



2009 Tax Newsletter

Contact Us

Ami Shah CPA
2953 Bunker Hill Lane,
Suite # 400
Santa Clara, CA 95054
info@amicpa.com
408-717-3012
www.amicpa.com

IRS is making lots of efforts to collect as much tax as it could by its enforcement actions and private debt collection program.

Failure to file penalties has been increased for Partnerships and S Corporations.

The enforcement data for last fiscal year show that audits of S corporations and partnerships increased by 25% and audits of individual returns with income over \$ 200,000 increased by 29%.

Dear Clients and Friends,

In this economic crisis Congress and our new President will use **tax laws** more and more to **stimulate the economy**. The biggest example was the **Emergency Economic Stabilization Act** passed in October 2008 which has lots of tax breaks and changes. The other major tax acts passed to help the financial meltdown were the Housing and Economic Recovery Act of 2008, the Economic Stimulus Act of 2008 & the Mortgage Forgiveness Debt Relief Act of 2007. **Obama has promised more**. So as your trusted advisor we will try our best to avail you of every tax saving opportunity that you are entitled to. Effective tax planning requires a long term strategy, periodic reviews and frequent adjustments. We can help you keep your taxes as low as the law allows, call now for a review of your tax situation.

Here is an overview of very few **new tax laws** enacted during **2008** and other relevant facts.

- The **capital gains tax rate** on qualified dividends and gains from sales of stocks, bonds and other securities you've held more than a year is zero if your 2008 taxable income is less than \$65,101 (married filing jointly) or \$32,551 (single).
- A new refundable tax credit in essential a tax free loan of as much as \$7,500 for **first-time homebuyers** having income under certain limits. The credit must be repaid over 15 years, starting two years after you claim it. The house should be purchased between April 8 2008 and July 1, 2009.
- Now the **kiddie tax** applies to children under age 19 as well as full-time students under age 24. Now you cannot fund their education with gifting appreciated stocks to them. Only way out would be to have them work for you and give them salaries which will be taxed at child's rate rather than yours.
- **Economic stimulus rebate** can still be claimed on your 2008 tax return based on 2008 tax if you did not receive it.

- **Principal residence gain exclusion** of debt forgiveness income was first enacted to cover the periods January 1, 2007 through December 31, 2009. It has been extended to run till December 31, 2012. It means income due to forgiveness of debt up to 2 million secured by taxpayers principle residence will be excluded from income.
- Under the Housing Act, **Home Sale Exclusion** has been revised to close the loophole that allowed the owners of rental property to covert their rental into primary residence and exclude the entire gain on sale. Now the gain on sale will be prorated towards the nonqualified use of the property.
- Alternative minimum tax exemption amounts have been raised to \$46,200 for singles and \$69,950 for couples. In next two years the taxpayers who paid their **ISO AMT** between 2000 & 2003 will be able to claim refund of tax, interest & penalties paid.
- The dollar limit has been raised to \$250,000 for **Code Sec. 179** expense deduction for business assets purchased and placed in service in 2008. With **bonus depreciation** you can immediately deduct up to half of the cost of qualifying new business assets.
- **Temporary tax incentives** including higher education tuition deduction, teachers' classroom expense deduction, tax free contributions from IRAs to charities, state and local sales tax deduction etc. have been extended through 2009.
- Taxpayers claiming standard deduction will also be able to claim state and local **real property taxes** up to \$1,000 (\$500 for single).
- **Standard mileage rate** for business miles driven from July 1, 2008 through year end is 58.5 cents and 50.5 for January 1 through June 30, 2008. To claim the business miles you must maintain mileage log with date, destination, purpose and total miles.

NOTE: This newsletter is issued annually to provide you with information about minimizing your taxes. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.

Tel: 408 717 3012 Web: www.amicpa.com Email: info@amicpa.com

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