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## Client Information Bulletin

July 2009

### Key Points on the New Homebuyer Credit

*New stimulus law improves credit for 2009*

The new economic stimulus law passed earlier this year—the American Recovery and Reinvestment Act of 2009—enhances the special tax credit for first-time homebuyers. However, this new tax break is still off-limits for certain taxpayers.

**Background:** The homebuyer tax credit was initially created by the Housing Assistance Tax Act of 2008. Under the housing law, you could claim a refundable tax credit equal to the lesser of \$7,500 or 10% of the price of a home purchased after April 8, 2008, and before July 1, 2009. For this purpose, a “first-time homebuyer” is defined as someone who has not owned a principal residence for the three years prior to the purchase.

Furthermore, if you made a qualified purchase in 2009, you did not have to wait until you filed your 2009 tax return to recover the tax benefit. You could elect to use the credit to offset your tax liability on your 2008 return.

However, there were two major disadvantages to the initial version of the credit.

1. Unlike the typical tax credit, you had to pay back the credit amount to the IRS in installments over a 15-year period. In addition, if you stopped using the home as your principal residence, you had to repay the full amount in that year.

2. The credit phased out if your modified adjusted gross income (MAGI) in the year of the purchase exceeded either \$75,000 for single filers or \$150,000 for joint filers. The phase-out was complete at \$95,000 of MAGI for single filers and \$170,000 for joint filers.

The new law modifies the credit for qualified purchases made after December 31, 2008, and before December 1, 2009. There are two key changes:

- ◆ The maximum dollar amount is increased from \$7,500 to \$8,000.
- ◆ You do not have to repay the credit as long as you continue to live in the home for at least three years following the purchase. However, you must recapture the credit if you stop using the home as your principal residence during this three-year period.

The refundable tax credit reduces tax liability on a dollar-for-dollar basis. For example, suppose you qualify for the maximum \$8,000 credit and your annual tax liability is \$10,000. You pay \$11,000 in withholding tax in 2009. As a result, you are entitled to a \$9,000 refund (\$8,000 credit + \$1,000 tax overpayment) on your return. On the other hand, if you paid only \$9,000 in withholding in 2009, you would receive a \$7,000 refund (\$8,000 credit – \$1,000 tax underpayment).

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There is one major catch to the new credit: The phase-out rules still apply. Thus, only a partial credit or no credit is available to upper-income taxpayers.

**Note:** If you purchased a home early in 2009, you may have elected to claim the previous version of the credit

on your 2008 return. Because the home purchase qualifies for the enhanced credit, you may want to file an amended return to recover the larger amount.

*The IRS recently issued new guidelines regarding the credit. Consult with a tax professional for more details.*

## Seven Cost-cutting Moves in Tough Times

### *Creative ideas to help the bottom line*

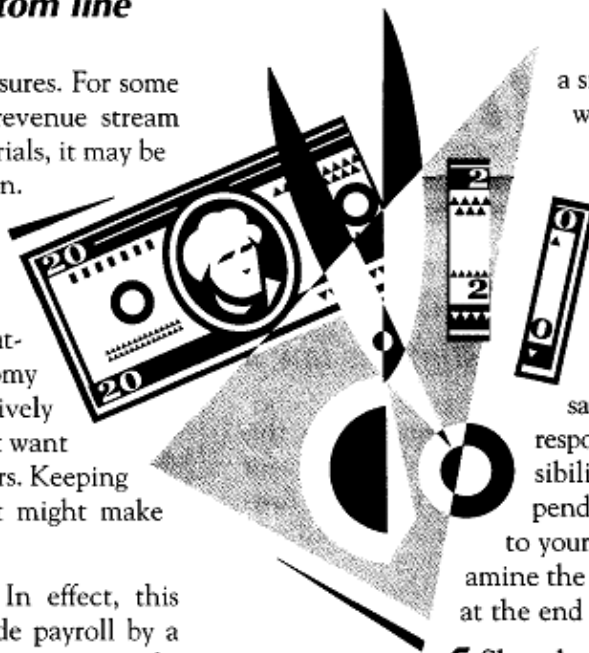
**D**rastic times may call for drastic measures. For some entrepreneurs facing a dwindling revenue stream and escalating costs for supplies and materials, it may be necessary to take some preemptive action. This might be the only way for the company to stay afloat until the economy turns around.

Naturally, you should consider any cost-cutting measures carefully, despite the gloomy outlook. Although employees may be relatively understanding of the situation, you do not want to risk losing your most valuable performers. Keeping that in mind, here are seven ideas that might make sense for your business.

**1. Switch to a four-day work week.** In effect, this enables you to reduce your company-wide payroll by a total of 52 days for each employee. In some cases, workers may actually prefer this type of arrangement, especially if it eliminates day-care expenses for parents of young children.

