A Note From
Hall, Kistler & Company LLP

The recently enacted “American Recovery and Reinvestment Act of 2009” (the 2009 economic stimulus act) contains a wide-ranging tax package that includes tax relief for low and moderate-income wage earners, individuals and families with college expenses, and home and car purchasers. This newsletter is an overview of the applicable tax changes that we felt might affect Hall, Kistler & Company’s clients. Please call our office at 330-453-7633 for details of how the new changes may affect you, your family or your business.

Very Truly Yours,
Michael G. Eberhart, CPA, CVA
Managing Partner

Tax Break For Car Buyers

In hopes of spurring the overall economy, and the automobile industry in particular, the new law includes a tax break for purchasers of new cars: a deduction for state and local sales and excise taxes paid on new vehicle purchased on or after February 17, 2009 and before January 1, 2010.

Sales tax is generally not a deductible item for individuals. A limited exception allows taxpayers who itemize their deductions to claim either state and local income taxes or state and local general sales taxes, which mainly benefits taxpayers with a state or local sales tax but no income tax. Under the new law, buyers can claim an income tax deduction for the sales or excise tax they pay on a vehicle purchase. Key details of this new tax incentive include:

♦ The tax break applies to purchases of passenger cars, minivans, light trucks, motorcycles, and motor homes, but it only applies on $49,500 of the vehicle’s price and it only applies to new vehicles.
♦ The tax break covers new vehicles purchased on or after February 17, 2009 and to the end of 2009.
♦ You do not have to itemize your deductions to be able to claim the deduction. However, the deduction cannot be taken by a taxpayer who elects to deduct state and local sales taxes in lieu of state and local income taxes.
♦ Only couples making less than $250,000 a year, or individuals making less than $125,000 annually, qualify for the full deduction. The deduction claimed is allowed for AMT.
“Making Work Pay” Tax Credit

The centerpiece of the tax package—and at $115 billion its single largest component—is a “Making Work Pay” tax credit of up to $400 per year for individuals, or $800 per year for couples. Here are the details of this new credit:

♦ Eligible individuals will receive an income tax credit for two years (tax years beginning in 2009 and 2010). The new credit, like other tax credits, will reduce a person’s tax liability on a dollar-for-dollar basis. Wage earners who don’t earn enough to pay income taxes will be able to claim the difference as a tax refund.

♦ The new credit is the lesser of (1) 6.2% of an individual’s earned income or (2) $400 ($800 in the case of a joint return). In other words, for individuals with earned income above roughly $6,451 ($12,902 for couples), the credit is limited to $400 ($800 for couples). For the last half of 2009, workers can expect to see perhaps $13 a week less withheld from their paychecks starting around June. That reduction goes down to about $9 per week next year.

♦ Nonresident aliens do not qualify for this credit. Neither do estates, trusts, or individuals who can be claimed as a dependent on someone else’s return.

♦ The credit is available in full only if AGI (adjusted gross income, with some modifications for highly specialized income) doesn’t exceed $75,000 for an individual ($150,000 if you file a joint return). The credit is phased out at a rate of two percent of the eligible individual’s AGI above $75,000 ($150,000 in the case of a joint return). So no credit is allowed for individuals with AGI of $100,000 or more, or for joint filers with AGI of $200,000 or more.

♦ Unlike the $600 per worker lump-sum rebates issued last year, the credit can be received as a reduction in the amount of income tax that is withheld from a paycheck, or through a credit on a tax return.

♦ Since the credit is based on taxable wages and thus unavailable to many retired people and other whose income does not come from wages, the new law includes a one-time payment of $250 to retirees, disabled individuals and SSI recipients receiving benefits from the Social Security Administration, and Railroad Retirement beneficiaries, and to veterans receiving disability compensation and pension benefits from the U.S. Department of Veterans’ Affairs. The one-time payment is a reduction to any allowable Making Work Pay credit. Similarly, a one-time refundable tax credit of $250 is provided in 2009 to certain government retirees who are not eligible for Social Security benefits. This one-time credit is a reduction to any allowable making Work Pay credit.

