

2010 Tax Update

AMERICAN SOCIETY OF WOMEN ACCOUNTANTS



Presented by:
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January 26, 2010

- 1) Federal Update
 - a) Temporary Additional First Year Allowance for 2009
 - i) The increased Code Sec. 179 expense deduction of \$250,000 has been extended for qualified property placed in service beginning in tax years beginning in 2009.
 - ii) The investment limitation amount of \$800,000 is also extended for qualified property purchased and placed in service in tax years beginning in 2009.
 - iii) Qualified Sec. 179 property placed in service beginning in 2010 will go back to the expense limitation of \$125,000 plus an inflation adjustment, and the investment limitation will go back to \$500,000 plus an inflation adjustment.
 - iv) Oregon - For 2009, limits are \$133,000 expense limitation and \$530,000 investment limitation.
 - b) Bonus Depreciation
 - i) Personal property acquired during 2009 calendar year.
 - ii) No limitation on the amount of deduction.
 - iii) Deduction is equal to 50% of the adjusted basis of the eligible property.
 - iv) Criteria:
 - (1) Tangible property with tax recovery period of 20 years or less, water utility property, computer software, qualified leasehold improvements property.
 - (2) Purchased and placed in service in 2009; exception - certain property with a production period exceeding one year and a cost in excess of \$1 million if placed in service before Jan. 1, 2011.
 - (3) Must be original purchaser of property. (Used property does not qualify for deduction).
 - (4) Property purchased from a related party or self-constructed property for which construction began prior to Jan. 1, 2008 does not qualify.
 - (5) Property used predominantly outside the United States during the tax year does not qualify.
 - v) Deduction is not affected by short taxable years.
 - vi) Election Out
 - (1) Bonus depreciation is not an election. It is required unless a taxpayer makes an election to not use it.
 - (2) "Election out" is made on a class by class basis
 - vii) Limitation on depreciation for luxury automobiles
 - (1) Bonus depreciation of \$8,000 for passenger automobiles to which the 50% additional first-year depreciation deduction applies.
 - (2) Total first year depreciation of \$10,960.
 - viii) States
 - (1) Oregon allows bonus depreciation for 2008, but not 2009. Fiscal year taxpayers must make adjustment for assets purchased after December 31, 2008.
 - (2) Idaho allows bonus depreciation.
 - (3) California does not allow bonus depreciation.

- c) Domestic Production Deduction
 - i) Deduction based on income from production activities within the U.S.
 - ii) For taxable years beginning in 2008 and 2009, deduction is 6% of the lesser of qualified production activities income or taxable income
 - iii) Deduction increases to 9% for tax years beginning in 2010 and beyond
 - iv) Oregon and California do not allow this deduction, while Idaho does
- d) Standard Mileage rates for 2010
 - i) Business - 50 cents/mile
 - ii) Charitable - 14 cents/mile
 - iii) Medical & Moving - 16.5 cents/mile
- e) Net Operating Loss Carryback
 - a. February 2009 Law
 - i) Allows a 5 year NOL carryback
 - ii) Applies only to businesses with average annual gross receipts of \$15 million or less
 - iii) NOL may be carried by 3, 4 or 5 years at the election of the taxpayer
 - iv) Only applies to NOLs for tax years beginning or ending in 2008
 - b. November 2009 Law
 - i) Allows 5 year carry back to all businesses, but....
 - 1. May only be used for either losses generated in tax years beginning in 2008 or 2009, except for small businesses who elected to carry bank the NOL from 2008 who may also elect to carryback the 2009 NOL for 5 years
 - 2. NOL carryback to the fifth taxable year may only offset 50 percent of taxable income in the fifth year
 - ii) 90% AMT limitation is suspended in determining the AMT carryback for an extended carryback year
- f) Individual Changes
 - a. AMT Patch
 - i) Exemptions for 2009 raised to \$70,950 for joint filers and \$46,700 for single and head of household
 - ii) Effective only for 2009
 - iii) Designed to insulate about \$26 million middle-income taxpayers for paying AMT
 - b. First-Time Homebuyer Credit
 - i. First-time home buyer is an individual (and their spouse if married) who had no interest in a principal residence for three years prior to the purchase date
 - ii. Credit recaptured if home sold within 3 years of purchase

