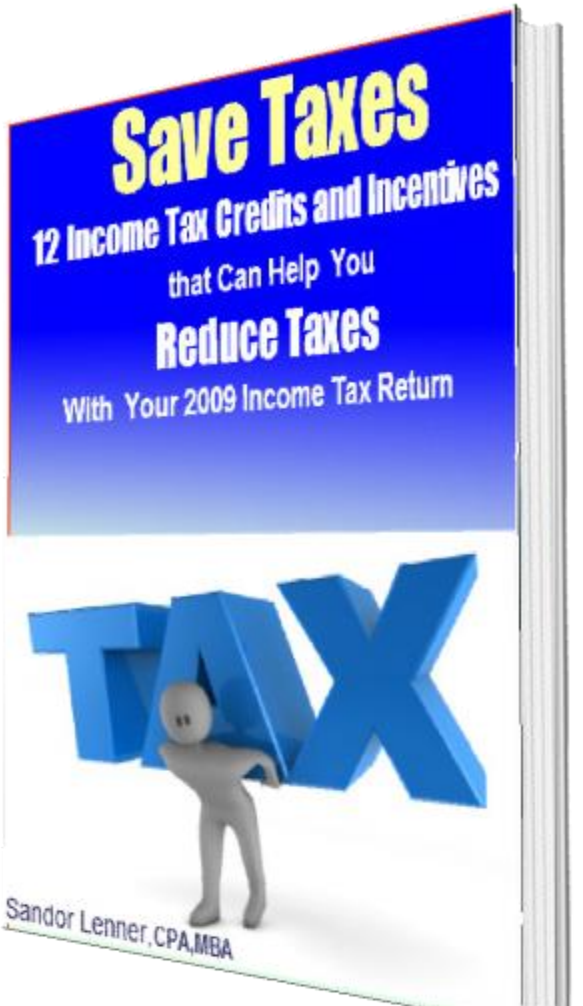
Save Taxes
12 Income Tax Credits and Incentives
that Can Help You
Reduce Taxes
With Your 2009 Income Tax Return
TAX
Sandor Lenner, CPA,MBA

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.

About the Authors

Sandor Lenner,CPA has been providing accounting services for 36 years. He has an MBA in finance. He is also a Certified QuickBooks ProAdvisor and an Intuit Authorized Affiliate. He also writes a blog primarily about QuickBooks Online. The Blog is written to help small businesses become self sufficient, make correct business decisions and be able to effectively compete with larger companies on a local, regional and global basis through the use of state of the art accounting technology, primarily QuickBooks and the internet.

Susan Missal Lenner,CPA has been providing accounting services for 30 years. She founded the firm, Susan Missal Lenner,P.A. in 1987. The firm specializes in individual and corporate taxation, QuickBooks and other small business accounting services.

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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

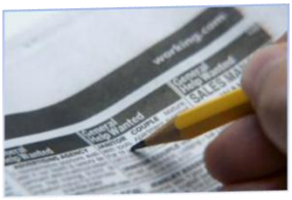
The $500 limitation on qualified fuel cell property is the only credit limitation.

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.

V. Making Work Pay Credit – *Reducing the tax burden for working Americans*



The Making Work Pay Credit is one of many tax changes resulting from the American Recovery and Reinvestment Act of 2009. This credit has had a substantial impact on Americans and is targeted towards lower and middle income taxpayers. According to a report from the Tax Inspector General for the Tax Administration dated November 27, 2009, the Making Work Pay Credit is expected to impact 116 million taxpayers.

This tax credit was created to provide tax relief for people that worked during 2009 and for people that will work in 2010 . The credit is claimed when you file your 2009 and 2010 tax returns. However, most taxpayers may have already received the benefit of this credit by reductions in their payroll tax withholdings (resulting in larger net paychecks) made by their employer during 2009. Through a reduction in the taxpayer's 2009 payroll withholdings taxpayers received this credit almost immediately. The tax credit is calculated and reflected in the credit section of your 2009 tax return. For single taxpayers the credit is $400 and for married couples filing joint returns the credit is $800. The credit is computed as the lesser of 6.2% of each taxpayer's earned income or $400 for single taxpayers and $800 for married couples filing a joint return.

