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LYNN'S TOP FIVE New Tax Laws from a Planner's Perspective

By Lynn Ballou, CFP, EA

You've read and will be reading much in the coming weeks about how the newest Federal tax bill signed February 13th of this year by President Obama will change your lives. Entitled the American Recovery and Reinvestment Act of 2009, it is the first in what promises to be a very busy year in Washington of tax impactful laws.

So, I'm going to skip the obvious and more popular provisions that you've heard all about, and focus on a few of the lesser knowns, but those that might be of particular interest to Lamorindans. I was fortunate to be able to tap into my long-time friend and colleague, Linda LaHonta, CPA, who has her practice in Lafayette. If you have any specific tax questions, she's available at 925/385-0714.

1) $1500 Energy Credit: I don't know about you, but my home could certainly use a newer more energy efficient air and heating system. I've procrastinated a LONG time now! Thankfully I'm married to an electrical engineer who is able to fix just about anything. But even my ever patient husband might be ready to kiss our old system good-bye this year because of the new Energy Credit. You can receive a credit of 30% up to $1500 on your federal taxes for property such as this that you put into service AFTER 2/17/09. As Linda LaHonta pointed out to me the "energy credit also applies to certain types of insulation, energy efficient exterior doors, windows and skylights." A FAVORITE part of this new law? No income limitation! So highly compensated folks can benefit too! And, if you used up your lifetime energy credit in prior years, such as 2007, no worries, you are now still eligible for this credit.

2) Unemployment Income - a tax break finally! With unemployment rising in these very difficult times, not only has the government raised the amount of unemployment you can receive weekly, but they have temporarily suspended the taxation on unemployment benefits up to $2400, which will go a LONG way towards having these dollars be truly beneficial to your family. Also it's good to know that the state does not tax ANY unemployment benefits at all. Now if we could JUST get the feds to stop taxing our Social Security income, THAT would be progress!!!

3) 529 Plans and Computer Costs: One of the main frustrations clients of ours have had over the years are the strict use limits for 529 plan withdrawals. Finally we are seeing a bit of relief: the government says we can use the funds in 529 plans for tax free withdrawals to pay for computers and internet fees. Yeah! Now if we can just get those accounts to go back up in value.....

4) AMT - the Latest Patch: Wouldn't it be great to see someone drive a stake in the heart of the Alternative Minimum Tax (AMT)? This tax is aptly named the stealth tax. It's like the alligator in the lake that the cute little kid who just got in to swim doesn't realize is in the water....you can already hear the music ---du, du, du..... So, I would dearly love to be the one to tell you that the wicked witch is dead, but as I'm sure you've guessed, were that the case, the whole COLUMN would be dedicated to that! Nonetheless, they did toss us a bone. Here's what Linda had to say about the AMT patch: "The current AMT patch increases the AMT exemption amount by $1,000 for married filing jointly and $500 for all others. AMT exemption amount means a certain amount of your income that is not subject to the AMT. My feeling is that if you are in AMT currently, this exemption increase is nominal and the majority of people subject to AMT will continue to be in this

situation. This patch is only good for 2009 so the whole process starts over again for 2010 if nothing else is done." Sigh. I guess we'll take what we can get!

5) For the College Bound: Expansion of the Hope Credit: Many in this community are not able to use the college tuition income tax credits due to high income, or let's just say "high income" as defined by Congress! Anyway, a few more of you may now qualify: they expanded the credit to $2500 and extended it for four years. I doubt it will make or break your college budget planning, though --- so, another big "sigh!" However, in the later years of college, if your child is working enough to no longer be your dependent, perhaps they can use this credit by filing their own return and not being claimed as your dependent? Be careful, though --- if you are providing their medical coverage as a dependent on your medical plan, that could undo an important benefit that probably is better than the tax credit.

And, even though this column is entitled LYNN'S TOP FIVE, here's another good one to know about: As part of the American Recovery and Reinvestment Act, the federal government will subsidize 65 percent of the COBRA costs for employees who are involuntarily terminated from employment between September 1st, 2008, and December 31st, 2009. The former employee would be responsible for the remaining 35 percent of premium. Check with the human resources department of your former employer if you feel you may be eligible.

So what's coming down the plank from Washington next? Well that will be a lot of good fodder for future columns. One or two initiatives that seem to have a bit of bi-partisan worry and concern are the proposals to limit home mortgage interest and charitable contribution deductions for higher bracket taxpayers. Additionally the idea of increasing the tax on capital gains is emerging as an early favorite. That said, if you didn't do any tax loss harvesting last year, you might want to nudge this up a bit on your "to do" list!

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