- iii. Credit phased out for taxpayers with income in excess of \$75,000 (\$150,000 for joint filers). Completely phased out for incomes in excess of \$95,000 (\$170,000 for joint filers)
- iv. February 2009 Law
 - 1. Increased the maximum credit from \$7,500 to \$8,000 for purchases after December 31, 2008
 - 2. Extended purchase period through November 30, 2009
 - 3. Repealed the 15 year "pay back" provision
 - 4. Allowed credit to be claimed on 2009 return
- v. November 2009 Law
 - 1. Extend the credit for homes purchased before May 1, 2010, or binding contract by May 1, 2010 and purchase close before July 1, 2010
 - 2. Credit now phased out for taxpayers with income in excess of \$125,000 (\$225,000 for joint filers). Completely phased out for incomes in excess of \$145,000 (\$245,000 for joint filers)
 - 3. Reduced credit of up to \$6,500 now allowed to "long-term" residents who have used the residence as their principal residence for 5 of the last 8 years
- vi. Now must file Form 5405 to claim the credit, and must attach copy of signed settlement statement
- vii. Taxpayers may not file electronically if Form 5405 is included with their return
- c. Contributions for Haiti Relief
 - i. Cash contributions to US charities providing Haiti relief may be claimed on either the 2009 or 2010 income tax return
 - ii. Contribution must specify that it is for Haiti relief
 - iii. Contribution must be made after January 11, 2010 and before March 1, 2010
 - iv. Includes contributions made by text message, check, credit card or debit card
 - v. Does not apply to contributions of property
- d. Making Work Pay Credit
 - i. Credit of 6.2% of taxpayer's earned income or \$400 (\$800 for joint filers), whichever is less
 - ii. Phased out at 2% for income in excess of \$75,000 (\$150,000 for joint filers)
 - iii. Benefit for credit may have already been received through reduced withholding on wages. This reduction in withholding could cause underpayments for:
 - 1. Married taxpayers who both work
 - 2. Single taxpayers with multiple jobs
 - 3. Taxpayers whose credit is phased out
 - 4. Retirees with no earned income who use withholding tables for their pension income
 - iv. Credit is claimed on new Schedule M.
- e. Additions to standard deductions for taxpayers who do not itemize

- i. State and local real estate taxes up to \$500 (\$1,000 for joint filers)
 - ii. State or local sales or excise taxes on purchase of a new vehicle after February 16, 2009
 - 1. Only applies to tax on first \$49,500 of the purchase price
 - 2. Does not apply to taxpayers whose income exceeds \$135,000 (\$260,000 for joint filers)
 - iii. Calculated on new Schedule L
- g. Tax Authority Audits
 - i. Increasing frequency
 - ii. Tier 1 issues
 - 1. Issues with significant impact on at least one industry which are confusing and involve a substantial risk of noncompliance involving large dollar amounts
 - 2. Must be addressed in an examination
 - 3. Issues
 - a. Domestic Production Deduction (Section 199 deduction)
 - b. Research credits
 - c. Foreign earnings repatriation
 - d. Section 482 cost sharing
 - e. All listed transactions

2. Oregon Tax Update

- a. Election Day - Measures 66 and 67
- b. House Bills 2649 and 3409, signed by the Governor on July 20, 2009
- c. House Bill 2649 - Individual Income Tax Rates
 - i. Previous top individual tax rate was 9%
 - ii. For 2009 through 2011, rates increase
 - 1. Taxable income over \$125,000 (\$250,000 married filing jointly) is now taxed at 10.8%
 - 2. Taxable income over \$250,000 (\$500,000 married filing jointly) is now taxed at 11.0%
 - iii. For 2012 and beyond
 - 1. Taxable income over \$125,000 (\$250,000 married filing jointly) is taxed at 9.0%
 - 2. Taxable income over \$250,000 (\$500,000 married filing jointly) is taxed at 9.9%
 - iv. While lower bracket ranges will be adjusted for inflation, brackets for income over \$125,000 will not be adjusted for inflation
 - v. Penalty or interest attributable solely to the tax rate changes will be waived
- d. House Bill 3405 - Corporate Excise Tax
 - i. Previously, the minimum corporate excise tax was \$10
 - ii. For tax years beginning on or after January 1, 2009, the new minimum taxes are
 - 1. Partnerships and S Corporations, \$150
 - 2. C Corporations - Based on Oregon sales

