

Taxing Times

Tax information for clients and friends of Stambaugh Ness



June 18, 2009

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ASK KEVIN



[Tax Supervisor Kevin Eisenhart, CPA](#)

Dear Kevin,

We recently installed a new hot water heater, garage doors, and a ceiling fan in our garage above our bedrooms. Can you tell me

By Tax Supervisor Kevin Eisenhart, CPA
Tax Advisor Colette Brownson
Tax Specialist Melissa J-L Myers

TAX PLANNING SERIES

The next few monthly editions of "Taxing Times" will provide you with some tips for tax planning in 2009.

Tax Benefits of Home Ownership

Buying a home is the single most valuable investment most families make, and home ownership offers several tax benefits. Last month, we discussed the first-time homebuyers credit currently available. This month, we are discussing the tax benefits associated with the purchase of a new home:



[Tax Specialist Melissa J-L Myers](#)

- Mortgage interest may be deductible;
- Qualified mortgage insurance premiums may be deductible;
- Property taxes may be deductible;
- The gain of the sale of a principal residence may be excluded from ordinary income, up to a certain amount;
- The early withdrawal penalty from an IRA account may be waived for a first-time home purchase;
- Self-employed individuals may deduct expenses for a portion of the home used for business; and
- Energy credits are available for qualified improvements to the home.

Most of these tax breaks will still apply even if the taxpayers are not first-time homebuyers.

MELISSA'S COMMENTS: *"Some of these tax benefits will also apply to the sale of your home, refinancing, or renting the home to*

exactly what home improvements can qualify for an energy savings credit deduction and the specifics?

Thank you,
Lisa
York, PA

Dear Lisa,

A tax credit may be available to individuals for the installation of non-business energy property, such as residential exterior doors and windows, insulation, heat pumps, furnaces, central air conditioners, and water heaters.

The property must be installed between January 1, 2009 and December 31, 2009 and be considered a home improvement. The energy savings credit is 30% of the cost of the improvements with a maximum credit of \$1,500.

However, if the items being installed are solar energy savings items, then the maximum credit limit is waived. You must have a Manufacturer Certification Statement for these items in your records in order to qualify for the deduction. As for the specific items you mentioned, the ceiling fan will not qualify for this credit; the garage doors and hot water heater may qualify if they meet all of the criteria set forth by Energy Star.

Please visit Energy Star's website at www.energystar.gov to review all of the criteria for external doors and hot water heaters.

Until Next Month,
Kevin

other individuals. Also, many of the tax benefits may apply to the purchase of a second home, such as investing in a vacation home."

Alternative Minimum Tax (AMT)

Alternative minimum tax (AMT) was originally enacted to ensure all taxpayers, especially high-income taxpayers, paid at least a minimum amount of federal income tax. However, in recent years, many middle-income taxpayers are impacted by AMT. In order to reduce the impact of AMT, potentially affected taxpayers should consider the timing of income and deductions carefully. Taxpayers subject to AMT may see limitations on general tax return deductions, such as the exemption amounts and itemized deductions. Depending on the potential exposure to AMT, taxpayers may consider the following strategies:

- If applicable, delaying payment of certain items, such as state and local income taxes;
- Postponing charitable contributions; or
- Taking advantage of any AMT credit that is available.

MELISSA'S COMMENTS: *"As a general rule for taxpayers subject to AMT, accelerating items of income into AMT years and postponing deductions into non-AMT years is a sound strategy."*

Tax Issues for Higher Income Individuals

For most Americans, the taxpayer's ultimate goal is to sustain a successful wealth-building strategy while avoiding unnecessary and expensive tax consequences. This past year has been a busy one for legislation; consequently, there are several tax incentives that are available only through the 2009 tax year. Some examples of these tax incentives include:

- An additional exemption for individuals displaced by the Midwestern disaster area storms;
- The waiver of required minimum distributions from individuals' retirement plans;
- Qualified individuals with small business income may base their estimated tax payments on 90 percent of the prior year's tax liability;
- The percentage exclusion for qualified small business stock sold by an individual increased to 75 percent from stock acquired after February 17, 2009 and before January 1, 2011; and
- Qualified charitable distributions, up to \$100,000 per individual IRA owner, from a traditional or Roth IRA may be excluded from gross income.

