

Federal tax law changes for 2010 return

Learn how federal tax law changes could impact your tax return. Many of the tax breaks in recent tax-relief bills were designed to be phased in over a number of years, or are indexed to inflation. To help you determine how these tax laws affect your long-term plans, this article explains the changes scheduled to come into effect in 2010.

• Tax Credit of Up to \$8,000 for First-Time Homebuyers:

If you purchased a primary residence in 2009 before December 1, 2009 and are a “first-time” homebuyer, you can qualify for a tax credit equal to 10 per cent of up to \$80,000 of the purchase price. To be eligible, you must not have owned a residence in the United States in the previous three years. The credit phases out between \$150,000 and \$170,000 of Adjusted Gross Income for joint filers, and \$75,000 to \$95,000 for single filers.

The credit is refundable to the extent it exceeds your regular tax liability, which means that if it more than offsets your tax liability, you’ll get a refund check. But it does not offset the Alternative Minimum Tax.

You can even elect to claim the credit for a 2009 home purchase on your 2008 tax return. (If you filed for 2008 before buying, but before the December 1, 2009 deadline, you can claim your credit by filing an amended return using Form 1040X. Doing so will guarantee you a refund check. Unlike the credit for 2008 purchases, the credit for 2009 purchases doesn’t have to be paid back over 15 years. But you will have to repay the credit if you sell the house within three years of the date you bought it.

Payroll Tax Credit: For 2009 and 2010, Congress gave workers a credit of 6.2 percent of their earned income, capped at \$400 for single filers and \$800 for joint filers. For single filers, the credit starts phasing out at \$75,000 of Adjusted Gross Income and dries up at \$95,000. The phaseout zone for couples is \$150,000-\$190,000. Employees will get the credit in advance via lower income tax withholding in each paycheck, not as a rebate check. Self-employed can reduce their quarterly estimated payments to get an advance benefit from the credit. The exact amount of the payroll tax credit for the year will be calculated on the filers’ tax returns. Recipients of Social Security benefits, Railroad Retirement benefits, Supplemental Security Income or veteran disability pensions will get a one-time \$250 check instead for 2009. Federal retirees who don’t receive any Social Security will also get a \$250 check.

• Sales Tax Deduction for New Vehicles:

Buyers of new vehicles can deduct the sales tax paid on the purchase, even if they don’t claim sales taxes as itemized deductions. They can add the tax they pay to their standard deduction. This break applies to new cars, motor homes, light trucks and motorcycles purchased after February 16, 2009 and before January 1, 2010. Sales tax paid on the first \$49,500 of cost qualifies. The benefit begins phasing out for married couples with AGI over \$250,000 and singles with Adjusted Gross Income over \$125,000. It is completely gone for single filers with Adjusted Gross Income of \$135,000 or more, or joint filers with AGI of at least \$260,000.

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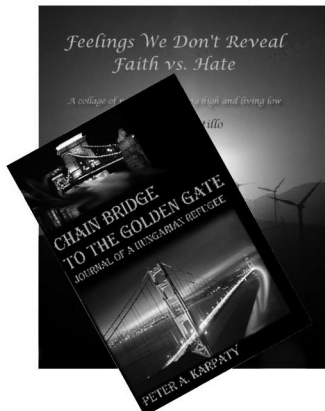


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