- a. Less than \$500,000, minimum tax of \$150
 - b. More than \$500,000 but less than \$1 million, minimum tax of \$500
 - c. More than \$1 million but less than \$2 million, minimum tax of \$1,000
 - d. More than \$2 million but less than \$3 million, minimum tax of \$1,500
 - e. More than \$3 million but less than \$5 million, minimum tax of \$2,000
 - f. More than \$5 million but less than \$7 million, minimum tax of \$4,000
 - g. More than \$7 million but less than \$10 million, minimum tax of \$7,500
 - h. More than \$10 million but less than \$25 million, minimum tax of \$15,000
 - i. More than \$25 million but less than \$50 million, minimum tax of \$30,000
 - j. More than \$50 million but less than \$75 million, minimum tax of \$50,000
 - k. More than \$75 million but less than \$100 million, minimum tax of \$75,000
 - l. More than \$100 million, minimum tax of \$100,000
 - iii. Increase in corporate income tax rates
 - 1. Previous tax rate of 6.6%
 - 2. For tax years beginning on or after January 1, 2009 and before January 1, 2011, taxable income in excess of \$250,000 will be taxed at 7.9%, with the remainder taxed at 6.6%
 - 3. For tax years beginning on or after January 1, 2011 and before January 1, 2013, taxable income in excess of \$250,000 will be taxed at 7.6%, with the remainder taxed at 6.6%
 - 4. For tax years beginning on or after January 1, 2013, taxable income in excess of \$10 million will be taxed at 7.6%, with the remainder taxed at 6.6%
3. Proposals
- a. Repeal LIFO and Lower of Cost or Market inventory methods
 - b. Current tax rate structure set to expire after 2010 would be permanently extended, except for singles with income over \$200,000 and couples with income over \$250,000
 - i. 36% and 39.6% rates return
 - ii. 20% rate on qualified dividends and capital gains
 - c. Health Care
 - i. If aggregate annual value of employer provided coverage is in excess of \$8,000 for individuals and \$21,000 for families, 35% excise tax imposed on insurers on excess amounts. President's plan would impose a fee rather than an excise tax.
 - ii. \$2,000 limit on flexible spending accounts in cafeteria plans
 - iii. Up to 35% credit in 2011 and 2012 for eligible small businesses (firms with less than 25 employees and average wages below \$40,000) who provide health insurance to their employees, credit of up to 50% of employer cost over two years in 2013 and beyond
 - d. Retirement Savings Initiative
 - i. Simplified guidelines to make it easier for small businesses to set up automatic enrollment in 401(k), and SIMPLE IRA plans
 - ii. Additional option for individuals to roll income tax refunds directly into U.S. savings bonds
 - iii. Simplified guidelines to facilitate conversion of unused sick and vacation time into cash contributions into the employee's retirement plan

APPENDIX

SCHEDULE L
(Form 1040A or 1040)

Standard Deduction for Certain Filers

OMB No. 1545-0074

2009
Attachment
Sequence No. **57**

Department of the Treasury
Internal Revenue Service (99)

▶ **Attach to Form 1040A or 1040.**

▶ **See instructions on back.**

Name(s) shown on return

Your social security number



File this form **only** if you are increasing your standard deduction by certain state or local real estate taxes, new motor vehicle taxes, or a net disaster loss. It may be better for you to itemize your deductions instead. See the Instructions for Schedule A (Form 1040).