Additional Stimulus Notes

♦ COMPUTERS AS AN EDUCATION EXPENSE. A provision permits computers and computer technology to qualify as qualified education expenses in Section 529 education plans for tax years beginning in 2009 and 2010.

♦ ALTERNATIVE MINIMUM TAX (AMT) PATCH. To hold the number of taxpayers subject to the AMT at bay, the new law increases the AMT exemption amounts for 2009 to $46,700 ($46,200 for 2008) for individuals and $70,950 ($69,950 for 2008) for joint returns, and allows the personal credits against the AMT.
Enhanced First-Time Buyer Homebuyer Credit

You may remember that last year’s Housing Act included a tax credit giving first-time homebuyers up to a $7,500 (actually, 10% of the purchase price or $7,500, whichever is less) credit for buying a home between April 8, 2008, and July 1, 2009, with single taxpayers with incomes up to $75,000 and married couples with incomes up to $150,000 qualifying for the full tax credit. However, despite high hopes that the credit would be effective in getting people to buy homes and thereby reduce the excessive inventory on the market, the credit is widely acknowledged to have failed in its objective.

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The problem, according to realtors and industry officials, was that buyers were turned off by the odd way the credit worked. While the credit functioned initially like other tax credits, reducing a person’s tax liability on a dollar-for-dollar basis, it was unusual in that, unlike other Federal tax credits (for example, the child credit), the credit for first-time homebuyers had to be paid back to the government ratably over a period of 15 years (or earlier if the house is sold). So, as a practical matter, the credit was the equivalent of an interest-free loan from the government. It was the payback requirement that many in the industry felt kept potential buyers on the sidelines.

Now, Congress has beefed up the credit in renewed optimism of enticing more first-time homebuyers to take the plunge. First and foremost, the new legislation scuttles the repayment requirement for homes purchased on or after January 1, 2009. The new law also extends the credit through the end of November 2009, and bumps up the maximum credit amount from $7,500 to $8,000. However, the new law retains the recapture provisions if the house is sold within three years of purchase.

Expanded College Credit

The tax act includes a measure aimed at making college more affordable for low and moderate-income students. The new provision temporarily enlarges the Hope tax credit (renamed the American Opportunity tax credit) for students from middle-income families and partially extends this tax credit for the first time to students from lower-income families.

The new law creates a new American Opportunity tax credit for 2009 and 2010, replacing and expanding the Hope tax credit for those years.

♦ The maximum amount of the American Opportunity tax credit is $2,500 per eligible student (up from a maximum credit of $1,800 under the Hope credit). The credit is 100% of the first $2,000 of qualifying expenses and 25% of the next $2,000, so the maximum credit of $2,500 is reached when a student has qualifying expenses of $4,000 or more.

♦ While the Hope credit was only available for the first two years of undergraduate education, the American Opportunity tax credit is available for up to four years.

♦ Under the Hope credit, qualifying expenses were narrowly defined to include just tuition and fees required for the student’s enrollment. Textbooks were excluded, despite their escalating cost in recent years. The American Opportunity tax credit expands the list to include course material e.g. textbooks.

♦ The Hope credit was nonrefundable, i.e., it could reduce your regular tax bill to zero but could not result in a refund. This meant that if a family didn’t owe any taxes it couldn’t benefit from the credit, which prompted critics to argue that the credit was thus denied to the very families most in need of help affording college. The American Opportunity tax credit addresses this criticism to a degree by providing that 40% of the allowable credit is refundable. This means that someone who has at least $4,000 in qualified expenses and who would thus qualify for the maximum credit of $2,500, but who has no tax liability to offset that credit against, would qualify

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Energy Tax Incentives

LONG-TERM EXTENSION AND MODIFICATION OF RENEWABLE ENERGY PRODUCTION TAX CREDIT. The new legislation extends the placed-in-service date for wind facilities for three years (through December 31, 2012). It also extends the placed-in-service date through December 31, 2013 for certain other qualifying facilities: closed-loop biomass; open-loop biomass; geothermal; small irrigation; hydropower; landfill gas; waste-to-energy; and marine renewable facilities.

