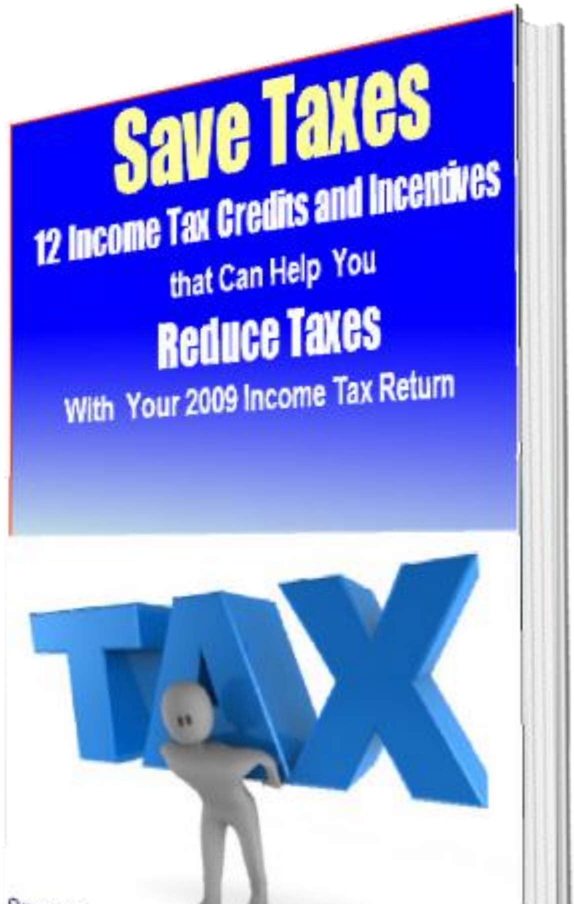
Save Taxes
12 Income Tax Credits and Incentives
that Can Help You
Reduce Taxes
With Your 2009 Income Tax Return
TAX
Sandor Lenner, CPA,MBA

Notice To Readers
This E-Book is intended to make you aware of various tax credits and incentives that might be available to you when preparing your 2009 Federal income tax return. However, there is no assurance that the information is comprehensive in its coverage or that it is suitable in dealing with an individual's particular situation. Accordingly, the information provided should not be relied upon as a substitute for independent analysis and research. No accounting, tax legal or other professional advice is being rendered nor is there any responsibility to update the information in this E-Book. There is no warranty that the material in the E-Book will continue to be accurate or completely free of errors when published. Readers should take steps to verify statements before relying on them.

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Introduction

This book explains 12 tax incentives and credits that the average taxpayer should consider when filing their 2009 income tax return. It's not a book of fancy and aggressive tax strategies. It's mostly tax credits and incentives that are listed on the first two pages of your 2009 tax return. Most of these tax credits and incentives resulted from the American Recovery and Reinvestment Act of 2009(2009 Recovery Act), that Congress passed, and President Obama signed in early 2009. I have also included a couple of tax credits that existed before the 2009 Recovery Act. The first 9 tax incentives and credits resulted from 2009 Recovery Act and accordingly, I have included a brief summary next to the title indicating the intended purpose and the taxpayers affected by each credit or incentive. The last three tax incentives and credits were in existence prior to the enactment of the 2009 Recovery Act. The purpose of this legislation was to jump start the economy and to get our country out of the recession. I truly hope this works. With this in mind, this EBook explains the available tax breaks for working individuals, working parents, homeowners, new vehicle purchasers, unemployed, retired, and you. This book's purpose is to provide a detailed checklist with examples and explanations to enable the average taxpayer to identify 12 common tax credits and incentives when preparing the 2009 income tax return. I believe that this legislation will certainly help each intended taxpayer and I hope that it stimulates our economy. I am optimistic that in the future we will have more tax legislation to correct the mistakes of the past. These are not all the tax credits and incentives currently available. You should take steps to understand the current tax laws and also consider consulting or using a professional to fully understand the tax laws and regulations before you undertake the preparation of your 2009 tax return.