Credit limitations

Income taxpayers with higher incomes are not eligible for the credit. This credit is reduced by 2% of a single individual's modified adjusted gross income that exceeds $75,000. For married couples filing jointly, the threshold amount is $150,000. The Making Work Pay tax credit, is also subject to a reduction by the amount of any Economic Recovery Payment($250 per eligible recipient of Social Security, Supplemental Security Income, Railroad Retirement or Veteran's benefits) or Special Credit for Certain Government Retirees($250 per eligible federal or state retiree) that you may have received.

Who can benefit from the credit?

The credit is applicable only for taxpayers who have earned income. This means taxpayers must have been gainfully employed and received taxable compensation from wages, salaries and tips. Net earnings from self-employment is considered earned income.

In addition, earned income does not include the following:

- Pension and annuity payments
- Non-taxable compensation
- Parsonage allowance

The following individuals are not eligible for the credit:

- Taxpayers without a valid Social Security number
- Nonresident aliens
- Taxpayers who could be claimed as another person's dependent
- Estates and trusts

You may have a potential problem when filing your 2009 tax returns

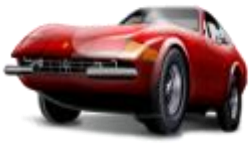
The following are three common potential problems. The first is for “DINKS”, couples that have Dual Income No Kids. In this case, the federal tax tables reduced withholding for each spouse by $600, resulting in the potential for $600 of under withholding. In event that each spouse's income alone is less than the phase-out limit, but the combined income is greater than the phase-out limit, the potential for under-withholding could increase to $1,200.The second pertains to if you had two jobs(one evening and one day job) during the year and both employers reduced your withholdings. As a result, you may receive a smaller tax refund or you may have to pay taxes resulting from the reduced withholding that was deducted during the year. Since most employers applied the new withholding tables assuming the income from that employer was the only source of the taxpayer's income. In this connection, insufficient withholding may result of up to $400 per employer in excess of one for taxpayers who do not file jointly, or $800 per employer in excess of one for joint filers. A third potential problem, could occur for taxpayers who had other income in addition to their W-2 wages. The other income could put you into the total or partial phase-out category of the credit, and could result in under-withholding of up to $400 ($800 for joint filers).Other similar and related problems may exist, therefore each taxpayer should consider this potential. Finally, this is a new tax credit and may be an easy for taxpayers who prepare their own taxes to miss.

How to report to the Internal Revenue Service?

If you received less than the full amount of the anticipated credit through decreased withholding, then you may be entitled to the full credit on your income tax return for the shortfall resulting from the improper withholding. For 2009, taxpayers are required to use Schedule M to report the tax credit. If you use Form 1040EZ instead of schedule M, there is a worksheet on page 2 of the Form 1040EZ that allows you to compute the credit amount.

VI. Deduction for State and Local Sales and Excise Taxes - *Encouraging Americans to purchase vehicles*

With 2010 cars recently purchased, it's good to know that purchasing a new car, light truck, motor home or motorcycle that has a gross vehicle weight rating of 8,500 pounds or less, and with a cost under $49,500 may qualify you for a special deduction for the state and local sales and excise taxes on your 2009 income tax returns.



How this Tax Deduction Can Help You?

This deduction can be taken regardless of whether or not you itemize other deductions on your tax return.

The deduction is available on new vehicles purchased from February 17, 2009 through December 31, 2009. A qualified motor vehicle is a passenger automobile, motorcycle or light truck, whose original use begins with that purchaser and has a gross vehicle weight rating not exceeding 8,500 pounds.

This deduction is restricted to sales and excise taxes and similar fees paid while not exceeding $49,500 of the purchase price of a new vehicle. The deduction is reduced for joint filers with modified adjusted gross incomes (MAGI)that ranges from $250,000 to $260,000 and other taxpayers with MAGI that ranges from $125,000 to $135,000.If your income is more then you will not qualify.

