G&E Gero & Evaul
Certified Public Accountants and Consultants
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Dear Clients & Friends,

With the end of this year fast approaching and a multitude of potential and certain tax changes forthcoming this newsletter intends to highlight some of the consequences or possible opportunities associated with these changes.

First Time Homebuyer Tax Credit - On November 6, President Obama signed into law the "Worker, Homeownership, and Business Assistance Act of 2009". One of the key changes in this act was the liberalization and further extension of the first time homebuyer tax credit (FTHTC) for purchases subsequent to the enactment date. The FTHTC is a refundable tax credit that is equal to the lesser of $8,000 ($4,000 for individual married filing separately) or 10% of the principal residence's purchase price. The Act extends the date to a principal residence purchased by the taxpayer before May 1, 2010 or to those taxpayers who purchase a principal residence before July 1, 2010 as long as the taxpayer has entered into a written binding contract by May 1, 2010 to close on the property before July 1, 2010. The FTHTC is also available to higher income taxpayers, those with modified adjusted gross income between $125,000 and $145,000 ($225,000 and $245,000 for joint filers) for the year of purchase. The term "first time" has also been liberalized to include existing homeowners who are considered "long term residents". This would include those taxpayers who have 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. The maximum allowable credit for these taxpayers is $6,500. These liberalized changes are not retroactive and are effective as of the bill's enactment date.

Roth IRA Rollover Opportunity - After 2009 taxpayers will be able to rollover amounts in qualified retirement plan accounts into a Roth IRA regardless of their adjusted gross income. Currently, individuals with more than $100,000 of adjusted gross income as specially modified are barred from making such rollovers. The catch is that you will have to pay tax on all rollover amounts that are made from pre-tax contributions and the earnings on those contributions. The tax you will owe as a result of this rollover will be payable half in 2011 and half in 2012, unless you elect to pay the entire tax bill in 2012. Why would you choose to pay the tax bill in 2010 as opposed to deferring it over 2011 and 2012? To answer that you must know that absent any action by Congress after 2010 the tax brackets are set to revert to their pre-2001 levels. This means the top four brackets will be **39.6%, 36%, 31% and 28%**, instead of the current top four brackets of **35%, 33%, 28%, and 25%**. Some advantages to note about the Roth IRA are: earnings in the account are tax sheltered, withdrawals aren't taxed if some relatively liberal conditions are satisfied, and there are no required minimum distributions at age 70 ½.

Take Advantage of Increased Depreciation and Expensing Limits – Generally business assets that are purchased in 2009 will be eligible for bonus depreciation, allowing 50% of an asset's cost to be deducted up front in 2009. The other half is deducted via regular depreciation. This applies to new assets with useful lives of 20 years or less. Expensing is also available for certain business assets placed

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in service before year-end. Companies can expense up to $250,000 of the cost of certain assets in lieu of depreciating them. This $250,000 ceiling is reduced dollar for dollar once a firm places over $800,000 of assets in service. Those companies contemplating the purchase of an SUV, that meets certain exceptions, can get a huge deduction. On a new $50,000 SUV with a loaded weight exceeding 6,000 pounds, a company can expense $25,000 (the maximum for vehicles of this type) and can claim $12,500, half of the remaining $25,000 cost, as bonus depreciation plus regular depreciation of 20% of the $12,500 balance. The total first year write off in this example would be $40,000, assuming 100% business use. Used assets don't receive the bonus depreciation.

Key Tax Changes Set For January 1, 2011 – In 2001, to ease recessionary problems, the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) was enacted. This reduced income tax rates for most taxpayers, increased tax credits for those with children, increased the amounts of tax deductible contributions taxpayers could make to their IRA accounts and a one year repeal to the estate tax among many other things. Many of these provisions are set to expire, or sunset, on January 1, 2011. This would increase the top four tax brackets back to their pre-2001 levels. This would mean the top tax bracket would equal 39.6% as opposed to 35% currently. With the repeal of the estate tax in 2010 and the ambiguity of what is going to happen to the exclusion levels subsequent to that it is imperative you know how this will affect your estate planning motives, and work with your advisors to stay current with the pending changes. Under the EGTRRA long term capital gains and qualified dividends are taxed at a preferential maximum rate of 15%. Under the sunset provisions these rates would also increase to their pre-2001 levels. Unless a further extension or new rules are enacted taxpayers need to seriously contemplate the influence of these increased rates and how it affects their investment/business decisions from a tax standpoint. The current Administration has proposed to increase taxes only for those making $250,000, but it is difficult to predict who will get hit with higher rates. Furthermore there is a health reform bill before the senate now that if passed would impose a possible surtax on higher income individuals. There is so much uncertainty as to the future of our taxing system, so please contact our office at any time if you would like to discuss how current developments are affecting your personal situation.

We want to take this opportunity to **THANK** all of you who are clients of ours for your business. We also wish each and every one of you a very happy holiday season and prosperous new year. Please contact our office if you have any concerns about how the commentary in this newsletter influences your particular situation or if you have any other questions or concerns about a tax or related financial matter.

Sincerely,

Gero & Evaul

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