**2. Add a summer vacation.** Unpaid furloughs have been proposed for government workers, so why not for your firm? If you have to cut payroll in order to avoid layoffs, you might as well give your employees a week off in the summer when they can enjoy a wide range of outdoor activities. Hopefully, staff members will return from this break rested and ready for work.

**3. Consider voluntary pay reductions.** For example, if each employee's salary is reduced by just 1%, it may save



a significant amount of money without irreparably damaging morale. At the very least, you may have to enforce a salary freeze for the workforce.

**4. Suspend 401(k) matches.** It is important to encourage employees to save for retirement, but fiscal responsibility is a greater responsibility. After temporarily suspending matching contributions to your 401(k) plan, you can reexamine the company's financial picture at the end of the year.

**5. Shut down PCs.** It is often ignored, but having employees turn off their computers and monitors at night—and especially over the weekend—can cut the company's utility bill. Alternatively, have your technology expert configure the power settings to power-down PCs so the process is automatic.

**6. Eliminate or reduce overtime.** At this point, your company may not be able to afford to pay time-and-a-half wages. Unless there is an emergency, send your non-salaried employees home at the usual quitting time. In fact, you may find that employees will become more productive during regular working hours.

**7. Expand year-end holidays.** At many companies, very little gets done between December 24 and New Year's Day. If you do not already shut down your operation during this time, consider treating the week as an unpaid vacation.

*Of course, you can expect to encounter some grumbling or even stronger resistance if you are forced to implement some of these moves. But the future viability of the company may be at stake. Consider other cost-cutting measures that would be applicable to your particular industry or profession.*

### **Give Us A Call!**

*Do you have any questions or comments about Client Information Bulletin or your individual situation? Please do not hesitate to contact our office. We would be glad to serve you in any way we can.*



## Should You Change Section 529 Plan Investments?

### Two investment switches allowed in 2009

A growing legion of parents have invested in Section 529 plans for college. According to a spokesperson for the College Savings Plan Network, in 2008 about 11 million account investors held more than \$129 billion in such plans. However, stock market volatility has caused the value of many accounts to plummet during the past year.

At least a new IRS ruling provides greater flexibility to Section 529 plan investors. It allows you to change your asset allocation more than once during the year to reflect current market conditions.

**Background:** You can set aside funds in a Section 529 plan for the future education of your children or grandchildren. As long as certain requirements are met, there is no tax on the contributions to the plans, no tax on the accumulation of earnings and no tax on distributions when the funds are paid out for qualified distributions. If a child decides not to attend college or attends school in another state, you may transfer funds to another plan or "roll over" the funds for the benefit of a successor beneficiary (e.g., a younger child).

There are two main types of Section 529 plans: the prepaid tuition plan and the college savings plan.

◆ Essentially, a prepaid tuition plan is guaranteed to keep pace with the rising cost of college tuition.

For instance, say that it currently costs \$10,000 annually to send a child to a state university. You pay \$10,000 now to buy shares in a plan for a youngster. When the child is ready to go to school, your shares pay for an entire year of tuition—no matter what it costs at that point. This type of plan is often attractive to parents because it offers peace of mind. There is no risk of loss of principal, and the investment is usually guaranteed by the state.

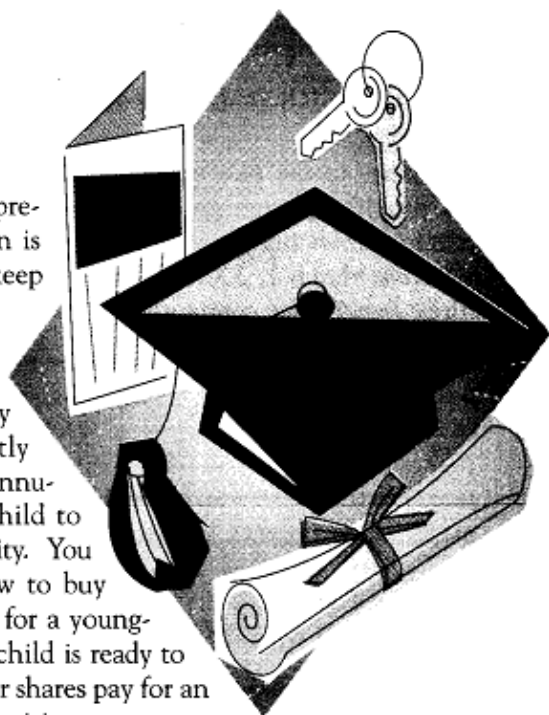
◆ With a college savings plan, there is no guaranteed lock on future tuition costs. In fact, the savings may not be enough to cover all of the costs, but there is a bigger potential upside as well.

