

# Taxing Times

Tax information for clients and friends of Stambaugh Ness



July 15, 2009

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By Tax Supervisor Kevin Eisenhart, CPA  
Tax Advisor Colette Brownson  
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## **INDIVIDUAL TAX NEWS**

### ***TAX PLANNING SERIES***

*Over the next few monthly editions, we will be providing you with some tips for tax planning in 2009. Due to the current state of the auto industry, individuals may find that now is the best time to purchase a new vehicle. This month's tax planning series discusses some of the tax incentives individuals' may qualify for when they purchase a new car in 2009.*



**Tax Specialist**  
**Melissa J-L Myers**

### **Sales Tax Deductions on New Car Purchases**

In the past, taxpayers who used itemized deductions on Schedule A had the option of claiming the greater of either the state and local income taxes or the state and local sales taxes. In 2009, individuals who purchase a new motor vehicle may be able to deduct the sales taxes paid in addition to the Schedule A deductions. This deduction applies only to a purchase of a brand new vehicle that is purchased after February 16, 2009 and before January 1, 2010. It may be limited depending on the taxpayers' modified adjusted gross income as well as the total purchase price of the qualified new car. Taxpayers who do not itemize their deductions on Schedule A of their income tax return may still be able to tax advantage of this deduction.

***MELISSA'S COMMENTS:*** *"Individuals who live in one of the five states that do not impose a sales tax will still be able to take advantage of this deduction. These taxpayers will be entitled to deduct other fees or taxes imposed by the state and local government on the purchase of their new vehicle. The fees or taxes that qualify must be assessed on the purchase of the vehicle and must be based on the vehicle's sales price or as a per unit fee."*

## ASK KEVIN



Tax Supervisor  
[Kevin Eisenhart, CPA](#)

Dear Kevin,

Like most taxpayers, I've been receiving a little more money in each of my paychecks because of the Making Work Pay Credit. I've read some articles, including your April Taxing Times Newsletter, regarding this credit, saying individuals should be careful with the credit because they may not have enough withholding tax. Then they will end up owing money on their 2009 tax return. Is there any way I can check to see if my withholding is sufficient and how can I adjust it if needed?

Thanks,  
Jean  
Loganville, PA

Jean,  
Absolutely. Since we are mid-way through the year, individual taxpayers should check their 2009 federal income tax withholding levels to ensure no surprises arise when filing their 2009 income tax returns. The IRS website ([www.irs.gov](http://www.irs.gov)) has

## Cash for Clunkers

The Cash for Clunkers Bill, now known as the Car Allowance Rebate System (CARS), was signed into law on June 24, 2009. Under this new program, taxpayers may be eligible to receive a rebate when they trade-in their current vehicle for a new, more fuel efficient one. The National Highway Traffic Safety Administration (NHTSA) is currently finalizing the program rules, which should be complete by the end of July. Therefore, individuals are not advised to contact a registered dealer until the program is completed. The amount of the credit is \$3,500 or \$4,500 depending on the type of vehicle you purchase and the difference in fuel economy between the purchased vehicle and the trade-in. This credit will be given to the taxpayer by the dealer at the time the vehicle is purchased. The dealer will then submit all of the paperwork with the NHTSA to receive the funds.

In addition, the trade-in vehicle must meet the following requirements to be eligible for CARS:

- Manufactured less than 25 years before the date you trade it in
- Have a combined city/highway fuel economy of 18 miles per gallon or less per current guidelines
- Be in a drivable condition
- Be continuously insured and registered to the same owner for the full year preceding the trade-in

**MELISSA'S COMMENTS:** *"Please note, scammers have already begun to create false information regarding this new rebate credit. Individuals should keep in mind that the final rule of the rebate will not be issued until late July. Right now, it is anticipated this rebate may potentially apply to transactions on or after July 1, 2009 and will run through November 1, 2009 or when the funds have been exhausted. The official website of this rebate credit is [www.cars.gov](http://www.cars.gov) which provides ample information relating to the program specifics."*

## Plug-In Electric Vehicle and Plug-In Electric Drive Vehicle Credits

Taxpayers who purchase a new plug-in electric vehicle may qualify for a Plug-In Electric Vehicle tax credit. This credit is allowed for two types of plug-in electric vehicles - certain low-speed electric vehicles and two- or three-wheeled vehicles. To qualify, the vehicle purchased must either be a low speed vehicle propelled by an electric motor that draws electricity from a battery with a capacity

provided an IRS Withholding Calculator to help individuals determine whether this credit will have a negative impact on their 2009 tax return. The calculator can be found by clicking on the "Too much or too little tax withheld" heading on the bottom of the IRS home page.

Individuals can then enter general information into the calculator which will then determine whether too much or too little is being withheld from the paycheck. Keep your last pay stub handy while completing the calculator as you will need to enter some information from that.

Also, keep in mind that if you received a \$250 Economic Recovery Payment or Special Credit for Certain Government Retirees, you must reduce your total Making Work Pay Credit of \$400 by this amount. If you determine that you need to adjust your paycheck withholdings, you can simply complete a new W-4 form to provide to your employer. This form is also available on the IRS website.

**Until Next Month,  
Kevin**

*If you have a general tax question you would like to have answered in a future edition, please email [keisenhart@stambaughness.com](mailto:keisenhart@stambaughness.com).*

of 4 kilowatt hours or more or be a two- or three-wheeled vehicle propelled by an electric motor that draws electricity from a battery with the capacity of 2.5 kilowatt hours. A taxpayer may not claim this credit if the plug-in electric drive vehicle credit (see description below) is allowable.

