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# Client Information Bulletin

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## Key Provisions in the New Recovery Act

### *New tax breaks for individuals and businesses*

**T**he new American Recovery and Reinvestment Act of 2009 includes numerous tax breaks for both individuals and businesses. In general, the changes are retroactive to January 1, 2009. Here is an overview of several key provisions.

**Making Work Pay credit:** An employee or self-employed individual may claim a credit equal to the lesser of 6.2% of earned income (or \$400 for single filers) or \$800 for joint filers. This new credit, which is available for 2009 and 2010, begins to phase out if your modified adjusted gross income (MAGI) is \$75,000 or more for single filers and \$150,000 for joint filers.

**Alternative minimum tax:** Congress "patched" the alternative minimum tax (AMT) again for 2009 by extending the use of personal credits to offset AMT liability and slightly increasing the exemption amounts. The exemption amounts for 2009 are \$46,700 for single filers and heads of household (up from \$46,200 for 2008) and \$70,950 for joint filers and surviving spouses (up from \$69,950 for 2008).

**New car deductions:** Under the new law, you can claim an above-the-line deduction for the sales and excise taxes attributable to the first \$49,500 of a new vehicle's purchase price. The deduction begins to phase out for an MAGI exceeding \$125,000 for single filers and \$250,000 for

joint filers. It is only available for purchases between February 17, 2009, and December 31, 2009.

**First-time homebuyer's credit:** The new law revamps the first-time homebuyer's credit for homes purchased in 2009 as follows:

- ◆ The maximum credit is increased to \$8,000 (up from \$7,500 for 2008) for purchases after December 31, 2008, and before December 1, 2009.
- ◆ Unlike the previous credit for 2008, you are not required to repay the credit over 15 years, as long as you live in the home for at least three years.

However, note that the credit for 2009 still begins to phase out for an MAGI exceeding \$75,000 for single filers and \$150,000 for joint filers.

**Education credit:** The Hope education credit is enhanced for 2009 and 2010 and renamed the "American Opportunity Tax Credit." For starters, the maximum credit is increased to \$2,500 (up from \$1,800 for 2008) and will be available for all four years of study. Furthermore, the phaseout thresholds are boosted to \$80,000 of MAGI for single filers and \$160,000 for joint filers.

**Depreciation deductions:** Under the Economic Stimulus Act of 2008, the Section 179 deduction limit was in-

### Inside

*How to Improve  
Customer Service—Fast*

*Keeping Your 401(k)  
Plan in Motion*

*No Ifs, Ands  
Or Buts*

*Enjoy Tax Breaks for  
Vacation Homes*

*Facts and Figures*

creased to \$250,000 for 2008, with a phaseout threshold of \$800,000. These figures were scheduled to revert to lower levels. The new law preserves the higher limits for qualified assets placed in service in 2009. It also extends the 50% bonus depreciation deduction for another year. This results in an \$8,000 increase in the "luxury car" dollar caps.

**Net operating losses:** Normally, your company can carry back net operating losses (NOLs) for a period of just two years. Under the new law, the NOL carryback period is extended to as long as five years for a qualified small business with average gross receipts of \$15 million or less. This change is effective for NOLs in tax years beginning or ending in 2008.

**S corporation conversions:** The built-in gains (BIG) tax applies to sales of appreciated assets after a C corporation converts to S corporation status. Normally, the holding period for assets subject to the BIG tax is ten years, but the new law reduces it to seven years for gains realized in tax years beginning in 2009 and 2010.

## How to Improve Customer Service—Fast

### Practical ideas for these competitive times

In today's business climate, improving customer service is not a luxury; it is a necessity. Cutthroat competition, razor-thin profit margins and an anxious public have made this an essential element of doing business.

Fortunately, providing effective customer service does not have to be costly, complicated or even overly time-consuming. Service that pays off in satisfied customers is as much a product of common sense as anything else. Keeping that in mind, here are some practical suggestions to get the ball rolling.