TEMPORARY ELECTION TO CLAIM THE INVESTMENT TAX CREDIT IN LIEU OF THE PRODUCTION TAX CREDIT. Facilities that produce electricity from solar facilities are eligible to take a 30% investment tax credit in the year the facility is placed in service. Facilities that produce electricity from wind, closed-loop biomass, open-loop biomass, geothermal, small irrigation, hydropower, landfill gas, waste-to-energy, and marine renewable facilities are eligible for a production tax credit, payable over a ten-year period. The Act provides a temporary election to claim the investment tax credit in lieu of the production tax credit.

BUSINESS ENERGY CREDIT. The new law enhances the business energy credit by eliminating the cap on small wind property and repealing the basis reduction requirement for subsidized energy financing.

ENERGY-EFFICIENT EXISTING HOMES. The new law extends the tax credits for improvements to energy-efficient existing homes through 2010. For 2009 and 2010, the amount of the tax credit is increased from 10% to 30% of the amount paid or incurred by the taxpayer for qualified energy efficiency improvements during the tax year. The property-by-property dollar caps on the tax credit are also eliminated, and an aggregate $1,500 cap applies to all property qualifying for the credit.

RESIDENTIAL ENERGY PROPERTY. The new law removes the dollar limitations on certain energy credits, e.g., for qualified small wind energy property ($4,000 cap); for qualified solar water heating property ($2,000 cap); and qualified geothermal heat pumps ($2,000).

TAX CREDITS FOR ALTERNATIVE FUEL PUMPS. The new law provides an increase for 2009 and 2010 in the 30% alternative refueling property credit for businesses (capped at $30,000) to 50% (capped at $50,000).

CREDIT FOR INVESTMENT IN ADVANCED ENERGY FACILITIES. The new law establishes a new manufacturing investment tax credit for investment in advanced energy facilities, such as facilities that manufacture components for the production of renewable energy, advanced battery technology, and other innovative next-generation green technologies.

VEHICLES. The new law provides a tax credit for purchases of plug-in electric drive vehicles ranging from $2,500 to $7,500 depending on battery capacity. The new law also restores and updates the electric vehicle credit for plug-in electric vehicles that would not otherwise qualify for the larger plug-in electric drive vehicle credit and provides a tax credit for plug-in electric drive conversion kits.

MORE FUNDING FOR BONDS. The new law authorizes additional funds for new clean renewable energy bonds and qualified energy conservation bonds.
EXTENSION OF BONUS DEPRECIATION. Last year, Congress temporarily allowed business to recover the costs of capital expenditures made in 2008 faster than the ordinary depreciation schedule would allow by permitting these businesses to immediately write off 50% of the cost of depreciable property acquired in 2008 for use in the United States. The new law extends this temporary benefit for qualifying property purchased and placed into service in 2009.

EXTENSION OF ENHANCED SMALL BUSINESS EXPENSING (SECTION 179). In order to help small businesses quickly recover the cost of certain capital expenses, small business taxpayers may elect to write off the cost of these expenses in the year of acquisition in lieu of recovering these costs over time through depreciation. Congress temporarily increased the amount that small businesses could write off for capital expenditures incurred in 2008 to $250,000 and increased the phase-out threshold for 2008 to $800,000. The new law extends these temporary increases for capital expenditures incurred in 2009.

EXPANDED LOSS CARRYBACK OF NET OPERATING LOSSES FOR SMALL BUSINESSES. The new law provides that for NOLs arising in tax years ending after December 31, 2007 small businesses may elect to increase the NOL carryback period for an applicable 2008 NOL from two years to any whole number of years which is more than two and less than six.