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I. Earned Income Tax Credit – *Raising low income taxpayers above the poverty line*

Every dollar counts in today's economy, however many working people may be overlooking a very important tax credit that may add an additional $5,600 or more to their wallets. The Earned Income Tax Credit(EITC). This tax credit as the name implies, is for people who work for a living but don't make a lot of money. The credit was created in 1975 to help offset Social Security taxes and to provide an incentive for work. It is one of the Federal government's largest benefit programs for working families.

How To Qualify for the Earned Income Tax Credit?

To qualify for the EITC you must meet all of the income, age, dependency and citizenship requirements. If you are married, you must file jointly, as the earned income credit does not apply to persons who are married, but file separately. In addition, investment income cannot exceed $3,100 for 2009.

Unfortunately, more people as compared to last year will qualify for the EITC because their income has been reduced, which might have resulted from a job loss or pay cuts or reduced employer required working hours. Taxpayers who changed their marital status or added children to their families may also benefit.

Families with three or more children get a larger credit this year as compared to last year. The reason for this increase is a result of the American Recovery and Reinvestment Act which temporarily provides an increase in the earned income tax credit for taxpayers with three or more qualifying children. This legislation was signed in 2009 and therefore the changes apply to 2009 when you file your tax return in 2010. The maximum EITC for this new category is $5,657.

By filing your federal tax returns is the only way that eligible taxpayers can get the EITC.

Tax Tip - If you are not required to file an income tax return, you should consider filing a tax return this year to claim this credit, providing you are eligible for the EITC.The reason it's a good idea to file a tax return is because even if you don't owe any taxes and your taxable income is below zero, you can receive a tax refund for the amount equal to the credit.

The Amounts of the Earned Income Tax Credit

The following shows the amount of EITC under four scenarios. If you are married with 3 children with income from $12,570 - $21,420 you may be eligible for the maximum credit of $5,657. The maximum credit for 2009 is as follows:

1. $5,657 with three or more qualifying children
2. $5,028 with two qualifying children
3. $3,043 with one qualifying child
4. $ 457 with no qualifying children

The IRS estimates that there may be an additional 20% to 25% of taxpayers who may qualify for EITC but may not be aware of it.

The EITC is a refundable credit, which means that, if the EITC reduces your taxable income below zero you get a tax refund for that amount.

The rules and threshold amounts are complex and you can learn more about the EITC directly from the IRS by requesting IRS publication 596.

II. The First Time Homebuyer Credit Extended and Expanded- *Encouraging home buying to stimulate the weak housing market*

A new law that pertains to tax credits went into effect on November 6, 2009 which extends the date by which an eligible taxpayer must buy, or enter into a binding contract to buy, a principal residence for five more months and also expands the eligibility requirements for purchasers of new homes.

First-time Homebuyer Credit Basics:

☑ The maximum amount of the credit is $ 8,000.

☑ The tax credit can reduce the amount owed by the taxpayer or it can increase the refund, dollar for dollar.

☑ The credit is fully refundable, which means the credit will be paid to eligible taxpayers, even if they owe no tax or the credit is more than the tax owed.

☑ The credit does not have to paid back over a period of time to the IRS for a home purchased in 2009,(this is an important change from the prior year) unless the home within a 3 year period following the purchase is no longer the taxpayer's main residence.

☑ The credit is extended to allow long-time homeowners buying replacement homes and taxpayers with higher incomes to qualify for the credit.

☑ Tax Tip For all qualifying purchases in 2010, taxpayers have the choice of claiming the credit either on their 2009 or 2010 income tax returns. This change allows taxpayers to buy a qualifying principal residence in 2010 and receive the benefit of the credit on their 2009 tax return.

☑ The tax credit is applicable to residences used as a taxpayer's principal residence and the purchaser may not have owned a primary residence during the three years prior to the date of purchase. See sections below for more information.

