

**SPECIAL EDITION
2009 YEAR END
TAX PLANNING**

HK BULLETIN

HALL, KISTLER & COMPANY LLP

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A Note From Hall, Kistler & Company LLP

Your Year-End tax planning is more important now, than ever! Timely actions can identify a host of tax breaks and changes in rates and phase outs. There are a host of law changes on the horizon as well. This newsletter is an overview of the applicable year end tax changes that we felt might affect our clients and associates. We have also included a Year End Tax Planning Guide for 2009 for your convenience. Please call our office at 330-453-7633 to discuss your year end plan.

Very Truly Yours,
Karen M. Brenneman, CPA, MT
Tax Partner

Opportunities Presented by Post-2009 Roth IRA Conversion

Roth IRAs have many beneficial features. Earnings within the account are tax-sheltered (as they are with a regular qualified employer plan or IRA). Unlike a regular qualified employer plan or IRA, withdrawals from a Roth IRA aren't taxed if some relatively liberal conditions are satisfied. A Roth IRA owner does not have to commence lifetime required minimum distributions (RMDs) after he or she reaches age 70 1/2 as is generally the case with regular qualified employer plans or IRAs. (For 2009, there's a moratorium on RMDs.) Beneficiaries of Roth IRAs also enjoy tax-sheltered earnings (as with a regular qualified employer plan or IRA) and tax-free withdrawals (unlike with a regular qualified employer plan or IRA). They do, however, have to commence regular withdrawals from a Roth IRA after the account owner dies.

For 2009, only taxpayers with modified adjusted gross income (MAGI) of \$100,000 or less may convert amounts in a traditional IRA (or qualified plan) to amounts in a Roth IRA (and married persons filing separately can't make such rollovers at all). However, for tax years beginning after 2009, you will be able to roll over amounts in qualified employer sponsored retirement plan accounts, such as 401(k)s and profit sharing plans, and regular IRAs, into Roth IRAs, regardless of your adjusted gross income (AGI) or filing status.

Here is how a rollover to a Roth IRA works, if you are in the 28% Federal tax bracket and roll over \$100,000 from a regular IRA funded entirely with deductible dollars to a Roth IRA, you'll owe \$28,000 of tax.

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2009 Modification of New Home-owners credit and a Credit is Available for an “Existing Homebuyer”

The refundable credit for a first-time homebuyer has been extended to purchases made after November 30, 2009 and before May 1, 2010. The credit is the lesser of \$8,000 or 10 percent of the purchase price of a principal residence.

Also, a refundable homeowner’s credit of up to \$6,500 is available for an existing homebuyer who purchases a principal residence. For an existing homebuyer the purchase must be made after Nov. 6, 2009 and before May 1, 2010. An individual (and, if married, the individual’s spouse) who has maintained the same principal residence for any 5-consecutive year period during the 8-year period ending on the date of the purchase of a subsequent principal residence is treated as a first-time homebuyer of that subsequent principal residence. Thus, if you meet the above noted criteria you may qualify for this “existing homebuyer” credit.

For both a first-time homebuyer and an existing homebuyer the credit applies to the purchase of a principal residence before July 1, 2010 by any taxpayer who enters into a written binding contract before closing May 1, 2010.

The following limitations and requirements apply to both the “first-time homebuyer” and the “existing homebuyer” credit during this extension period (i.e. before May 10, 2010). No credit is available if the purchase price of any residence exceeds \$800,000. This credit is phased out for individual taxpayers with modified adjusted gross income (AGI) between \$125,000 and \$145,000 (\$225,000 and \$245,000 for joint filers) for the year of purchase. A properly executed copy of the settlement statement used to complete the purchase must be attached to the return. No credit is allowed in certain relationship and dependency circumstances.

Five-Year Carryback of Operating Losses

An “eligible small business” may elect to carryback an “applicable net operating loss (NOL)” to any whole number of years elected by the taxpayer which is more than two years and less than six years. An “eligible small business” is a taxpayer meeting a \$15,000,000 gross receipts test. An “applicable NOL” is the taxpayers NOL for a taxable year beginning or ending in either 2008 or 2009. In addition, there is no 90% limitation on the use of any alternative tax NOL for which an extended carryback is elected.

