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New Tax Bills Will Bring Change Soon

By Stephen D. Tonjes, CPA

Two big tax bills will affect Californians: The American Recovery and Reinvestment Act of 2009 and the tax provisions that were included in the California budget. Though there are only a few provisions that could affect your 2008 income tax filing there are a number of items that need to be acted upon quickly. Otherwise it could end up costing you money. Let's look at some of the key provisions and the key dates they contain:

March 1, 2009 to March 1, 2010 - If you buy a brand-new, never occupied home you may qualify for a California credit of 5% of the purchase price up to a maximum credit of \$10,000. There are no income restrictions. The State of California has set aside \$100 million for this credit. Once taxpayers have utilized credits totaling that amount any other taxpayers who would otherwise qualify will be out of luck. California is going to post on the Franchise Tax Board web site a counter that will give a running total of the credits available. It is expected that all the credits will be utilized within the next three to four months.

April 1, 2009 - The sales tax rate in Contra Costa County is going to 9.25% effective April 1, 2009. That is because California is raising the sales tax rate by 1% on April 1, 2009. Try to make any major purchases prior to that date.

April 17, 2009 - The date by which you are allowed to revoke the waiver of the federal net operating loss carryback period. The general rule is that when you have a net operating loss the federal government requires you to carry back that loss to the prior two years. You can elect to forgo the carryback and instead carry it forward to future years. For small businesses (gross receipts of less than \$15 million) you can now elect to carryback your 2008 net operating loss 3, 4, or 5 years. A good way to recover some of the taxes you paid when business was better.

May 19, 2009 - The California DMV fee will increase on May 19, 2009. The rate goes from 0.65% of the value of the automobile to 1.15%. If you purchase a \$50,000 automobile after May 19, your DMV fee will increase by \$250.

December 1, 2009 - The federal government enhanced the "first time homebuyer credit." The original law applied to principal residences purchased on or after April 9, 2008 and before July 1, 2009. It granted a refundable credit. The credit is equal to 10% of the purchase price up to a maximum credit of \$7,500. The credit had to be recaptured ratably over a 15-year period. For example Sam buys a principal residence for \$300,000 in 2008 and claims a \$7,500 credit. Sam must recapture as an addition to tax, \$500 each tax year from 2010 through 2024. If Sam were to sell the home within the 15 year recapture period the balance of the credit would be immediately recaptured. The "new law" applies to purchases made after December 31, 2008, and before December 1, 2009. It retains all the rules of the old law with the following changes:

- The credit is increased from \$7,500 to \$8,000; and
- The regular recapture rules are removed. You don't have to pay it back unless you sell the house within 36 months.

A taxpayer may elect to report a 2009 purchase as if made in 2008; that is, they can report a 2009 purchase on their 2008 return and take the credit there. They do this on Form 5405.

December 31, 2009 - You can deduct on your federal return sales tax paid on

the purchase of a "new" car bought on or after February 17, 2009, and no later than December 31, 2009. The deduction is available even for taxpayers that don't itemize. The deduction is reduced for taxpayers with incomes over \$125,000 and eliminated for incomes over \$135,000 (\$250,000 and \$260,000 on a married filing joint return).

There is a new California credit for increasing the number of full-time employees. The credit is \$3,000 per qualified employee if the total full-time employees increase over the prior year. The credit only applies to businesses with fewer than 20 employees. This is a great provision for those who are considering starting a new business.

There are many other provisions but we wanted to bring to your attention some of the critical dates that we don't want you to miss. We encourage you to talk to your tax advisor.



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