How to Report this Deduction ?

If you are unable to itemize, then you can add this additional amount to the standard deduction on your 2009 tax return. In addition, to use this special deduction, your must file either Form 1040 or Form 1040A. It is unavailable to individuals who use Form 1040EZ.

VII. The first $2,400 of Unemployment Compensation is Nontaxable - Reducing the tax burden of the unemployed

With all of the layoffs resulting from companies going out of business, it's important for you to know whether or not your unemployment benefits received during 2009 are taxable and also how to report those unemployment benefits. There is some good news, that a portion of the unemployment taxes is not taxable for 2009.

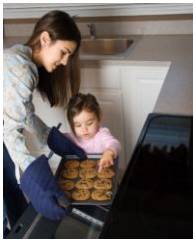
As an outcome of President Barack Obama signing the American Recovery and Reinvestment Act of 2009, is that the first $2,400 of unemployment income received during 2009 will not be taxable income. This is an improvement from last year, because for many unemployed workers, the first $2,400 of unemployment benefits received in 2009 will not be subject to taxes.

With millions of Americans out of work, this piece of legislation provides some relief in the form of a tax break for unemployed tax payers. Under this new tax law, each person who receives unemployment benefits during 2009 is eligible to exclude the first $2,400 of these benefits when they file their 2009 tax returns.

For those individuals unfamiliar with the forms and believe they have received unemployment compensation, the unemployment compensation is shown on Form 1099-G. The taxpayer would report the unemployment compensation on line 3 of Form 1040EZ, line 13 of Form 1040 A or line 19 of Form 1040. Further, if you made contributions to a government unemployment compensation program, then you are required to reduce the amount you report on Form 1040 by the total amount of those contributions that you made to a governmental unemployment compensation program. Also, if you received an overpayment of any unemployment compensation during 2009 and you have to repay any of that amount in 2009, then reduce the amount you report by the amount you repaid.

For more information regarding the treatment of overpayment and for other information regarding the taxability of unemployment compensation please refer to IRS Publication 525.

VIII. Child Tax Credit – *Reducing the financial burden of raising a family in America*



If you who have dependent children that are younger than 17 by the end of the tax year then you may be eligible for a $1,000 Child Tax Credit for each child.

How to Claim the Credit?

To claim the Child Tax Credit there are requirements for the qualifying child, requirements for the taxpayer and certain limits on the amount of the credit. In general, a qualifying taxpayer must follow the same rules as claiming a dependency exemption with the exception that the child must be under the age of 17 before December 31, 2009. In order for the child to qualify, the child must not have provided his or her own support during 2009 and child must have lived with the taxpayer for more than half of the year. In addition the child must be the taxpayer's child, stepchild, adopted child, eligible foster child, grandchild, brother, sister, stepbrother, stepsister, etc. Further, a qualifying child must be a U.S. citizen or resident of the United States.

Income Limitations

The credit amount that you can claim for a Child Tax Credit is dependent upon your tax liability, modified adjusted gross income and filing status. The child tax credit starts to phase out when your modified adjusted gross income is $110,000 for joint filers or $75,000 for single taxpayers or $55,000 for married taxpayers filing separately. If the credit is greater than your tax liability, then the you may be eligible for a refundable credit. This additional credit is known as the "Additional" Child Tax Credit and is discussed below.

Changes for 2009

The 2009 Recovery Act increased the eligibility for claiming the credit by reducing the earned income threshold. Previously to be eligible for the refundable portion of the Child Tax Credit the taxpayer was required to have earned income in excess of $12,550. The Recovery Act now reduces the earned income minimum from $12,550 to $3,000.

Refund

The amount of the Child Tax Credit is not permitted to exceed the taxpayer's liability. For example, when the tax liability is zero, then the Child Tax Credit is zero because there is no liability to reduce.

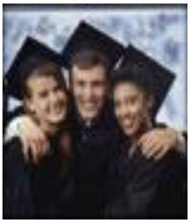
Fortunately, taxpayers who were not able to take the full amount of the Child Tax Credit may be entitled to claim an "Additional" Child Tax Credit.

