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Prepare Now for Expiring Tax Benefits

The recently passed Emergency Economic Stabilization Act extended more than 30 tax provisions that were set to expire and also created a series of new tax breaks with expiration dates. Additionally, many of the tax laws signed by ex-President Bush also included expiration dates. While an ever evolving tax code does not create simplicity, it does create the opportunity to reduce your tax burden.

In order to minimize your taxes in future years, you should be aware of the various provisions that are set to expire and take advantage as best you can. In 2009 and 2010 there are at least 113 tax provisions that are set to expire. While many of these provisions get extended by Congress year after year, next year may be different. There is no doubt the US Treasury needs additional revenue and Congress may let many of these provisions expire. Here is a list of some of the more significant provisions for businesses and individuals that are set to expire over the next two years:

Reduced capital gains rate – The current long term capital gains rates are capped out at 15 percent. These rates are set to expire at the end of 2010, at which time the maximum rate will increase to 20 percent. The President has stated that he does not intend to extend this tax provision after it is set to expire (or at least reduce the impact of the provision), so do not expect much relief in the way of capital gains.

Reduced dividend rate – Dividends are currently taxed at capital gains rates (currently maxed out at 15 percent). This provision is set to expire at the end of 2010, at which time dividends will be taxed as ordinary income. Ordinary income currently has a maximum tax rate of 35%. I expect some relief on dividends for lower income persons, but those with higher incomes will likely be paying additional taxes on their dividends in 2011.

Estate exemption – The estate tax is set to disappear in 2010 and then to reappear in 2011 with an estate exemption of \$1,000,000. Receiving the full benefit of this provision in 2010 is a bit difficult to plan for, unless you yourself are planning on expiring. Expect significant changes in the estate tax law in 2009. New legislation is likely to be passed repealing the repeal of the estate tax in 2010. In its place is likely to be a permanent exemption of between \$3 and \$4 million. To the chagrin of those lucky enough to die in 2010, there will still be an estate tax to deal with.

Bonus depreciation and expensing of assets – Small businesses can receive 50% bonus depreciation for qualified purchases of capital assets. Additionally, they can elect to expense up to \$250,000 of newly purchased capital assets. Bonus depreciation is set to expire at the end of 2009, while expensing of acquired capital assets will be cut in half that year to \$125,000. I expect that bonus depreciation will expire and that the increased expensing of qualified purchases will be extended.

AMT exemption – The AMT exemption amount has been increased for 2009 to \$46,700 for individuals and \$70,950 for couples. In 2010 the exemption amounts will decline to \$33,750 and \$45,000 for singles and couples, respectively. I think that Congress will pass a modest level of AMT relief in 2010, but not as significant as the past. Consequently, I believe 2010 will be the year the AMT finally catches up with a lot of people. The US Treasury needs the money and the AMT can generate a lot of it.

Increased standard deduction for real estate taxes – Individuals that claim the standard deduction and also have real estate taxes are allowed to take an increased standard deduction. The additional deduction is \$500 for an individual and \$1,000 for a couple. This law is set to expire at the end of 2009.

Unemployment compensation – Unemployment compensation is typically taxable income to the recipient. In 2009, \$2,400 of this income will not be subject to federal income taxes. This provision will expire at the end of 2009. I would expect that this provision will be extended if the economy remains in the doldrums. If some recovery is in place, I would not expect an extension of this provision.

First time home buyer credit – An \$8,000 credit is available to first time home buyers. This credit is only available through the end of 2009. I expect that there will be some improvement in the housing market and this provision will not be extended any further.

Deduction for sales tax on purchase of motor vehicle – This provision was part of the Economic Recovery and Stabilization Act and was done as an incentive for new car sales. It is set to expire at the end of 2009. Considering the significant amount of money already given to the auto industry, I would not expect to see this extended.

Deduction for school teachers – Teachers that purchase supplies for their classroom can receive a deduction of up to \$250. This is set to expire at the end of 2009. The teachers union obviously has significant clout with the current Administration and Congress. I expect this tax provision benefiting teachers will be extended.

Making work pay tax credit – Working individuals will receive a tax credit in 2009 and 2010 up to \$400. Couples will receive up to \$800. This law is set to expire after 2010.

Research tax credit – This tax credit is available to businesses that increase their research spending. It is set to expire at the end of 2009. This provision has been extended several times in recent years and seems to be politically popular. I would expect it to be extended again.

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