Usually, the plan will offer an asset allocation strategy geared to the current age of the child or the year he or she will enter school. For example, the plan may provide more aggressive investments in the early years and switch over to more conservative investments as college approaches. The funds are managed by professionals.

Initially, proposed regulations allowed Section 529 investors to choose a basic investment strategy, but only at the time the account was established. Subsequently, the IRS allowed Section 529 account investors to revise their investment strategy once a year (in addition to changes permitted upon switching beneficiaries).

Now the new ruling gives you more leeway. You can change your investment strategy twice in 2009 if you desire. This pronouncement was precipitated by concerns over current stock market conditions. The annual limit is scheduled to be reinstated in 2010.

*In light of the new ruling, this may be an optimal time to review your Section 529 plan holdings. Be sure to seek professional assistance when needed.*



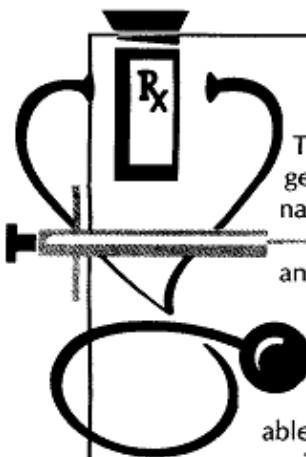
### Relief from New COBRA Obligations

The federal law known as COBRA generally allows an employee terminated from employment to continue employer-provided health insurance coverage for up to 18 months.

Under the new economic stimulus law, workers "involuntarily terminated" between September 1, 2008, and December 31, 2009, may be able to pay only 35% of the required premiums for a nine-month period. Employers must pay the balance.

However, if your company must make COBRA payments for employees who have been laid off or fired, your business is eligible for a new payroll tax credit. Alternatively, you may be able to reduce regular required tax deposits.

The IRS recently issued guidance for employers on this issue. Contact a tax professional for assistance.



## Roundup of Tax-free Commuting Benefits

### *New law increases transportation limits*

**T**hanks to the new economic stimulus law (see front page), employees are eligible for bigger tax-free transportation benefits than they have received in the past, effective March 1, 2009. Here is a summary of the main fringe benefits for commuters.

**Mass transit passes:** Your company may provide transit passes to encourage employees to use mass transit instead of commuting to work by car. It can either authorize reimbursements or pay the expenses directly. Under the new law, the maximum monthly amount that employees may receive tax-free is doubled from \$115 for 2008 to \$230. (An inflation-adjusted maximum of \$120 per month applies to the first two months of 2009.) This tax break extends through 2010.

**Vanpooling:** Employers may arrange to transport employees in a company-owned van or similar vehicle. The vehicle must seat at least six adults (not counting the driver) with at least 80% of the mileage attributable to transporting employees. Also, at least half of the seating capacity (not counting the driver) must be occupied during these trips. As with mass transit passes, the maximum monthly tax-free benefit is increased to \$230 as of March 1, 2009, extended through 2010. But the combined tax-free benefits for mass transit passes and vanpooling cannot exceed the monthly limit.

**Parking fees:** An employer may designate parking spaces for employees on or near its business premises or a nearby

location from where the employee can commute to work, such as a train station or bus terminal. But this does not include parking spaces at or near an employee's home. The previous monthly tax-free benefit for parking fees was already \$230 for 2009, so there is no change in that amount. **Note:** Parking fees may be provided in addition to any benefits available for mass transit and vanpooling.

**Bicycle commuting:** For tax years beginning after 2008, your company can pay employees up to \$20 per month tax-free for getting to and from work by bicycle. The payments may cover reasonable costs like bicycle purchases, other equipment purchases, repairs and storage. However, if an employee takes advantage of this tax break, he or she is not eligible to receive any of the other tax-free transportation benefits (e.g., mass transit passes).

Finally, be aware that the higher limits for transportation benefits after February 28, 2009, may be adjusted for inflation for 2010. These adjustments are generally announced at the end of the preceding year.

*The rules for commuting fringe benefits only apply on a federal income tax level. Other laws may be applicable for state income tax purposes.*



## Facts and Figures

### *Timely points of particular interest*

➔**Ponzi Schemes**—Bernie Madoff and others have been accused of swindling investors out of their hard-earned dollars. Now a new IRS ruling says you can deduct such losses as a theft loss rather than a capital loss. The loss is deductible in the year it is discovered without applying the usual limits. Normally, casualty and theft losses must be reduced by \$100 per event (\$500 in 2009) and are subject to a 10%-of-AGI floor.

➔**Business Ethics**—Do you make ethical business decisions? Try writing a short news article about the actions you take. Do not worry about the quality of the writing as much as stating the facts. Then review the article a week later. Determine if you would be comfortable if it ran in a local newspaper and friends and family saw it. This can help you set your moral compass at work.

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