1	Enter the amount shown below for your filing status. <ul style="list-style-type: none"> • Single or married filing separately—\$5,700 • Married filing jointly or Qualifying widow(er)—\$11,400 • Head of household—\$8,350 			
2	Can you (or your spouse if filing jointly) be claimed as a dependent on someone else's return? <input type="checkbox"/> No. Enter the amount from line 1 on line 4, skip line 3, and go to line 5. <input type="checkbox"/> Yes. Go to line 3.			
3	Is your earned income more than \$650 (see instructions)? <input type="checkbox"/> Yes. Add \$300 to your earned income. Enter the total <input type="checkbox"/> No. Enter \$950			
4	Enter the smaller of line 1 or line 3.			4
5	Multiply the number on Form 1040, line 39a, or Form 1040A, line 23a, by \$1,100 (\$1,400 if single or head of household). If blank, enter -0-.			5
6	Form 1040 filers only, enter any net disaster loss from Form 4684, line 18			6
7	Enter the state and local real estate taxes you paid. Do not include foreign real estate taxes (see instructions)			
8	Enter \$500 (\$1,000 if married filing jointly)			
9	Enter the smaller of line 7 or line 8			9
10	Did you (or your spouse if filing jointly) pay any state or local sales or excise taxes in 2009 for the purchase of a new motor vehicle after February 16, 2009 (see instructions)? <input type="checkbox"/> No. Skip lines 10 through 19, enter -0- on line 20, and go to line 21. <input type="checkbox"/> Yes. If Form 1040, line 38, or Form 1040A, line 22, is less than \$135,000 (\$260,000 if married filing jointly), enter the amount of these taxes paid. Otherwise, skip lines 10 through 19, enter -0- on line 20, and go to line 21			
11	Enter the purchase price (before taxes) of the new motor vehicle(s) (see instructions).			11
12	Is the amount on line 11 more than \$49,500? <input type="checkbox"/> No. Enter the amount from line 10. <input type="checkbox"/> Yes. Figure the portion of the tax from line 10 that is attributable to the first \$49,500 of the purchase price of each new motor vehicle and enter it here (see instructions)			12
13	Enter the amount from Form 1040, line 38, or Form 1040A, line 22			13
14	Form 1040 filers only, enter the total of any— <ul style="list-style-type: none"> • Amounts from Form 2555, lines 45 and 50; Form 2555-EZ, line 18; and Form 4563, line 15, and • Exclusion of income from Puerto Rico 			14
15	Add lines 13 and 14			15
16	Enter \$125,000 (\$250,000 if married filing jointly)			16
17	Is the amount on line 15 more than the amount on line 16? <input type="checkbox"/> No. Skip lines 17 through 19, enter the amount from line 12 on line 20, and go to line 21. <input type="checkbox"/> Yes. Subtract line 16 from line 15			17
18	Divide the amount on line 17 by \$10,000. Enter the result as a decimal (rounded to at least three places). If the result is 1.000 or more, enter 1.000			18
19	Multiply line 12 by line 18			19
20	Subtract line 19 from line 12			20
21	Add lines 4, 5, 6, 9, and 20. Enter the total here and on Form 1040, line 40a, or Form 1040A, line 24a. Also check the box on Form 1040, line 40b, or Form 1040A, line 24b			21

SCHEDULE M
(Form 1040A or 1040)

**Making Work Pay and Government
Retiree Credits**

OMB No. 1545-0074

2009

Attachment
Sequence No. **166**

Department of the Treasury
Internal Revenue Service (99)

▶ **Attach to Form 1040A, 1040, or 1040NR.**

▶ **See separate instructions.**

Name(s) shown on return

Your social security number

1a Important: See the instructions if you can be claimed as someone else's dependent or are filing Form 1040NR. Check the "No" box below and see the instructions if **(a)** you have a net loss from a business, **(b)** you received a taxable scholarship or fellowship grant not reported on a Form W-2, **(c)** your wages include pay for work performed while an inmate in a penal institution, **(d)** you received a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan, or **(e)** you are filing Form 2555 or 2555-EZ.

Do you (and your spouse if filing jointly) have 2009 wages of more than \$6,451 (\$12,903 if married filing jointly)?

Yes. Skip lines 1a through 3. Enter \$400 (\$800 if married filing jointly) on line 4 and go to line 5.

No. Enter your earned income (see instructions)

b Nontaxable combat pay included on line 1a (see instructions)

2 Multiply line 1a by 6.2% (.062)

3 Enter \$400 (\$800 if married filing jointly)

4 Enter the **smaller** of line 2 or line 3 (unless you checked "Yes" on line 1a)

5 Enter the amount from Form 1040, line 38*, or Form 1040A, line 22

6 Enter \$75,000 (\$150,000 if married filing jointly)

7 Is the amount on line 5 more than the amount on line 6?

No. Skip line 8. Enter the amount from line 4 on line 9 below.