**MELISSA'S COMMENTS:** *"This credit is available for vehicles purchased after February 17, 2009 and before January 1, 2012. The amount of the credit is 10 percent of the cost of the vehicle, with a maximum credit of \$2,500."*

If you would rather wait until 2010, you may still find a tax incentive for purchasing a new vehicle. The Plug-In Electric Drive Vehicle Credit is available for vehicles purchased after December 31, 2009. A vehicle must meet the following criteria in order to qualify for the credit:

- Must be newly purchased
- Contain four or more wheels
- Have a gross vehicle weight rating of less than 14,000 pounds
- Draw propulsion using a battery with at least four kilowatt hours that can be recharged from an external source of electricity

**MELISSA'S COMMENTS:** *"The amount of the Plug-In Electric Drive Vehicle Credit ranges from \$2,500 to \$7,500 depending on the battery capacity of the vehicle. The full amount of the credit will be reduced with respect to a manufacturer's vehicles after the manufacturer has sold at least 200,000 vehicles."*

## **PENNSYLVANIA CONSIDERS RATE HIKES**

It is past the June 30 deadline, and Pennsylvania lawmakers are still trying to determine the best way to meet the 2009-2010 State budget. Right now, the State is facing a projected \$3.2 billion budget deficit. Governor Rendell has proposed temporarily raising the personal income tax rate from 3.07% to 3.57% for the next three years. This increase could result in an additional \$245 in state income taxes for a person making \$49,000 a year, which is roughly the state average.

A proposal to allow Pennsylvania counties to impose an additional 1% sales tax is also on the legislative radar. If

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this proposal is passed, each county in Pennsylvania will have the option of implementing up to a 1% rate increase for additional sales and use tax, making the combined sales and use tax rate 7%. Currently, only Allegheny and Philadelphia counties impose a local 1% sales tax rate.

**MELISSA'S COMMENTS:** *"Currently York Mayor John Brenner is pushing for York County to impose this 1% sales tax. He states this increase could raise approximately \$4 million for the county, which could also lead the county to rely less on property taxes. It is important to note that these rate hikes are only currently proposals. These proposals will need to be approved by both the State Senate and House before they are enacted into law. We will continue to update you as more information is provided."*



[Tax Advisor  
Colette Brownson](#)

## **CORPORATE TAX NEWS**

### ***TEMPORARY REDUCTION IN RECOGNITION PERIOD FOR S CORP BUILT-IN GAINS TAX***

A corporate-level tax is imposed on an S corporation's net recognized built-in gains attributable to assets held at the time it converted from a C corporation to an S corporation. The built-in gains tax also applies if an S corporation sells, during the recognition period, assets that were acquired in a carryover basis transaction; for example, a tax-free reorganization. To avoid the built-in gains tax, the S corporation must not sell the assets during the ten-year recognition period applicable to the assets.

The 2009 Recovery Act temporarily reduces the recognition period and eliminates the tax for net recognized built-in gains of S corporations if the seventh tax year in the ten-year recognition period precedes the 2009 or 2010 tax year. A comparable reduction in the recognition period applies separately with respect to any asset acquired in a carryover basis transaction. The legislation serves to reduce the ten-year recognition period to seven years, thereby eliminating the prospective built-in gains tax for qualifying taxpayers.

**COLETTE'S COMMENTS:** *"This new law will give shareholders more flexibility during the current economic crisis. It should make it easier for some S corporations faced with possible downsizing and the need to unload assets to do so without facing a corporate-level tax."*

### Multi-State Tax

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Find out [more information here](#).



### **EXTENSION OF CODE SEC. 179 AND BONUS DEPRECIATION IN 2009**

Currently, businesses qualify for the full benefit of the Code Sec. 179 deduction if their capital asset acquisitions for 2008 are less than \$800,000. The 2009 Recovery Act has extended both this asset limit and the \$250,000 annual expense limit through 2009. The expense limits are scheduled to decrease again in 2010 unless Congress takes further action to extend them. The new limits do extend through 2010 for a limited number of assets with long production periods. Unlike bonus depreciation, Code Sec. 179 expensing is available on new or used property.

The 2009 Recovery Act also extends the 50-percent first-year bonus depreciation allowed under the 2008 Economic Stimulus Act through December 31, 2009. The extension is retroactive to January 1, 2009. The new law also extends, through 2010, the additional year of bonus depreciation allowed under the 2008 Economic Stimulus Act for property with a recovery period of 10 years or longer for transportation property (tangible personal property used to transport people or property) and for certain aircraft.

The 50-percent bonus depreciation is taken on top of the regular depreciation reported for the year the property is placed in service. As with any accelerated depreciation, however, a large current depreciation deduction results in smaller future deductions.

It is important to note that for state purposes, you will need to check the rules for the specific state you are filing in. Some states do adopt the federal guidelines regarding Sec. 179 expensing and bonus depreciation. However, the majority of them have their own specific rules regarding these deductions.

**COLETTE'S COMMENTS:** *"With the 2009 Recovery Act extension having come after the end of 2008, many small businesses were put in the position of having to decide on asset purchases before the end of the year without knowing whether the increased limit would be extended."*

**For more information about any of these tax topics or other tax-related concerns, please contact Kevin or your own SNPC tax professional at 717-757-6999/800-745-8233. You may also visit [our website](#) or reply to this email. Links to past issues of "Taxing Times" can also be found on our website.**