

Newsletter

DECEMBER 2009

New law expands benefits for taxpayers

The new *Worker, Homeownership, and Business Assistance Act of 2009* contains several key provisions affecting individuals and business owners. Here's a brief summary.

Homebuyer's credit

Under prior law, an eligible first-time homebuyer could claim a maximum credit of \$8,000 for a principal residence purchased before December 1, 2009. But the credit began to phase out for single filers with a modified adjusted gross income (MAGI) above \$75,000 and joint filers above \$150,000.

Under the new law, the credit is available for home purchases made before May 1, 2010, (July 1, 2010, if a binding contract exists before May 1). Also, the phase-out threshold increases to \$125,000 of MAGI for single filers and \$225,000 for joint filers. The homebuyer credit may be elected on a 2009 tax return for a qualified purchase in 2010.

Not just for first-timers: If you buy a home after November 6, 2009, and have owned and used the previous home as your principal residence for five consecutive years in the last eight years, you may claim a credit of up to \$6,500. New limit for everyone: No credit is allowed for purchases after November 6, 2009, if the price exceeds \$800,000.

NOL carryback

Normally, a business can carry back a net operating loss (NOL) for only two years before carrying it forward for up to 20 years. A prior law change allowed a carryback for three, four, or five years to qualified small business for NOLs in tax years beginning or ending in 2008.

The new law extends the longer carryback regardless of the size of the business. This election is generally available for NOLs incurred in either 2008 or 2009.

Caveat: Under the new law, an NOL carried back to the fifth year is limited to 50% of the taxable income for the year. Any remaining NOL may offset income in the remaining four years.

Other provisions

Unemployment benefits are extended for up to 14 weeks (20 weeks for individuals in states with high unemployment rates). But the tax exclusion for the first \$2,400 of unemployment benefits received in 2009 isn't extended.

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Finally, the new law includes several revenue-raisers to pay for the favorable changes, such as expanded use of e-filing by small tax return preparers, an extension of the FUTA surtax, and increased penalties for failing to file partnership and S corporation returns.

New rules in 2010 for Roth IRA conversions

Beginning in 2010, the rules governing Roth IRA conversions will undergo a significant change.

Traditional IRA to Roth IRA conversions will be available to everyone, creating a financial planning opportunity that didn't exist previously. Under the 2009 rules, taxpayers with income of more than \$100,000 cannot convert a traditional IRA to a Roth IRA. Tax legislation enacted in 2006 changed the rules and ends the \$100,000 income limit, effective January 1, 2010.

The Roth IRA has been a popular investment vehicle, with its ability to give taxpayers tax-free distributions once the account has been in existence for five years and the taxpayer has reached age 59½. Another Roth benefit is the lack of required minimum distributions once the owner reaches age 70½.

- **The conversion to a Roth does have a cost.** When you convert a traditional deductible IRA to a Roth, you must include the entire amount converted in your taxable income.

If you do a conversion in 2010, you are allowed to report half of the income on your 2011 tax return and the remaining half on your 2012 tax return. You can also choose to pay the taxes due on the conversion on your 2010 return. While prepaying seems counterintuitive, remember that present federal tax rates are set to expire December 31, 2010. Postponing income into future years could mean a bigger tax bill.

The new conversion rules are particularly advantageous to those upper-income taxpayers who could never participate in a Roth. Now taxpayers in high tax brackets will have access to Roth IRAs. One possible strategy is to set up a traditional IRA with nondeductible contributions in 2009 and then convert it to a Roth in 2010.

It's important to weigh the pros and cons of a conversion in your individual situation. Please give us a call if you would like to discuss the best strategy for you.

Do you own too much company stock?

Employees often have too much of their employer's company stock in their 401(k) or other retirement plan. Employees feel they know their company best, overlooking the risks of having too much of an investment in any one company, including their own.

What are some of the risks of loading up on your employer's stock?

- **Tremendous bet in a "safe haven."** Overweighting investment holdings in any company minimizes diversification, exposing your portfolio to increased downside return risk. The belief that employer shares are less risky is an illusion.

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- **Double whammy potential.** No company is protected from economic downturns. If your employer's performance weakens, you may lose your income if you lose your job, as well as value in your retirement plan.

- **Lock-up periods.** Some companies prohibit employees from converting the employer retirement match contributions in company stock into other investments until after a number of years. In this case, use your own contributions to diversify your holdings.

- **Tendency to forget.** As you move closer to retirement, you may forget the riskiness of your employer's stock to your portfolio. At the same time, contributions of company stock may be growing, based on higher benefit matches – just when portfolio diversification is becoming more important.

Your goal should be to create a well-balanced portfolio that suits your age and your risk tolerance. Call us for assistance in reviewing your retirement situation.

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