- ◆ **Make your company more accessible.** Consider low-cost, effective ways to spread the word about your service department. For example, if your service department has a toll-free telephone number, display it prominently on your invoices, company letterhead and any other written material being sent to customers. It is even better if you can provide customers with a name (e.g., "ask for Sally or John"). The more you personalize your customer service, the better the chance of defusing an irate customer and retaining his or her business in the future.
- ◆ **Keep things simple.** Even pleasant sounding service representatives will begin to grate on someone's nerves if the customer has to speak to half a dozen representatives before getting help. Ideally, it should take a customer only one or two calls to solve most problems. Eliminate unnecessary

**Work Opportunity Tax Credit (WOTC):** Employers may claim a maximum \$2,400 credit for hiring a worker from designated disadvantaged groups. The new law adds two new categories, disabled veterans and disconnected youth, for workers hired and starting work in 2009 and 2010.

**Retiree payments:** The new law provides a one-time payment of \$250 to taxpayers living on a fixed income, such as Social Security recipients, railroad retirees, disabled veterans and certain government retirees.

**Unemployment benefits:** For 2009 only, no income tax is imposed on the first \$2,400 of unemployment benefits received by a worker who loses his or her job.

**Energy tax incentives:** The new law also includes a slew of tax benefits for making various energy-saving improvements to a residence or business.

*This is just the tip of the iceberg. Obtain guidance from a professional tax adviser.*



paperwork and red tape that only angers or annoys your customers.

Give customer service people the power to make some decisions on their own. **Caveat:** Be sure that they have all the information available for each customer, such as what was purchased, in what quantity, for how much, how payment was made, etc. Also, service reps should be kept up-to-date about your company's products and services. As a result, besides handling returns and replacements, they may also mention similar items the customer could be interested in purchasing.

- ◆ **Stay in touch afterward.** Good service does not end when the customer hangs up the telephone or walks out the door. Remember, even though you may have been able to resolve someone's immediate concern, what you are really after is his or her repeat business.
- ◆ **Follow up on customer complaints.** Depending upon your type of operation and your budget, you can use postcards, phone calls or even in-person visits by sales reps as a way of making sure that the customer is satisfied.

*Finally, the best customer service policy in the world will not do you much good unless you back up your words with action. And just one negative experience for a customer can undo all the goodwill your company has built in the past.*

# Keeping Your 401(k) Plan in Motion

## Planning for retirement remains critical


The recent economic downturn is taking its toll. Case in point: Some employees are having second thoughts about the viability of their 401(k) plans. According to a recent report by an independent consulting firm, 4% of plan participants stopped making 401(k) contributions at the end of last year. Also, the percentage of 401(k) savings traded jumped to 5.3% in 2008 from 3.5% in 2007.

Nevertheless, despite the understandable concerns of employees in this uncertain economy, the fundamental principle behind 401(k) plans remains sound. Over time, this type of plan can provide a solid base for retirement savings.

**Basic premise:** In the typical 401(k) plan setup, an employer allows participating employees to defer part of their salary to their accounts on a pretax basis. Each employee determines the amount that he or she chooses to contribute each year, within certain inflation-adjusted limits. The maximum dollar amount allowed for 2009 is \$16,500. Then the funds are invested on behalf of the employees according to their investment choices.

Although the employer is not legally required to provide additional funds, it may choose to do so in a matching plan. For instance, an employer may match contributions up to a stated percentage of deferral. With this add-on, employees are often able to set aside a sizeable amount for retirement. Of course, there are no guarantees as to investment earnings, but the contributions may accumulate on a

### No Ifs, Ands Or Buts



Here is one common mistake that many business owners make: They say to a worker, "You did a great job on that project, but ..." The problem is that the employee only remembers the "but" part of the comment. Instead of boosting the employee's spirits, he or she may end up demoralized and discouraged.

It is a small thing, but practice removing the "but" from your statements. Better to give a straightforward "well done" comment, when deserved, and leave it at that. Don't feel the need to include criticism in every communication. You may find that this will have a positive psychological effect on your workers.

tax-deferred basis over a lengthy period of time.