Nonbusiness Energy Property Credit

This credit equals 30 percent of what a homeowner spends on eligible energy-saving improvements, up to a maximum tax credit of \$1,500 for the combined 2009 and 2010 tax years. The cost of certain high-efficiency heating and air conditioning systems, water heaters and stoves that burn biomass all qualify, along with labor costs for installing these items. In addition, the cost of energy-efficient windows and skylights, energy-efficient doors, qualifying insulation and certain roofs (e.g. metal and asphalt) also qualify for the credit, though the cost of installing these items does not count.

Increased Penalty For Failure to File Timely Partnership or S Corporation Returns

The penalty for failure to timely file a partnership or S Corporation return for a tax year beginning after December 31, 2009 is \$195 per partner or shareholder per month up to 12-months.

Dependent Exemptions

A noncustodial parent claiming an exemption for a child can no longer attach to his or her Form 1040 certain pages from a divorce decree or separation agreement instead of Form 8332 (Release/Revocation of Release of Claim to Exemption for Child by Custodial Parent) if the decree or agreement was executed after 2008. The noncustodial parent must attach Form 8332 or a similar statement signed by the custodial parent and whose only purpose is to release a claim to exemption.

Ohio Real Estate Homestead Exemption

The Ohio Homestead Exemption is for homeowners age 65 and older, the surviving spouse of an eligible person previously on the Homestead program and homeowners who are “totally and permanently disabled” as certified by a licensed physician or psychologist, or a state or Federal agency that own and occupy a home as their principal place of residence as of January 1, of the tax year for which they are applying.

The Homestead Exemption is based upon a reduction of \$25,000 in the “market value” appraisal of the home. Depending on the tax rate in your district, the Homestead Exemption will normally result in a savings of \$270 to \$480 per year (\$135 to \$240 per half) in Stark County.

Forms are available at <http://www.auditor.co.stark.oh.us/forms.asp>

REPEAL OF THE .5% STARK COUNTY SALES/USE TAX

As of April 1, 2010 the Stark County Sales/Use tax will be 6% as a result of the November 3, 2009 vote. The sales tax will remain at 6.5% through March 31, 2010.

IRA Deductions

The IRA contribution limit is \$5,000 (\$6,000 if over 50 at the end of 2009). For 2009, the adjusted gross income phase out ranges for making deductible contributions to regular IRA's by taxpayers that are active participants in an employer-sponsored retirement plan are higher (e.g., \$89,000 to \$109,000 for joint return filers).

Health Savings Account Deduction

An individual is allowed a maximum deductible HSA contribution of \$3,000 for single coverage (\$5,950 for family coverage). Make sure to fund your plan before year end too shelter future medical expense payments. Amounts not used will rollover to subsequent years.

Residential Energy Efficient Property Credit

Homeowners going green should also check out a second tax credit designed to spur investment in alternative energy equipment. The residential energy efficient property credit, equals 30 percent of what a homeowner spends on qualifying property such as solar electric systems, solar hot water heaters, geothermal heat pumps, wind turbines, and fuel cell property. Generally, labor costs are included when calculating this credit.

New Motor Vehicle Taxes

For 2009, taxpayers may be able to claim a deduction for state or local sales and excise taxes on the purchase of a new motor vehicle. The deduction may increase the amount of a taxpayers standard deduction or be claimed as an itemized deduction (if the taxpayer is not electing to take the state and local general sales tax deduction).



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Opportunities—Continued from page 1

So you'll be paying tax now for the future privilege of tax-free withdrawals, and freedom from the RMD rules. You also should know that Roth rollovers made in 2010 represent a novel tax deferral opportunity. If you make a rollover to a Roth IRA in 2010, the tax that you'll owe as a result of the rollover will be payable half in 2011 and half in 2012, unless you elect to pay the entire tax bill in 2010. If you believe there's a strong chance your tax rates will go up after 2010, you may want to consider paying the tax on the Roth rollover in 2010.

We should discuss your and your family's entire financial situation before you plan for a large rollover to a Roth IRA after 2009. There also are many details that we should go over, such as whether the amounts you are thinking of switching to a Roth IRA are eligible for the rollover (technically, they are called "eligible rollover distributions"), whether you can make rollovers from your employer sponsored plan (for example, there are restrictions on rollovers from 401(k) plans), and the tax impact of rolling over amounts that represent non-deductible as well as deductible contributions.

**HAPPY HOLIDAYS TO ALL
 FROM HALL, KISTLER & COMPANY**