relief to families with three or more children and increases marriage penalty relief. The changes apply for 2009 and 2010.

**Expanded child tax credit.** A measure increases the eligibility for the refundable child tax credit in 2009 and 2010 by lowering the earned income threshold to \$3,000 (from \$8,500 in 2008).

**Expanded and revised higher education tax credit.** The new law creates a \$2,500 higher education tax credit that is available for the first four years of college. The credit is based on 100% of the first \$2,000 of tuition and related expenses (including books) paid during the tax year and 25% of the next \$2,000 of tuition and related expenses paid during the tax year, subject to a phase-out for AGI in excess of \$80,000 (\$160,000 for married couples filing jointly). 40% of the credit is refund-

able. The new credit temporarily replaces the Hope credit.

**Computers as an education expense.** A provision permits computers and computer technology to qualify as qualified education expenses in 529 education plans for tax years beginning in 2009 and 2010.

**Expanded credit for first-time home buyers.** Last year, Congress provided taxpayers with a refundable tax credit that was equivalent to an interest-free loan equal to 10% of the purchase of a home (up to \$7,500) by first-time home buyers. The provision applied to homes purchased on or after April 9, 2008 and before July 1, 2009. Taxpayers receiving this tax credit were required to repay any amount received under this provision back to the government over 15 years in equal installments (or earlier if the home was sold). The credit phases out for taxpayers with

AGI in excess of \$75,000 (\$150,000 in the case of a joint return). The new law enhances the credit by eliminating the repayment obligation for taxpayers that purchase homes on or after January 1, 2009. It also extends the credit through the end of November 2009, and bumps up the maximum value of the credit from \$7,500 to \$8,000.

**Tax break for new car purchasers.** The new law allows taxpayers to deduct State and local sales taxes paid on the purchase of a new automobile, including light trucks, SUVs, motorcycles, and motor homes. The tax break phases out starting with taxpayers earning \$125,000 per year (\$250,000 for joint returns). The deduction is allowed to both those who itemize their deductions as well as to nonitemizers.

(Continued on page 4)



## QuickBooks Corner— New Withholding Tables

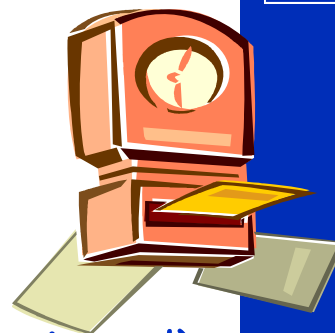
QuickBooks has implemented the changes in federal withholding resulting from the **Making Work Pay Credit** recently signed into law. The credit is equal to 6.2% of earned income not to exceed \$400 for single returns and \$800 for joint returns. The IRS has issued new withholding tables to reflect the lower income tax wage earners will pay as a result of this credit.

Once you download the latest payroll update from QuickBooks, your payroll deductions will function seamlessly in the background. You may notice differences between calculations by QuickBooks and printed wage bracket taxes. QuickBooks uses the more accurate percentage method and tax tables that are

annualized (rather than weekly, biweekly, or monthly) to calculate its figures.

Small discrepancies of less than \$1.00 for any single state or local tax, and up to \$6.00 for federal tax, are acceptable. **Both methods are correct and acceptable to the IRS.** Please note there are income limitations to who qualifies for the reduction of federal withholding (see article on page one).

If you have questions or need help with the QuickBooks payroll system please call our Buckner Wadsworth & Associates, LLP QuickBooks advisors.



QuickBooks has released new withholding tables that take into account the new tax laws.

## Long-Term Care and Medicaid (continued)

If you give your assets to your children (or anyone), and go to a nursing home within 5 years, then the gifts are brought back into your resources for determining if the government will pay for nursing home care. You need to gift your assets, live on your own for 5 years or more, and then those assets will not be included in your resources for Medicaid purposes. By the way, the government doesn't like this plan and some have wanted to have an unlimited look-back period, so all lifetime gifts would go against you for resource calculations.

Should you really give all your resources to your children? What if you need them when you are 93? What if the children lose them in a divorce, bankruptcy, or lawsuit? What if they "borrow" some of your money and don't have it when you need it? To be a true gift in this sense, you can not have any strings attached. This means no promises from your children to give you the money back later if you need it.