If you have a general tax question you would like answered in a future edition, please email keisenhart@stambaughness.com.

MELISSA'S COMMENTS: *"Individuals who contribute highly appreciated stock shares instead of cash may be able to take a deduction on their return for the stock's fair market value and also avoid paying taxes on the unrealized capital gain. Taxpayers may also swap investment property for another property of "like-kind" to avoid any potential gains on the property."*

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Law Changes - Recently, we heard about some potential changes to Pennsylvania tax law. Currently, PA is considering increasing the income tax rate from the current rate of 3.07 percent. Also, employers may see a change in the future regarding the collection of their quarterly local income tax withholdings.

The York-Adams Tax Bureau is looking to require all tax collections to be consolidated on a county-wide level to its York location, with the exception of the West Shore School District. Since both of these proposed changes are currently in the beginning stages, look for more information on them in upcoming editions.

COBRA Health Insurance Continuation Premium Subsidy



Tax Advisor
Colette Brownson

UPDATE

Last month, we discussed the property tax/rent rebate available to qualified Pennsylvanians. The

Due to the current economic crisis, businesses are laying off employees in record numbers. As you may know, the 2009 Recovery Act provides assistance to unemployed workers who are struggling to make payments to continue health insurance benefits for themselves and their families. Under these provisions, a former employee who properly elects COBRA and pays 35 percent of the applicable premiums is deemed to have paid the full premium.

As an employer you are entitled to a reimbursement in the form of a payroll tax credit for the amount of premiums not paid by assistance eligible individuals. The payroll credit for COBRA premium assistance payments can be claimed on lines 12a and 12b of the updated Form 941, Employer's Quarterly Federal Tax Return. If your business terminates an employee between September 1, 2008 and December 1, 2009, you must provide notice of this temporary COBRA subsidy opportunity to current and former health plan participants.

due date to apply for this rebate was June 30, 2009. However, the Pennsylvania Department of Revenue has now extended the deadline to apply for the Pennsylvania Property Tax/Rent Rebate Program to December 31, 2009.

COLETTE'S COMMENTS: *"Employers must maintain records of COBRA premium assistance provided to former employees, but are not required to report these amounts on Form W-2. These records should include details supporting the former employees' involuntary termination, their eligibility for the COBRA subsidy, and the dates and amounts of their 35-percent payments."*

Thinking Green May Produce Tax Savings for Businesses

The American Recovery and Reinvestment Act of 2009 (ARRA) provides a variety of energy-related credits to businesses. Qualified companies who place in service facilities that produce electricity from wind and some other renewable resources after Dec 31, 2008 can choose either the energy investment tax credit, which generally provides a 30 percent tax credit for investments in energy projects or the production tax credit, which can provide a credit of up to 2.1 cents per kilowatt-hour for electricity produced from renewable sources. A business may not claim both credits for the same facility.

Business taxpayers also can apply for a grant instead of claiming either the energy investment tax credit or the renewable energy production tax credit for property placed in service in 2009 or 2010. In some cases, if construction begins in 2009 or 2010, the grant can be claimed for energy investment credit property placed in service through 2016, and for qualified renewable energy facilities, the grant is 30 percent of the investment in the facility and the property must be placed in service before 2014 (2013 for wind facilities). Taxpayers electing to receive the grant, created by the ARRA, will not be eligible for either of the tax credits. Proceeds from the grants are not includible in the taxpayer's gross income, but the grant amount is subject to recapture if the property is disposed of or otherwise ceases to qualify.

Also, the new law generally extends the "eligibility dates" of a tax credit for facilities producing electricity from wind, closed-loop biomass, open-loop biomass, geothermal energy, municipal solid waste, qualified hydropower and marine and hydrokinetic renewable energy. The new law extends the "placed in service date" for wind facilities to Dec. 31, 2012. For the other facilities, the placed-in-service date was extended from December 31, 2010 to Dec. 31, 2013.

COLETTE'S COMMENTS: *"With more and more businesses looking to become more "green" and energy efficient these credits offer a great incentive to move in that direction. The rules relating to these energy credits are fairly complex so you will want to be sure that your company fully understands the guidelines before proceeding."*



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 reply to this email.

Visit our [website](#) to learn more about our tax services or access back issues of "Taxing Times."