First-time Homebuyer Credit Requirements

The deadline to enter into a binding contract for a qualifying home purchase has been extended to April 30, 2010, from November 30, 2009. The purchaser now must settle on the purchase by June 30, 2010. New principal residences, including mobile homes, must be located in the United States to qualify for the credit. A mobile home can qualify as a principal residence even though the land that holds the residence may be leased. Rental property and vacation homes do not meet the requirements for this credit. If you build your home then the purchase date is the first date you occupy your home. The credit is not allowable even if you purchase the residence from your parent(s), spouse, child, close relative , grandparent, or grandchild.

Long-time Homeowners Purchasing a Replacement Principal Residence are Entitled to Claim the Credit

Prior to this change resulting from the Economic Recovery Act taxpayers were normally not eligible for the credit if they owned a principal residence at any time during the three years prior to the date of purchase. Now, a long-time homeowner can receive the credit for a qualifying replacement home bought after November 6, 2009. To qualify for the credit the taxpayer must have owned and used the same home as a principal residence for at least five consecutive years of the eight-year period ending on the date the taxpayer purchases a new principal residence. The maximum credit is limited $6,500.

The income limitations are increased for homeowners claiming the credit. Taxpayers with higher incomes can now qualify for the credit. The income limits have not changed with respect to purchases on or before November 7, 2009. Under the old law, the full credit was available to taxpayers with modified adjusted gross incomes (MAGI) up to $75,000, or $150,000 for joint filers that purchased a residence on or before November 7, 2009, whereas for purchases after November 6, 2009, the full credit available to taxpayers with MAGI up to $125,000, or $225,000 for joint filers.

For higher income taxpayers the tax credit is decreased or even eliminated. It's phased out based on the taxpayers modified adjusted gross income.

For purchases that occur after November 6, 2009 there are some other new requirements. These requirements are (a) dependents are not eligible to claim the credit, (b) no credit is available if the purchase price of a residence exceeds $800,000 and (c) a purchaser is required to be eighteen years of age on the date of purchase.

There are special new rules that extend certain requirements for members of the Armed Forces and certain federal employees serving outside the U.S. who buy a principal residence in the U.S. and still qualify for the credit.

If you are eligible for this credit then you are required to file

Form 5405 along with your 2009 income tax return, Form 1040. This credit is not available for those individuals that normally would file a Form 1040EZ or Form 1040A. In the event you would ordinarily file either the form 1040EZ or 1040A, now you will need to use the regular form 1040 in order to claim the credit. One other thing, those taxpayers filing form 5405 for this credit are not permitted to electronically file their tax returns. All this means, is that you will now mail your tax returns to the IRS.

III. Residential Energy Property Tax Credit – *Encouraging the purchase of alternative energy efficient property*

Homeowners are now able to make energy saving improvements to their homes and receive a tax credit up to $1,500 in 2009.

The American Recovery and Reinvestment Act which was enacted earlier this year expanded this credit. If you spent $5,000 before the end of the year, on eligible energy-saving improvements, a homeowner may be able to save as much as $1,500 on their 2009 Federal income tax return.

The credit is equal to 30% of the qualifying improvements' cost, subject to maximum credit limit of $1,500 claimed for 2009 and 2010 for both years combined. The tax credit is applicable to qualifying improvements such as energy-efficient heating and air-conditioning systems, energy-efficient exterior windows and insulation.

To qualify as energy-efficient, the improvements are required to meet new standards that are more restrictive than the standards that existed in prior years. In addition, manufacturers are required to certify that the product meets the new standards by providing a written statement to that effect. In order to qualify for the credit, the improvement must be placed in service after December 31, 2008 but prior to January 1, 2011. The improvements must be made to the taxpayer's principal residence which must be located in the United States.

In obtain the credit, taxpayers are required to complete Form 5695. In addition, taxpayers must claim the credit in the tax year in which the improvement is made.