Under current gift tax laws, you can only give \$13,000 to one person in one year without gift tax consequences. You may need to give larger amounts to accomplish your goals in this example. In addition to the \$13,000 a



year gift, you can gift \$1,000,000 in your lifetime and use your lifetime gift exemption. This requires filing a gift tax return.

As you can see, it is never as easy as it may look. Please contact us if you have any questions or if we can help you with your planning needs.

Should you really give all your resources to your children?

To be a true gift you can not have any strings attached.

## 2009 Key Changes (continued)

However, the deduction cannot be taken by a taxpayer who elects to deduct state and local sales taxes in lieu of state and local income taxes.



**Alternative minimum tax (AMT) patch.** To hold the number of taxpayers subject to the AMT at bay, the new law increases the AMT exemption amounts for 2009 to \$46,700 for unmarried individuals, to \$70,950 for joint returns, and to \$35,475 for married individuals filing separate returns, and allows the personal credits against the AMT.

### Business Items

**Extension of bonus depreciation.** Last year, Congress temporarily allowed business to recover the costs of capital expenditures made in 2008 faster than the ordinary depreciation schedule would allow by permitting these businesses to immediately write off 50% of the cost of depreciable property acquired in 2008 for use in the United States. The new law extends this temporary benefit for qualifying property purchased and placed into service in 2009.



**Extension of enhanced small business expensing (Section 179).** In order to help small businesses quickly recover the cost of certain capital expenses, small

business taxpayers may elect to write off the cost of these expenses in the year of acquisition in lieu of recovering these costs over time through depreciation. Last year, Congress temporarily increased the amount that small businesses could write off for capital expenditures incurred in 2008 to \$250,000 and increased the phase-out threshold for 2008 to \$800,000. The new law extends these temporary increases for capital expenditures incurred in 2009.

**Expanded loss carryback of net operating losses for small businesses.** Under pre-Act law, net operating losses (NOLs) may be carried back to the two years before the year that the loss arises and carried forward to each of the succeeding twenty years after the year that the loss arises. For 2008, the new law extends the maximum NOL carryback period from two years to five years for small businesses with gross receipts of \$15 million or less.

**Incentives to hire unemployed veterans and disconnected youth.** Businesses are allowed to claim a work opportunity tax credit equal to 40% of the first \$6,000 of wages paid to employees of one of nine targeted groups. The new law expands the work opportunity tax credit to include two new targeted groups: (1) unemployed veterans; and (2) disconnected youth. Individuals qualify as unemployed veterans if they were discharged or released from active duty from the Armed Forces during 2008, 2009 or 2010 and received unemployment compensation for more than four weeks during the year before being hired. Individuals qualify as disconnected youths if they are between the ages of 16 and 25 and have not been regularly employed or attended school in the past 6 months.

**Extension of monetization of accumulated AMT and R&D credits in lieu of bonus depreciation.** The new law extends the provision contained in the Foreclosure Prevention Act of 2008 and allows AMT and loss taxpayers in 2009 to receive 20% of the value of their old AMT or research and development (R&D) credits to the extent such taxpayers invest in assets that qualify for bonus depreciation.

**Qualified small business stock.** The new law increases the exclusion for gain from the sale of certain small business stock held for more than five years from 50% to 75% for stock issued after the enactment date and before 2011.

**S corp holding period.** The new law temporarily shortens the holding period of assets subject to the built-in gains tax from 10 years to seven years.

If you would like more details about this or any other aspect of the new law, please do not hesitate to contact our office.



**How to contact us:**

**36 South 18th Avenue**

**Suite F**

**Brighton, CO 80601**

**Phone: 303-654-0120**

**Fax: 303-654-0463**

**E-mail: [info@bwacpa.com](mailto:info@bwacpa.com)**

**Personal service. Professional results.**

## **Mission Statement**

Our mission is to provide quality personal service, with professionalism; integrity and a commitment to assisting our clients achieve their goals.

## **Guiding Principles**

To foster a close personal relationship with our clients, focusing on the long-term.

To earn the respect and trust of our clients.

To provide competent, timely service to all of our clients.

To use our abilities and contribute back to the communities in which we live.

**To enjoy what we do. (Really accountants can!)**

**We're on the web!**  
**[bwacpa.com](http://bwacpa.com)**