

CPAs share financial considerations at tax time

First-time homebuyer tax credit among the new perks

By LYNNE JETER
MBJ Contributing Writer

Keeping good records and drilling down deep enough to get all the facts is imperative when preparing a tax return, say Mississippi CPAs.

"People miss a lot because they don't do both, and wind up paying more in taxes than they should," said Jackson CPA Paul V. Breazeale, a newly appointed member of the Mississippi Ethics Commission. "For example, an important point you might miss if you do your own return is deducting real estate taxes, up to \$1,000 filing a joint return, even without itemizing."

HORNE tax director John Scott, CPA, pointed out that if part of a mortgage debt on a personal residence was forgiven as part of a workout or foreclosure, the first \$2 million of the debt forgiven is tax-free from 2007 through 2012, noting the breakdown is \$1 million if married but filing a separate return.

Breazeale, who recalled taking a tax credit of \$2,000 for buying a new house in 1975, said "Congress has been putting tax credits for first-time homebuyers in and out over the years. Now Congress is encouraging first-time homebuyers by allowing them to take a tax credit of 10 percent of the purchase price — up to \$7,500 — for homes bought between April 9, 2008, and June 30, 2009. That's like manna from heaven. Remember, it's not a deduction; it's a tax credit."

Bob Bunting, CPA, tax senior manager at HORNE, pointed out that individuals who are not able to itemize deductions may now deduct state and local real property taxes up to a maximum of \$1,000, or \$500 for single individuals, for 2008 and 2009. They may also deduct state and local general sales taxes in lieu of state and local income taxes, now for 2008 and 2009.

"Net operating losses, in particular, will be something that many more businesses and individuals unfortunately will need to become familiar with during the present economic downturn," said Bunting. "Generally, these losses can be carried back two years and carried forward 20 years — the carryover period to offset either previously taxed income or income not yet earned by the business."

Scott emphasized that businesses may take additional 50 percent bonus depreciation for qualifying property acquired and placed in service during 2008. "However," he added, "there's growing sentiment in Washington to extending this deduction into 2009 and 2010."

Most small businesses are eligible for the Code Section 179 deduction, which enables them to immediately deduct equip-

ment purchases that otherwise would have to be depreciated over a number of years, said Scott.

"For tax years beginning in 2008, the deductible amount is limited to \$250,000, which begins to reduce when total new asset additions exceed \$800,000," he said. "After 2008, the expensing limits revert to prior inflation-adjusted caps, anticipated for 2009 to be \$133,000 for the deduction limit and \$530,000 for the start of the phase-out."

Scott has observed movement on Capitol Hill to extend the \$250,000 limit into 2009 and 2010.

Breazeale pointed to a 2009-only tax incentive for taxpayers over the age of 70 (and a half): they will not be required to take a minimum distribution from their IRAs, 401(k)s or other tax-deferred retirement plan.

"This gives seniors the option to keep remaining funds in their plans for another year without incurring a tax penalty," added Bunting, "providing time for their investments to perhaps recoup recent losses."

If a business operates a qualified retirement plan, and if feasible considering current circumstances, consider maximizing 2008 contributions to qualified retirement plans since the contributions are tax deductible in the year that they are made, urged Bunting.

"For employees with 401(k) balances especially hard hit by the recent downturn in the markets, these contributions will take on an added luster this year," he said.

Also, up to \$100,000 of distributions from a traditional IRA may be excluded from gross income if the distributions are made by the IRA trustee directly to a charitable organization on or after the taxpayer attains 70.5 years of age.

"The taxpayer cannot claim the contribution as an itemized deduction," Scott noted. "In addition, a qualified charitable distribution is taken into account in determining if the taxpayer's minimum required distribution requirements have been satisfied for the year."

Still in play: following Hurricane Katrina, the work opportunity tax credit was extended for those businesses who hired for a position in the GO Zone on or before August 25, 2007, an individual whose principal residence was in the GO Zone on August 28, 2005. The Emergency Economic Stabilization Act of 2008 extended that hiring deadline to August 25, 2009. This credit can be as much as \$2,400 per employee.

Scott pointed out that eligible educators are permitted an above-the-line deduction of up to \$250 per year through 2008 and 2009 for un-reimbursed expenses incurred

in connection with books, supplies, computer equipment, including related software and services and other equipment, and supplementary materials used in the classroom.

"For 2008 and 2009, a \$4,000 above-the-line higher education tuition deduction is available to single taxpayers with adjusted gross income of \$65,000 or less (\$130,000 for joint filers)," he said. "These amounts phase out for higher-income taxpayers."

Individual taxpayers may deduct the excess of capital losses over capital gains up to \$3,000 per year, with the excess carried forward to future years.

"On the other hand," Bunting explained, "corporations can only deduct capital losses to the extent of capital gains, with the excess losses available to be carried back three years and forward five years to offset capital gain net income only."

Scott also suggested a way to reduce a taxable estate. "You can give up to \$13,000 per donee to an unlimited number of donees in 2009," he said. "If spouses consent to split all gifts that made by either one of them during the year, then the gifts are deemed as having been made one-half by each spouse, allowing spouses to transfer \$26,000 per donee if they consent to split their gifts."

Breazeale said many folks filing their

own tax return often forget about charitable mileage deductions. "When you think about the running around you do related to church and charitable activities, it adds up," he said.

Filing electronically will save significant time and money, allowing the IRS to direct deposit tax refunds or draft money owed via taxpayer banking accounts. "Filing electronically reduced paper by 40 percent in our firm," noted Breazeale.

And finally, don't forget about the economic stimulus checks. "A lot of people got mixed up about the numbers," said Breazeale. "Make sure you received all that was due. It was a windfall for taxpayers, but some didn't get it ... and still can."

Looking forward, Scott said the nation is entering a phase in 2009-10 in which the direction of tax legislation will be dictated by the direction of the economy.

"It appears as President-elect Obama will proceed with middle class tax cuts early in 2009 and the prospect of raising taxes on high income tax payers may be deferred until the economy improves," he said. "Taxpayers and their tax advisors need to be diligent in keeping up with the proposals coming out of the new administration."

"This could be one of the most active years of tax law changes since President Reagan's changes of the mid-1980s."



With appreciation for his 42 years of dedicated service, HORNE LLP announces the retirement of Roy Ward, CPA, effective December 31, 2008.

We are grateful for his vision, leadership and service as Managing Partner and Chairman of the Board.

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