Financial Phonics®

December 2009

Standard Mileage Rates

Employee / Business
$0.55 - 2009
$0.50 - 2010

Medical / Moving
$0.24 - 2009
$0.165 - 2010

Charity/volunteer $0.14

2009 - The Year Wisconsin Raised Tax Rates Retroactively!

Wisconsin's legislature passed and the governor approved more new taxes this year, after the year began, making these changes apply back to the first day of 2009.

The top tax rate was increased from 6.75% to 7.75%, effective 1/1/09. This affects married filing jointly at $300,000 and above, or single individuals with $225,000 or more taxable income. This is just another new little marriage penalty hidden in the law…..two single individuals can earn $450,000 before reaching the highest rate, but if you're married, you hit it at $300,000.

The ***capital gains tax*** in Wisconsin was increased from taxing 40% to taxing 70% of your gain beginning 1/1/09. This effectively changes the Wisconsin capital gains tax from about ***3%*** (40% of 6.75%) ***to about 5%*** (70% of 6.75% to 7.75%).

Exempt Retirement Income (Not!)

A change in Wisconsin tax laws in 2007 created an income ***exemption on up to $5,000*** of your retirement benefits beginning January 1, 2009 (taxable pensions or IRA withdrawals) if you are aged 65 or older and if your ***FEDERAL adjusted gross income is less than $30,000 married or $15,000 single***.

The Federal adjusted gross income includes taxable Social Security benefits, so a couple will hit that $30,000 Federal AGI level with only $26,000 of all other income. Single individuals will be disqualified with only $13,000 of all other income.

The Wisconsin standard deduction and personal exemptions will eliminate most of the Wisconsin taxable income so that no one at this income level will benefit from the full $5,000 exemption.

Only a handful of people in Wisconsin can qualify and partially use the exemption. They will have about $11,500 to $13,000 of individual gross income, ($23,000 to $26,000 married, filing jointly) not including their Social Security benefits.

Too many retirees will not qualify because their Federal (not Wisconsin) "adjusted gross income" will be too high.

Wisconsin Homeowners Credit

Remember to pay at least $2,500 of personal residence real estate taxes each year to qualify for the $300 homeowners tax credit on your Wisconsin income tax return.

Education Credits and Deductions

If you are in your first two years of post-high school learning and attend school in a Federally Declared Disaster Area (much of the Midwest and Southern Wisconsin) you qualify for the ***Federal Hope*** Education Credit. The Hope Creditõs ***definition of qualified tuition and fees includes room/board and supplies, just like is allowed under Section 529 Plans***. This preferential treatment was extended from 2008 to 2009.

The Federal ***Lifetime Learning Credit*** still exists, but its definition of qualified educational expenses changes if attending school in a Federally Declared Disaster area.

The Federal ***American Opportunity Credit*** was created to allow a maximum $2,500 tax credit (100% of the first $2,000 in qualified expenses plus 25% of the next $2,000). Even if youõve claimed the Hope Credit in the past two years, you can take advantage of the American Opportunity Credit if your income is no more than $180,000 on a married tax return or $90,000 on a single return. These higher income limits will make more taxpayers qualify to receive the American Opportunity Credit.

To complicate the education credits with these three different choices, Congress ruled that you have to choose between the Hope and the American Opportunity credits on your tax return, not per student. The Lifetime Learning Credit can be used with either the Hope or the Lifetime credit on the same return, but not for the same student. So you have to calculate all combinations and determine which is the best when you have more than one student with educational expenses on a tax return. ***Please provide us with all expenses incurred for educational purposes and the student's year of school.*** We need to work through all the different scenarios using the different tax credits to see which is best for your tax return. Even if the student lives at home, in some instances, a value for room and board can be used to increase your tax credits.

Energy Credits

Adding insulation or replacing windows, skylights or exterior doors in your personal residence may qualify you for a **maximum $1,500 Federal tax credit** (30% of up to $5,000 of eligible costs) in 2009 and 2010. Certain types of roofing replacements also qualify for these credits. For specific details on eligible energy credit property improvements, go to http://energytaxincentives.org/consumers/insulation_etc.php

There are three sets of standards that apply to determining energy credit qualifying improvements, depending upon the date installed and put to use. The most stringent standards apply to the last seven months of the year from June 1' 2009 to the end of 2010. Less strict are the periods January 1, 2009 through February 16, 2009 and then February 17th through May 31, 2009.

Please ***provide invoices*** which show the ***date of installation*** along with a ***detailed description of the improvements*** so that we can correctly determine the qualifying costs. Even if youõve been reimbursed by insurance proceeds, let us know your costs. There is no ñsource of fundsñ requirement with the credits.

Online Newsletter

PLEASE check out our Poppy CPA site on the WordPress servers. Wisconsin has surreptitious tax laws that can find you caught by the Stateõs game of ñGOTCHAñ.

http://poppycpa.wordpress.com/

Homebuyer Credits

The ***credit is 10% of the purchase price of the home, up to a maximum $8,000*** credit, for a home purchased after December 31, 2008 and before July 1, 2010. Eligible are those who have not owned a home in the past three years, and whose ñmodifiedò adjusted gross income is less than $150,000 on a married tax return or $75,000 on a single tax return.

A ***credit of 10% of the purchase price, up to a maximum of $6,500*** is available for long term home owners (owned and lived in their home for at least 5 of the last 8 years) who purchase a replacement home after November 6, 2009 and before July 1, 2010. Married filers need to have less than $225,000, and single filers need to have less than $125,000 of income to obtain the full $6,500 credit.

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