Tax Tip

- Some vendors may mislead you or there may be some confusion about the certification since the credit existed in prior years. For this reason, it is very important that you make sure the certification statement is for the 2009 credit rather than a credit from a prior year. A word of advice, since certain slow-moving energy-efficient products from last year may be marketed at closeout prices during the holiday season, it's critical to verify that you have purchased a current year product with the 2009 certification from the manufacturer in order to use the credit on your 2009 income tax return.

The tax credit is limited to your tax liability and you cannot use it if you have no tax liability. You will have to file a regular Form 1040 to use the credit and the credit is not available to 1040EZ and 1040A tax filers. Therefore, if you otherwise would qualify for to use Form's 1040EZ and 1040A, you now must use Form 1040.

As a result of other credits claimed by a taxpayer, limits based on tax liability and other factors, the actual savings will vary for each taxpayer.

IV. Residential Energy Efficient Property Credit - *Encouraging the purchase of renewable sources of alternative energy for the home*

This nonrefundable energy tax credit will help individual taxpayers pay for qualified residential alternative energy equipment, such as solar hot water heaters, geothermal heat pumps and wind turbines. The American Recovery and Reinvestment Act which was enacted earlier in early 2009, expanded this credit. The new law removes some of the previously imposed maximum amounts and allows for a tax credit equal to 30% of the cost of qualified property. The credit amount is generally equal to 30% of the cost of the equipment and usually includes the labor used to install it. Beginning in 2009, there is generally no cap on this credit and it's available for equipment placed into service through 2016. Unfortunately it's a nonrefundable credit, which is an important distinction because that means it can only reduce your tax liability to zero.

Amount of credit

Generally, the credit is equal to 30% of the eligible cost of solar water heaters, solar electricity equipment, fuel cell plants, qualified small wind energy property and qualified geothermal heat pump("eligible equipment") for property placed in service prior to January 1, 2017.

Qualifying property - The following is a list of expenditures that can qualify for the credit:

Qualified solar electric property costs for expenses incurred for property that uses solar energy to generate electricity for use in the taxpayer's home. These costs may be used to purchase a solar panel or other property that may be installed on a roof. In this case the home does not have to be the taxpayer's main home.

Qualified solar water heating property costs that uses a solar panel is a good example providing it is used to heat water for use in a dwelling located in the United States and at least half of the energy must come from the sun. It must be used for a residence. The home does not have to be the taxpayer's main home.

Qualified small wind energy property costs pertain to expenses incurred for property that uses a wind turbine to generate electricity for use in the taxpayer's home. For this type of expenditure, the home does not have to be the taxpayer's main home.

Qualified geothermal heat pump property costs are expenses incurred for property installed on or in connection with the taxpayer's home. A Qualified geothermal heat pump property is an example of of equipment that uses the ground or groundwater as a thermal energy source to heat or cool the taxpayer's home that can qualify for the credit. In this case the home does not have to be the taxpayer's main home.

A qualified fuel cell power plant installed in the taxpayer's main home and contains an integrated system consisting of a fuel cell stack assembly and associate components that converts fuel into electricity.

Labor costs resulting from on-site preparation, assembly, or original installation of the residential energy efficient property and piping or wiring that connects the eligible property to the home can also qualify for the credit.

Credit limits

The $500 limitation on qualified fuel cell property is the only credit limitation.

The residential alternative energy credit that you claim cannot be greater than your regular income tax liability(reduced by the foreign tax credit) and the alternative minimum tax over the sum of certain nonrefundable credits. In 2010, these limits will change and therefore you should consider the changes in the IRS regulations. It is also important to determine the eligible credit carry forward. For jointly owned property special proration rules must be used.

In order to obtain the credit, you must complete Form 5695. Before completing Form 5695,you need to calculate any credit for the elderly or the disabled, or other motor vehicle related credits. The credit is limited to your tax liability and the credit cannot be utilized if you have no tax liability. Also, the credit is not available if you file a 1040EZ and 1040A. To use this credit you will now be required to file a regular Form 1040.

This is a complex calculation and for more information please refer to IRS Notice 2009-41.