What Happens If a Taxpayer is Not Eligible for the Child Tax Credit ?

Tax Tip In the event a taxpayer does not qualify for the Child Tax Credit, then taxpayer may qualify for the "Additional" Child tax Credit. The "Additional" Child Tax Credit can be as high as $1,000 for each qualifying child. The good news is that with the "Additional" Child tax credit, a taxpayer can lower their tax liability to below zero and get a refund for this excess. In order to qualify for this " Additional" Child tax Credit, a taxpayer must meet the requirements of the regular Child Tax Credit, have a tax liability that is less than the allowable child tax credit and earn more than $11,750 during 2009. When this occurs, the taxpayer may be entitled to receive a refund for the "Additional" Child Tax Credit. In order to compute this Additional Child Tax Credit, there are additional limitations and other requirements that are outside the scope of this article and taxpayers should refer to IRS Publication 972.

In summing up, the Child Tax Credit is a nonrefundable credit that provides taxpayers that qualify, to reduce their tax liability by an amount equal to the credit. Should a taxpayer not be able to use the $1,000 credit, you may be eligible for the "Additional" Child tax Credit which is a refundable tax credit.

IX. Education Tax Credit Increases by $700 to $2,500- *Helping families pay for the costs of higher education*



The new law which was signed on February 17, 2009 increases the tax credit to $2,500 and also renamed this credit as The American Opportunity Tax Credit. This new credit modifies the Hope Credit for tax years 2009 and 2010, by making the Hope Credit available to more taxpayers, including many with higher incomes and those that owe no tax. Required course materials are now considered qualifying expenses and allow the credit to be claimed for 4 post-secondary education years instead for 2 years.

Limitations

You may be eligible to receive a tax credit equal to 100% of the first $2,000 of fees, tuition, and course materials paid during 2009, plus 25% of the following $2,000 of tuition, fees and course materials paid during 2009. The full credit is available to taxpayers whose modified adjusted gross income is $80,000 or less, or $160,000 or less for married couples filing a joint return. The credit is phased out for taxpayers with incomes greater than those levels. These income limitations are greater than under the existing Hope and Lifetime Learning Credits.

Changes for 2009

The American Recovery and Reinvestment Act of 2009 increased the number of years that the credit can be claimed. In the past, the Hope Credit applied to the first two years of college. The credit has been extended to the first four years of post-secondary education. This tax credit has been increased from $1,800 to $2,500 for the cost of qualified tuition and related expenses paid during the taxable year. The definition of "qualified tuition and related expenses" has been expanded to include expenditures for "course materials", whereas "course materials" is defined as books, supplies and equipment required for a course of study whether or not the materials are purchased from the educational institution as a condition of attendance or enrollment.

Tax Tip  The American Recovery and Reinvestment Act of 2009 expands the list to include expenses for *computer technology* and equipment or Internet access and related services to be used by the student while enrolled at an eligible educational institution. Unfortunately, software designed for games ,sports and hobbies do not qualify, unless it is substantially educational in nature.

Tax refund amount

Taxpayers will be able to reduce their tax liability dollar for dollar of credit as defined. If the amount of the credit is greater than taxpayer's tax liability, then such excess is refundable to the taxpayer, up to a refund of 40% of the amount of the credit for which taxpayers is eligible.

How do I Claim the Credit?

To claim the credit you must complete Form 8863, and attach such form to your 1040 or 1040A. If you ordinarily file a form 1040EZ, then this year you should consider filing a Form 1040 or 1040A to claim the credit.

Can I Deduct the Qualified Tuition and Fees Paid and also Take the Credit ?

You cannot take both the deduction and the credit. The credit will usually result in greater tax savings, however you should calculate the effect of the credit as compared to the deduction on your tax return and determine which is more beneficial. You can claim a tax deduction of up to $4,000 for qualified tuition and fees paid. You should calculate and consider the effect on your tax return to see which is most beneficial to you.

