

SOLUTIONS

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Dear Clients and Friends

Attention First-time Homebuyers: Buy a Home by 12/01/09 for up to \$8,000 Tax Credit

Professionally Speaking....

St. Clair CPA Solutions proudly announces that **James F. ("Jim") Knight, CPA**, a principal in the Tax Department of St. Clair CPAs, P.C., is a lecturer on Individual Taxation for the Philadelphia CPA Review, a leading review and preparation program that has helped thousands of CPA candidates pass the CPA exam.

Jim is also an adjunct professor in the ASPIRE program offered by Delaware Valley College. ASPIRE is a new, accelerated-degree cohort program that enables busy adults who have completed at least 48 college credits to earn a bachelor's degree in Business Administration in approximately 20 months. ASPIRE blends traditional classroom instruction at the College's main campus in Doylestown, Pennsylvania with off-campus projects to create an innovative educational experience. Learn more about ASPIRE at <http://www.delval.edu/aspire>.

St. Clair CPA Solutions has a strong commitment to education and professional development, both within our firm and industry, as well as for clients and the general public. Members of our professional staff are available to speak to your class, organization, club, association, or business on a wide variety of financial topics. Please call us at 610.862.1998 to inquire about a speaker for your next program or event.

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For those who dream of owning their first home, the American Recovery and Reinvestment Act of 2009 ("2009 Recovery Act") offers valuable assistance in the form of a substantial tax credit for home purchases made in 2009.

In 2008, the Housing Assistance Tax Act created a tax credit for first-time homebuyers who purchased a principal residence in the United States after April 8, 2008, and before July 1, 2009, and who did not have an ownership interest in a principal residence in the prior three years. The 2009 Recovery Act increased the tax credit for purchases made after December 31, 2008 and extended the allowable home purchase period to December 1, 2009. In order to keep the credit, you must occupy the new home as your principal residence for at least three years from the date of purchase.

Pursuant to the 2009 Recovery Act, qualified first-time homebuyers may receive a credit of 10% of the purchase price of your home, up to \$8,000. The credit amount begins to phase out for taxpayers with

modified adjusted gross income of \$75,000 (\$150,000 for joint filers).

To qualify as a first-time homebuyer, you (and, if married, your spouse) must not have had a present ownership interest in a principal residence during the three-year period ending on the date of the home purchase that qualifies for the credit.

The \$8,000 tax credit may be claimed on either your 2008 or 2009 tax return. Therefore, if you are buying a home in the near future and have already filed your 2008 tax return, you should consider filing an amended 2008 tax return, which will allow you to claim the first-time homebuyer credit without waiting until you file your 2009 return. However, waiting to claim the credit may be beneficial if you will qualify for a higher credit in 2009 as a result of a phase-out of the credit in 2008 based on your modified adjusted gross income.

If you have questions regarding the first-time homebuyer credit and recapture rules, please call us.

Plan and Act Now to Take Advantage of Increased Depreciation Limits for Business Capital/Equipment Investments

Business owners can still capitalize on incentives for investing in capital and equipment provided by the American Recovery and Reinvestment Tax Act of 2009 ("2009 Recovery Act"), but time is running out.

Provisions in the 2009 Recovery Act extend prior law increases in the expense deduction limitations for depreciable assets, as well as the 50% bonus depreciation on new equipment for the year it is placed in service, through tax years beginning in 2009. (Bonus depreciation is extended through 2010 for certain longer-lived and transportation property.) Under

Continued on reverse

Go "Green" to Save "Green": Individual Taxpayers Get Tax Benefit with Alternative Energy Solutions

Considering an investment in a form of alternative energy for your home? Consider this: now, in addition to the environmental benefits of installing a solar water heater, geothermal heat pump, solar electric, or small wind energy, you can also receive a substantial tax benefit in the form of a non-refundable personal credit for 30% of alternative energy expenditures during the tax year.