Yes. Subtract line 6 from line 5

8 Multiply line 7 by 2% (.02)

9 Subtract line 8 from line 4. If zero or less, enter -0-

10 Did you (or your spouse, if filing jointly) receive an economic recovery payment in 2009? You may have received this payment if you received social security benefits, supplemental security income, railroad retirement benefits, or veterans disability compensation or pension benefits (see instructions).

No. Enter -0- on line 10 and go to line 11.

Yes. Enter the total of the payments received by you (and your spouse, if filing jointly). Do not enter more than \$250 (\$500 if married filing jointly)

11 Did you (or your spouse, if filing jointly) receive a pension or annuity in 2009 for services performed as an employee of the U.S. Government or any U.S. state or local government from work **not** covered by social security? Do not include any pension or annuity reported on Form W-2.

No. Enter -0- on line 11 and go to line 12.

Yes. • If you checked "No" on line 10, enter \$250 (\$500 if married filing jointly and the answer on line 11 is "Yes" for both spouses)
• If you checked "Yes" on line 10, enter -0- (exception: enter \$250 if filing jointly and the spouse who received the pension or annuity did not receive an economic recovery payment described on line 10)

12 Add lines 10 and 11

13 Subtract line 12 from line 9. If zero or less, enter -0-

14 **Making work pay and government retiree credits.** Add lines 11 and 13. Enter the result here and on Form 1040, line 63; Form 1040A, line 40; or Form 1040NR, line 60

*If you are filing Form 2555, 2555-EZ, or 4563 or you are excluding income from Puerto Rico, see instructions.

**First-Time Homebuyer Credit and
 Repayment of the Credit**

▶ **Attach to your 2008 or 2009 Form 1040 or Form 1040X.**
 ▶ **See separate instructions.**

OMB No. 1545-0074

Attachment
 Sequence No. **58**

Note. If you are only filing this form to report a disposition or change in use of your main home for which you claimed the credit in 2008, skip this page, and complete only page 2.

Name(s) shown on return	Your social security number : : :
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Part I General Information

- A** Address of home qualifying for the credit (if different from the address shown on page 1 of Form 1040 or Form 1040X)
- B** Date purchased (MM/DD/YYYY) (see instructions) ▶ / /
Note. If the date purchased is before May 1, 2010, go to line E. Otherwise, go to line C.
- C** If the date purchased is after April 30, 2010, and before July 1, 2010, did you enter into a binding contract before May 1, 2010, to purchase the home before July 1, 2010?
 Yes. Go to line E. See instructions for documentation to be attached.
 No. You cannot claim the credit. However, if you (or your spouse if married) are a member of the uniformed services or Foreign Service, or an employee of the intelligence community, see line D. If line D applies, check the box on line D and continue; otherwise, you cannot claim the credit.
- D** If you meet the following conditions, check here ▶
 I (or my spouse if married) am a member of the uniformed services or Foreign Service, or an employee of the intelligence community, and was on qualified official extended duty outside the United States for at least 90 days during the period beginning after December 31, 2008, and ending before May 1, 2010. See instructions.
- E** Did you purchase the home from a related person or a person related to your spouse (see instructions)?
 No. Go to line F.
 Yes. You cannot claim the credit. Do not file Form 5405.
- F** If you are choosing to claim the credit on your return for the year before the year in which you purchased the home, check here (see instructions) ▶