The American Recovery and Reinvestment Act of 2009 considerably improves the Hope Scholarship Credit. The education tax credit has a higher maximum credit amount refundable in part, and has greater income phase-outs and covers the first four years of postsecondary education

X. Child and Dependent Care Credits - A Primer

Taxpayers may be able to claim a credit on their 2009 income tax return if they paid someone else during 2009 to take care of their dependent, who is under the age of 13 or for their spouse or dependent, who was not able to care for themselves while they were gainfully employed.

The maximum Dependent Care Credit for one qualifying dependent is $1,050 and for two or more qualifying dependents is $2,100. The maximum amount of the credit can be equal to 35% of a taxpayer's expenses as defined. The taxpayer must have furnished over one half of the cost of maintaining a home that is also the home of the qualifying person for the credit. To qualify, a taxpayer must have paid the dependent care expenses so that the taxpayer is able to work or able to find work.

***How to Determine the Amount of Credit*?**

$3,000 is the maximum amount of employment related expenses to which the credit may be applied for one qualifying individual and $6,000 if two or more qualifying individuals are involved. The credit is equal to a percentage as reflected in an IRS table which is based on the taxpayer's adjusted gross income, multiplied by the amount of qualified employment expenses that were paid during 2009. If you have adjusted gross income of $15,000 or less then you may be able to use the highest percentage, which is equal to 35%. If you have adjusted gross income over $15,000, the credit is then reduced by one percentage point as defined.

Qualifying Expenses

Qualifying expenses may include those expenses paid for household services and for the care of a qualifying individual that enabled the taxpayers to work or to look for work. Unfortunately, if you did not find a job and have no earned income during 2009 you cannot take the credit.

☑ The following is a partial list of qualifying expenses:

- Day care for children
- Daytime dependent care center for adults
- Household services such as-cook, maid, babysitter, cleaning person, housekeeper that pertain to dependent care

☑ Qualifying expenses that are not allowed are as follows:

- The caregiver's cost of transportation
- Kindergarten or a higher grade
- Over-night camp
- Generally clothing, food entertainment education
- Payments for child support

Payments Made to Relatives

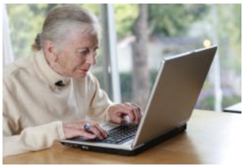
Payments that are made to a relative may also qualify unless the taxpayer claims a dependency exemption for the relative or if the relative is the taxpayer's child and is under the age of 19.

Claiming the Credit

Generally speaking, if you are married taxpayer you must file a joint return to claim the credit. There are special rules if you are not married. In addition, legally separated or divorced taxpayers having child custody for a child under the age of 13, or is disabled, may be entitled to the credit, even if you released your right to the dependency exemption for the child. To claim the credit you are required to get the Social Security number for each qualifying individual and Social Security number for each care provider.

There are special tax rules for children of separated or divorced parents, filing status, the tax treatment of dependent care benefits, prior year carryovers, etc. Please see IRS Publication 501 for more information.

XI. Elderly or Disabled Credit - A Primer



A tax credit may be available if you are 65 years of age prior to December 31, 2009 or under 65 but retired and permanently and totally disabled on the date you retired. Unfortunately, this credit is not as significant as some of the other tax credits as mentioned in this EBook that are available to qualifying individuals . Despite the size of the credit, like any tax credit, it should not be overlooked since it could result in some unanticipated cash for you.

How the Elderly Credit Works?

The credit is equal to 15% of an applicable "initial" amount based on an individual's filing type i.e. $5,000 for a single individual, $7,500 for married taxpayers filing a joint return, where both spouses are qualified. The initial credit is then reduced by certain nontaxable pensions and benefits such as pension, disability benefits or annuities that are not included in adjusted gross income. The initial credit is then further reduced by one half of the excess of the individual 's adjusted gross income over certain predetermined levels, based on the individual 's filing status. The levels are $7,500 for a single taxpayer, $10,000 for married taxpayers and $5, 000 for married taxpayers individually filing separately. The credit is calculated by multiplying the adjusted "initial" amount by 15%.