Known as the Residential Energy Efficient Property (REEP) credit, this personal tax credit was intended to spur individual investments in alternative

Continued on reverse

Tax Aspects of Employee Terminations

Recent economic events have caused major changes in employment status for many individuals. If you or a family member has had employment terminated, you should be aware of the following important tax issues:

◆ Unemployment compensation and severance payments

Although unemployment insurance payments are taxable as income, the American Recovery and Reinvestment Act of 2009 ("2009 Recovery Act") allows individuals to exclude up to \$2,400 of unemployment compensation from gross income for 2009. For a married couple, the exclusion applies separately to each spouse, so that if both spouses receive unemployment benefits during 2009, each spouse may exclude from income the first \$2,400 of benefits. Severance pay is generally taxable and must be reported along with your other salary or wages.

◆ Incentive stock options

Incentive stock options (ISOs) are not taxed as income at the time the stock option is granted, nor are they taxed as regular income when you exercise the option and buy the stock. The tax is generally deferred until you sell the stock, so long as the stock was held for a certain period of time, in which case the capital gains tax rates would apply. Although no income tax is due when the stock option is exercised, the alternative minimum tax (AMT) may be triggered. Depending on your overall tax situation, you may have to pay AMT in the year you exercise your stock options.

◆ IRA rollover

In many situations, an employee who is terminated may rollover a distribution from a qualified plan into a traditional IRA or to another qualified plan, tax-free. For individuals under age 59-1/2, any portion of the withdrawal that is not rolled over within 60 days will be taxed as ordinary income, and may be subject to a 10% penalty on premature distributions. If the rollover is a trustee-to-trustee transfer, it is not necessary to pay withholding tax.

◆ Job hunting expenses

Individuals may deduct all expenses incurred in seeking employment only when seeking a job in the same trade or business, regardless of whether or not the search is successful. Qualified expenses include, but are not limited to, the preparation and mailing of resumes, as well as travel expenses. If an employee receives a severance package that includes assistance from a job placement or resume-writing service, it can usually be arranged as a "tax-free fringe benefit" for the employee while preserving a full deduction for the employer. Note that job-hunting expenses are not deductible when an individual seeks to change careers or find a job in a new trade or business.

◆ Health care

The financial hardships that individuals may experience when employment is terminated can be compounded by the high cost of health care. An itemized deduction is allowed for medical expenses (including health insurance premiums) that exceed 7.5% of your adjusted gross income. A terminated employee and his or her dependents may also be eligible for continued health care coverage under the former employer's group plan: this is known as COBRA continuation coverage. For individuals who have had employment terminated between September 1, 2008 and January 1, 2010, the 2009 Recovery Act allows individuals to pay 35% of their COBRA coverage premiums and have the remaining 65% paid by their former employer. When this election is taken, individuals are treated under the 2009 Recovery Act as paying the full amount of the COBRA premiums, and the employer can credit its share of this temporary COBRA subsidy against wage withholdings and payroll taxes. This COBRA subsidy is generally only available for nine months and is subject to phaseout based on income and the size of the former employer.

Plan and Act Now, cont.

the 2009 Recovery Act, new purchases made and placed in service within the allowable period are subject to the available expense deduction limitation under Code Sec. 179 of \$250,000 and the phase-out amount of \$800,000.

Because these extensions are temporary and generally apply only to tax years beginning in 2009, new purchases should be made and placed in service accordingly. The increased expense deduction will revert back to \$125,000 (as indexed for inflation) for qualifying assets after 2009, while that \$125,000 deduction (as adjusted for inflation) will then revert back to \$25,000 for tax years beginning after 2011. Similarly, the phase-out amount – which begins with every dollar spent over \$800,000 – reverts back to \$500,000 (as adjusted for inflation) in 2010, and is scheduled to revert to \$200,000 after 2011.

Go "Green" to Save "Green": cont.

energy. Prior to 2009, the credit was limited to \$2,000 for solar water heating and geothermal heat pump property and \$500 for each 0.5 kilowatt of capacity (up to \$4,000) for qualified small wind energy property; but in 2009 the expenditure limits were eliminated, making all of your qualified alternative energy expenditures in 2009 eligible for the 30% tax credit. Coupling this tax benefit with other state credits and incentives can make alternative energy for your home more attractive now than ever before. Be sure to do your research before you buy to make sure that your alternative energy options will qualify.

Please contact us if you have any questions or would like more information about these topics.