

New Deductions, Credits for 2009 Taxes

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When taxpayers sit down to file their 2009 returns, they will find plenty new — some the result of adjusting for inflation, and others changes passed by Congress last year to try to bring the country out of recession.

Some things affect all taxpayers. The personal exemption, for example, has increased, to \$3,650 each for the taxpayer and dependents, up \$150 from 2008.

And tax brackets have been adjusted upward by about 5 percent since 2008, said Greg Rosica, tax partner at Ernst & Young and a contributing author to the "Ernst & Young Tax Guide 2010." That means you might not jump to a higher tax bracket if you earned more.

Others revisions are more likely to affect low- and moderate-income workers. Income limits for the earned income tax credit have been raised and there's a new category — families with three or more children. The Internal Revenue Service says one in six taxpayers claim the credit.

Still other changes affect those at higher income levels. The exemption for the alternative minimum tax has been increased once again, this time to \$70,950 for joint returns and \$46,700 for individuals. If your income is higher than these amounts, you could be subject to the AMT tax.

New for 2009 that will make filing your tax return this year a little more complicated.

For one thing, the standard deduction for taxpayers who don't itemize has become a little less standard.

The standard deduction itself has increased, to \$11,400 for married couples filing jointly, \$5,700 for individuals and \$8,350 for heads of household. As before, it is even bigger if you are blind or 65 or over.

But new this year, you can take more of a standard deduction if you paid state or local real estate taxes, bought a new car and paid sales or excise taxes and met the income limits, or were a victim of a federally declared disaster.

If you choose to increase your standard deduction by one or more of these items, you'll have to file a new form Schedule L. Otherwise; you can just enter the standard deduction on Form 1040.

The three deductions — for state or local real estate taxes, sales or excise taxes on new car purchases or net disaster losses — also can be taken by people who itemize.

There are expanded tax credits for home purchases and education. And a tax credit for making your home more energy efficient has been reinstated.

You're likely already receiving the benefit of the Making Work Pay credit under the stimulus bill that Congress passed last year. However, you may have to pay a portion back if you're a married couple and both spouses work, or if you have more than one job. If you're a low- or moderate-income worker, you might have some money due to you. A new form, Schedule M, will have to be filed to claim the credit.

Did you get married or have a baby? Did you buy or sell stock? Did you inherit money, property or other goods?

Experts point to common mistakes that people make, which could delay a refund.

Some of the most common errors are mathematical. Others involve omission — like failing to include your Social Security number or those of your dependents. Make sure you pick the correct filing status — head of household or surviving spouse vs. single, for example. And don't forget to sign your return.

The IRS encourages people to file electronically, saying it reduces errors and enables people to get their refunds more quickly. People who file electronically and use direct deposit can get their refunds as soon as 10 days after they file.

This year, the agency estimates that it will take taxpayers using form 1040 an average 21.4 hours to complete their taxes. That includes record keeping, tax planning, and completing and filing the return. The more complicated your return, the more time it will take to complete it.

One major thing that taxpayers will find different this year is the homebuyer tax credit.

In 2008, the credit was actually an interest-free, long-term loan. For people who purchased a home in 2009, the credit is a true credit — it only has to be paid back if you stop using the home as your principal residence within three years of purchase. The credit is \$8,000 for first-time homebuyers, defined as those who haven't owned a home in the last three years.

Congress also added a credit for long-time homeowners who purchase a new principal residence — \$6,500. To qualify, a homebuyer would have had to live at least five years in a previously owned home.

There are income limitations for both.

There also is an expanded credit for college education.

The new American opportunity credit provides a maximum annual credit of \$2,500 per student for each of the first four years of college. The Hope credit that the new credit replaces temporarily covered only the first two years and for most people was smaller. To be eligible, taxpayers would have to pay \$4,000 or more in tuition, fees and course materials.

The credit, which phases out at higher incomes, is 40 percent refundable. "This means that even people who owe no tax can get an annual payment of the credit up to \$1,000 for each eligible student," the IRS said.

However, there is another credit — the lifetime learning credit — that may be available for students in their fifth or sixth year of college, or in graduate school.

Other changes include the reinstatement of the credit for making your home more energy efficient. The maximum credit has increased, to \$1,500 for \$5,000 in expenditures on things like insulation, storm windows or an energy efficient furnace.

For people who lost jobs, the first \$2,400 in unemployment benefits is not taxable.

To benefit from most of the tax breaks, you would have had to take action before the end of 2009. But there are a couple of exceptions.

You still might be able to claim the homebuyer credit if you have a signed contract by April 30.

And, if at the end of the day you find you owe the IRS money or want a bigger refund, you may be able to contribute to an individual retirement account until April 15 and take a deduction on your 2009 taxes.

If you're covered by a plan at work, you may be able to deduct a contribution of \$5,000 — \$6,000 if you're at least 50 — if your modified adjusted gross income is less than \$65,000 if you're filing as an individual, or \$109,000 if you're married filing jointly.