Nontaxable Benefits and Pensions

You should be cautious when listing and deducting all of the nontaxable amounts you receive on your tax return. These amounts are compared and verified by the IRS with other information supplied by other government agencies to the IRS. Examples of nontaxable benefits and pensions consist of the following:

- Nontaxable railroad retirement pension payments treated as social security
- Nontaxable social security payments.
- Nontaxable pension or annuity payments or disability benefits that are paid under a law administered by the Veteran's Administration.
- Pension or annuity payments or disability benefits which are excluded from income pursuant to any provision of federal law other than the Internal Revenue Code.

Disability Credit Amount

If you are permanently and totally disabled and under the age of 65, the applicable "initial" amount may not exceed the amount of the disability income you received during the tax year. Special rules apply to the initial amounts when one spouse is under 65, to determine and support the permanently and totally disability status being claimed.

Credit Limitations

In order to determine if you are entitled to the credit, you must consider two income limits. The first income limit is the amount of the taxpayer's adjusted gross income. The second income limit is the amount of non-taxable Social Security and other non-taxable pensions you received during the year. The amount of credit you can claim is generally limited to the amount of the tax. You may not take this credit if your adjusted gross income is equal to and is greater than the following amounts:

- $17,500 if single, head of household or qualifying widow(er) with dependent child
- $20,000 if married filing jointly and one spouse is eligible for the credit
- $25,000 if married filing jointly and both spouses are eligible for the credit
- $12,500 if married filing separately or Depending on your filing status, you cannot take the credit if you received certain nontaxable benefits ranging from $3,750 to $7,500.

Claiming the Credit

The credit is computed on Schedule R form 1040 or Form 1040A. This credit is not available for individuals that file form 1040EZ. In the case you file a 1040EZ, just file Form 1040A or 1040.

There are other variations of the married filing status, special rules exist to determine certain exclusions and the amount of these credits. Please refer to IRS Publication 524 for more information.

XII. Retirement Savings Contribution Income Tax Credit of Up to $2,000

When you file this year's tax return you may be entitled to obtain an income tax credit of up to $1,000 (up to $2,000 if filing jointly) if you make an eligible contribution to an employer sponsored retirement plan or an Individual Retirement Account. This credit is a nonrefundable tax credit. A nonrefundable credit cannot be greater than the amount of your tax liability. This credit is in addition to any IRA contribution or contributions that you may make to a qualified plan

Credit

The credit is computed based on the taxpayer's filing status and adjusted gross income. The Internal Revenue Service provides a table that indicates an applicable percentage ranging from 10% to 50% to determine the amount of the credit.

Eligibility

In order to use the credit, the following requirements must be met:

- You must have made a contribution to an Individual Retirement Account or qualified retirement savings plan.

- On December 31, 2009 you are required to be at least 18 years old .
- You must not be claimed as a dependent by another person.
- You not allowed to be a full-time student.
- You had to be born prior to January 2, 1992.
- Your adjusted gross income cannot be higher than $27,750 if single, or $41,625 for a head of household or $55,500 if married filing jointly.

Limitations to the Credit

Usually distributions decrease eligible contributions. In this connection, contributions taken in determining the credit must be reduced by distributions received over a definite period of time, which the IRS considers as the "test period". The current tax year, the following tax year up to the due date of the tax return including filed extensions, plus the two preceding tax years consist of the "test period". Trustee to trustee transfers and rollover distributions do not offset the amount of the credit. In addition, distributions from a military retirement plan do not reduce the credit.

Claiming the credit

The credit can be claimed on your Form 8880, Credit for Qualified Retirement Savings Contributions. Taxpayers can only claim the credit if they file Forms 1040 or 1040A. Taxpayers that normally file Form 1040EZ just need to file Form 1040 in order to claim this credit. Taxpayers who file their 2009 tax return claiming an IRA contribution that will be made in 2010, the IRS allows such taxpayers to consider that contribution as long it is being made prior to the filing date of their tax return in 2010 as an allowable contribution for purposes of determining the amount of this credit. The amount of the retirement savings contribution credit claimed by a taxpayer cannot exceed the taxpayer's regular income tax liability less foreign tax credits plus alternative minimum tax liabilities.

-End-

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