Furthermore, "catch-up contributions" are permitted for employees who are 50 years of age or older. For example, in 2009 you can add another \$5,500 to the pot if you qualify. The total dollar limit for 50-or-older participants is \$22,000.

Note that a 401(k) plan must benefit employees in general. It may be disqualified if highly compensated employees contribute a disproportionately higher amount than lower-paid employees. Withdrawals from the plan can be made when an employee separates from service after age 55 or due to death or disability. Otherwise, withdrawals before age 59½ are generally subject to a 10% tax penalty plus regular income tax.

In the last few years, several new features have enhanced the use of 401(k) plans. Here are a few key examples:

- ◆ An employer may institute an automatic enrollment program to ensure that the company meets certain participation requirements under the law.
- ◆ Solo 401(k) plans for small businesses have multiplied as administrative costs have been reduced.
- ◆ Safe harbor plans have been designed to reduce the strict compliance burdens facing employers. These plans allow you to bypass complex testing procedures and permit highly compensated employees to maximize their contributions.
- ◆ A Roth IRA feature can be added to an existing plan, enabling 401(k) plan participants to receive qualified distributions free of any income tax. This new feature first became available in 2006.

**Reminder:** There are no guarantees about investment earnings within a 401(k) plan. But reliance on sound financial concepts may put you in position to meet your retirement goals.



# Enjoy Tax Breaks for Vacation Homes

## Navigate tricky tax rules on rental losses

If you own a vacation home, you undoubtedly derive personal pleasure from this valuable asset. But the current economy could be putting a strain on your resources.

Know that special tax rules apply if you decide to rent out the home for part of this year. These rules affect longtime landlords, as well as those renting for the first time.

**Background:** The rental income received from a vacation home can offset some of the costs of ownership. Of course, the income is taxable, but you may claim offsetting deductions for a portion of your expenses. For instance, if you rent out the home for 80% of the time and use it personally for 20% of the time, you can deduct 80% of your insurance, repair costs, depreciation on the home and so forth.

If you incur a loss on the rental—your rental-related expenses (including mortgage interest and property taxes allocable to the rental) exceed the income—the tax picture is not as clear. Under the passive activity loss rules, you can use losses from a rental activity only to offset losses from other passive activities. However, if you are an active

participant in the rental (e.g., you make management decisions), the tax consequences depend on your income level and the level of your family's personal use.

◆ If your adjusted gross income (AGI) does not exceed \$100,000, you can use the loss to shelter up to \$25,000 of your salary and other income, as long as you keep personal use below the greater of 14 days or 10% of the rental time. However, you cannot deduct the mortgage interest allocable to your personal use.

◆ If your AGI exceeds \$150,000, you do not qualify for the \$25,000 loss write-off. Your total rental deductions cannot exceed your rental income, regardless of the amount of your personal use. If your personal use is greater than 14 days or 10%, you may benefit from an additional deduction for the portion of the mortgage interest not claimed as a rental expense.

◆ If your AGI is between \$100,000 and \$150,000, the \$25,000 loss write-off is phased out. The closer you are to the \$150,000 level, the less you will receive for a loss write-off. So you may want to increase your personal use as those with an AGI above \$150,000 might do. **Result:** You will be able to deduct more of your mortgage interest.

If, on the other hand, you are close to the \$100,000 level, most of your loss write-off will remain intact. Therefore, you should try to keep your personal use below the 14-day/10% mark.



### 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.

## Facts and Figures

### Timely points of particular interest

➔ **A Test of Faith**—In a new case, a couple claimed charitable deductions for tuition and fees they paid for their children to attend a private school affiliated with a specific religion. But the Ninth Circuit Court said that the parents received a benefit from the education provided to the children. Therefore, they cannot deduct any school expenses as a contribution to charity.

➔ **Group Dynamics**—Do you want honesty from your employees? Consider posing questions to them in small groups. Not only does this create a forum for discussion, but the relative anonymity usually enables people to open up more easily. **Caveat:** You might not like what you hear, but it should reflect the honest perceptions of the workers.

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