



What tax breaks are officially ending this year?

The end of the 2009 year may spell the end of many tax breaks for both individuals and businesses. Some of these tax breaks are "temporary" credits and deductions that Congress typically extends for another year or two at the last moment. Other sunset provisions are relatively new, with no previous track record on their being extended. In either case, however, the unfamiliar economic climate in which our nation finds itself makes predicting whether Congress will find the funding necessary to extend any particular tax break this time around, beyond 2009, a matter of guesswork. The following is a list of important tax breaks expiring at the end of 2009.

A word to the wise: If you can take advantage of any tax break on this list before 2009 closes, do so. At this point, you cannot - and should not - count on having any of them available in 2010.

Homebuyer tax credit. The first-time homebuyer tax credit expires sooner rather than later in 2009. That is, the credit expires November 30 - the credit provision requires that the residence be "purchased" by November 30, with "purchase" defined as taking place when title passes and the full purchase price is paid (that is, at the "closing") and *not* earlier when the contract of sale is executed and a down payment is escrowed. The credit is equal to 10 percent of the purchase price of a principal residence, up to \$8,000. It applies to homes purchased after December 31, 2008, and *before* December 1, 2009.

Itemized state and local sales tax deduction. The ability to deduct state and local sales taxes in lieu of state and local income taxes is available until December 31, 2009, when the itemized state and local sales tax deduction expires.

Higher education tuition deduction. The higher education tuition deduction, permitting taxpayers to take an above-the-line deduction for qualified tuition and related expenses, will expire this year. The maximum deductible amount is \$4,000 for taxpayers with adjusted gross income not exceeding \$65,000 (\$130,000 for joint filers). Taxpayers whose income exceeds that limit but does not exceed \$80,000 (\$160,000 for joint filers) may deduct up to \$2,000 in qualified expenses.

Additional standard deduction for real property taxes. If you claim the standard deduction and also have real estate taxes, you can take an increased deduction (\$500 for individuals and \$1,000 for married couples filing jointly) for your real estate taxes. This tax break is scheduled to expire at the end of 2009.

Teachers' classroom expense deduction. The \$250 above-the-line deduction for qualified classroom expenses will expire at the end of 2009. The deduction benefits teachers and other educators, from teachers' aides to school principals, who used their own out-of-pocket money to purchase qualified classroom supplies, such as notebooks, scissors, paper, pens, markers and books. As an above-the-line deduction, the \$250 tax break is available to non-itemizers as well.

Bonus depreciation. For businesses, bonus depreciation and enhanced "section 179 expensing," both designed to - temporarily - encourage business to make capital investments, are set to expire at the end

of 2009. Bonus depreciation can be claimed for both regular tax and alternative minimum tax (AMT) liability unless the taxpayer makes an election out.

Enhanced Code Sec. 179 expensing. Enhanced "section 179 expensing," is set to expire at the end of 2009 in addition to bonus depreciation, as mentioned above. Qualified taxpayers may deduct up to \$250,000 of the cost of machinery, equipment, vehicles, furniture, and other qualifying property placed in service during 2009. The \$250,000 amount is reduced if the cost of all Code Sec. 179 property placed in service by the taxpayer during the tax year exceeds \$800,000.

Research and development credit. The research and development, or R&D credit, is set to expire at the end of 2009. The credit is available for businesses that increase their research expenses. The credit is 14 percent of qualified research expenses that exceed 50 percent of the average qualified research expenses for the three preceding tax years.

COBRA subsidy. The COBRA premium assistance provided as part of the American Recovery and Reinvestment Act of 2009 (2009 Recovery Act) will not benefit individual involuntarily terminated from employment after December 31, 2009. The COBRA subsidy is only available to individuals involuntarily terminated from work between September 1, 2008 and December 31, 2009. The COBRA subsidy under the 2009 Recovery Act provides for individuals to pay only 35 percent of their COBRA premiums with employers paying the remaining 65 percent, for nine months.

Unemployment compensation. Although unemployment compensation is typically taxable income, the 2009 tax year provides a respite from taxability for up to \$2,400 of unemployment income. However, the exclusion from taxable income for unemployment compensation is only available for 2009, and will expire at the end of the year unless Congress acts to extend this benefit.

Motor vehicle sales tax deduction. The deduction for sales tax paid on the purchase a new motor vehicle is available for vehicles purchased between February 17, 2009 and December 31, 2009. Taxpayers can deduct state and local sales and use taxes paid on the first \$49,500 of the purchase price of the vehicle. The deduction can be taken whether or not the taxpayer itemizes deductions. However, if you deduct state and local general sales taxes as an itemized deduction, you cannot "double dip" and take the deduction for new car sales taxes.

AMT exemption amounts. For 2009, the AMT exemption amounts increased to \$46,700 for individuals and \$70,950 for married taxpayers filing jointly. However, these exemption amounts will decrease in 2010 to \$33,750 for single taxpayers and \$45,000 married taxpayers filing jointly.

Our office will continue to monitor the situation in Washington to be ready to advise you if any of the provisions set to expire at the end of 2009 are extended. With Congress busy with health care reform, the likelihood is that the fate of most if not all of the expiring provisions will remain uncertain for some time. In fact, some in Congress have been quietly discussing the possibility of not passing any extension until next year, and then making it retroactive to January 1. Stay tuned.

This information should not be acted upon without further details and/or professional assistance. Call our office for assistance, 978.620.2000.