INCENTIVES TO HIRE UNEMPLOYED VETERANS AND DISCONNECTED YOUTH. Businesses are allowed to claim a work opportunity tax credit equal to 40% of the first $6,000 of wages paid to employees of one of nine targeted groups. The new law expands the work opportunity tax credit to include two new targeted groups: (1) unemployed veterans; and (2) disconnected youth. Individuals qualify as unemployed veterans if they were discharged or released from active duty from the Armed Forces during 2008, 2009 or 2010 and received unemployment compensation for more than four weeks during the year before being hired. Individuals qualify as disconnected youths if they are between the ages of 16 and 25 and have not been regularly employed or attended school in the past 6 months.

QUALIFIED SMALL BUSINESS STOCK. The new law increases the exclusion for gain from the sale of certain small business stock held for more than five years from 50% to 75% for stock issued after the enactment date and before 2011.

S CORP HOLDING PERIOD. For tax years beginning in 2009 and 2010, no tax is imposed on the net unrecognized built-in gain of an S corporation if the seventh tax year in the recognition period preceded the 2009 and 2010 tax years. This rule applies separately for property acquired from C corporations in carryover basis transactions. Thus, for the 2009 and 2010 tax years, the recognition period is reduced to seven years.

REDUCED ESTIMATED TAXES FOR SMALL BUSINESSES. Effective on February 17, 2009, for any tax year beginning in 2009, in computing the amount of the required annual installments of estimated income tax of any qualified individual, “required annual payment” means the lesser of (1) 90% of the tax shown on the return for the tax year, or (2) 90% of the tax shown on the return of the individual for the preceding tax year.

A qualified individual means any individual if the AGI on the tax return for the preceding tax year is less than $500,000 ($250,000 if married filing separately) and the individual certifies that at least 50% of the gross income from a small trade or business shown on the return for the preceding tax year was income from a small trade or business.

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for a $1,000 (40% of $2,500) refund from the government. No portion of the credit is refundable if the taxpayer claiming the credit is a child subject to the “Kiddie Tax.” The credit may be claimed against AMT.

The Hope credit was not available to someone with higher than moderate income. Under the credit’s “phase-out” provision, taxpayers with adjusted gross income (AGI) over $50,000 (for 2009) saw their credits reduced, and the credit was completely eliminated for AGIs over $60,000 (twice those amounts for joint filers). Under the American Opportunity tax credit, taxpayers with somewhat higher incomes can qualify, as the phase-out of the credit begins at AGI in excess of $80,000 ($160,000 for joint filers).
Stan R. Arner, CPA to Lead BKR Manufacturing Committee

Stan R. Arner, CPA and partner at Hall, Kistler & Company LLP has been selected to a two-year term to chair the U.S. Manufacturing Committee for BKR International, effective immediately. BKR International is a leading global association of independent accounting and business advisory firms representing the expertise of more than 135 member firms with over 300 offices in over 70 countries around the world who provide accounting, taxation, and business services. The mission of the Manufacturing Committee is to exchange information and resources for the purpose of improving members’ understanding of the manufacturing industry, and enhancing everyone’s ability to provide unique consulting and support services to their clients.

Stan has over 40 years in the accounting industry including serving as managing partner at his own firm before joining Hall, Kistler & Company LLP in 2002. He is highly skilled in providing accounting; auditing, tax and management consulting services for a wide variety of publicly held and closely held companies in the fields of manufacturing, construction, land development, transportation, financial services, retail, and publishing. Management services have included analysis of financial information, business valuations, forecasts and projections and succession planning. He has served and continues to serve as an advisor to the Board of Directors of closely held companies. He has also served as Chief Financial Officer of a manufacturing company with thirty locations whose stock was traded on AMEX.

Stan earned a Bachelor of Science Degree in Business Administration from Kent State University and received his CPA Certification in 1968. He is a member of the American Institute of Certified Public Accountants, the Ohio Society of Certified Public Accountants where he has served as past director and vice president; and the Institute of Business Appraisers. Extremely active in civic affairs, Stan has served three years on the President’s Advisory Committee at Stark State College. Stan is also a member of the Canton Regional Chamber of Commerce’s Development Committee and CEO Group; he is a Member of the Board and Finance Committee of Pathway Caring for Children; and a member of the Jackson-Belden Chamber of Commerce. Past associations include the operation and budget committee of the regional American Heart Association.