Part II Credit

1 Enter the purchase price of the new home (see instructions)	1		
2 Multiply line 1 by 10% (.10) and enter the result here	2		
3 If you qualify for the credit as (check the applicable box): <input type="checkbox"/> A first-time homebuyer, enter \$8,000 (\$4,000 if married filing separately). A first-time homebuyer is an individual (and that individual's spouse if married) who has not owned another main home during the 3-year period ending on the purchase date and meets other requirements discussed in the instructions. <input type="checkbox"/> A long-time resident, enter \$6,500 (\$3,250 if married filing separately). A long-time resident is an individual (and that individual's spouse if married) who has owned and used the same home as that individual's main home for any 5-consecutive-year period during the 8-year period ending on the purchase date of the new main home and meets other requirements discussed in the instructions. See instructions for documentation to be attached.	3		
4 Enter the smaller of line 2 or line 3. But: (a) if married filing separately, enter the smaller of line 3 or your share of the amount on line 2 (see instructions); or (b) if someone other than your spouse also purchased an interest in the home, enter the smaller of your share of the amount on line 3 or your share of the amount on line 2 (see instructions)	4		
5 Enter your modified adjusted gross income (see instructions)	5		
6 If the date purchased is: <ul style="list-style-type: none"> • Before November 7, 2009, enter \$75,000 (\$150,000 if married filing jointly), or • After November 6, 2009, enter \$125,000 (\$225,000 if married filing jointly) 	6		
7 Is line 5 more than line 6? No. Skip lines 7 and 8. Enter -0- on line 9 and go to line 10. Yes. Subtract line 6 from line 5 and enter the result. If the result is \$20,000 or more, stop here. You cannot take the credit. Otherwise, go to line 8	7		
8 Divide line 7 by \$20,000 and enter the result as a decimal (rounded to at least three places)	8		
9 Multiply line 4 by line 8	9		
10 Subtract line 9 from line 4 and enter the result. This is your credit. Also enter this amount on your 2009 Form 1040, line 67; 2008 Form 1040, line 69; or the appropriate line in the "Payments" section of Form 1040X	10		



If you are claiming the credit on your 2009 (or later) tax return, you must attach a copy of the properly executed settlement statement (or similar documentation) used to complete the purchase (see instructions).

Note. If you are not filing this form to report a disposition or change in use of your main home for which you claimed the credit, skip this page.

Name(s) shown on return	Your social security number : : : : : :
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Part III Disposition or Change in Use of Main Home for Which the Credit Was Claimed

11 Enter the date you disposed of, or ceased using as your main home, the home for which you claimed the credit (MM/DD) ▶ / / 2009

12 If you meet the following conditions, check here ▶
 I (or my spouse if married) am a member of the uniformed services or Foreign Service, or an employee of the intelligence community. I sold the home, or it ceased to be my main home, in connection with Government orders for qualified official extended duty service. No repayment of the credit is required (see instructions). Stop here.

- 13** Check the box below that applies to you. See the instructions for the definition of "related person."
- a** I sold (including through foreclosure) the home to a person who is not related to me and had a gain on the sale (as figured after reducing the basis of my home by the credit I claimed in 2008). Go to Part IV below.
 - b** I sold (including through foreclosure) the home to a person who is not related to me and did not have a gain on the sale (as figured after reducing the basis of my home by the credit I claimed in 2008). No repayment of the credit is required. Stop here.
 - c** I sold the home to a related person. Go to Part IV below.
 - d** I converted the entire home to a rental or business use OR I still own the home but no longer use it as my main home. Go to Part IV below.
 - e** I transferred the home to my ex-spouse as part of my divorce settlement. The full name of my ex-spouse is ▶ _____

The responsibility for repayment of the credit is transferred to your ex-spouse. Stop here.

- f** My home was destroyed, condemned, or disposed of under threat of condemnation and I acquired or plan to acquire a new home within 2 years of the event.
 - For homes purchased in 2008, repayment of the credit over a 15-year period begins with your 2010 tax return. If you purchase a new home within 2 years of the event, your annual payment requirement does not change.
 - For homes purchased in 2009 or a later year, you may not have to repay the credit (see instructions).
- g** My home was destroyed, condemned, or disposed of under threat of condemnation and I do not plan to acquire a new home within 2 years of the event (see instructions).
- h** The taxpayer who claimed the credit died in 2009. No repayment of the credit is required of the deceased taxpayer. If you are filing a joint return for 2009 with the deceased taxpayer, see instructions. Otherwise, stop here.

Part IV Repayment of Credit Claimed for 2008

14 Enter the amount of the credit you claimed on Form 5405 for 2008. See instructions if you filed a joint return for 2008. If you checked box 13a above, go to line 15. Otherwise, skip line 15 and enter the amount from line 14 on line 16	14		
15 Enter the gain on the sale of your main home (as figured after reducing your basis by the amount on line 14 above)	15		
16 Enter the smaller of line 14 or line 15	16		

Next: Include the amount from line 16 on your 2009 Form 1040, line 60. On the dotted line to the left of line 60, enter "FTHCR".