

Fall 2009

*Check out our new website and
BLOG!*

*Attend one of our workshops—
calendar on back!*

Need a Speaker?

*Erin would love to
speak to*

*Your company's
Lunch N Learn*

*To your Board
Meeting*

*Community lunch-
eon*

Or

*As a community
service to your
Club*

To your church

*To your giving cir-
cle*

*To your Bunko
group*

*To your service
organization*

Phone: 512-263-5400

Fax: 512-263-5402

Understanding the New Economic Stimulus Law and the 2010 Estate Tax - How Does It Impact You?

Although it seems complex the new federal stimulus package will affect all of us in one or more areas. The \$787 Billion American Recovery and Reinvestment Act of 2009 (ARRA) is designed to stimulate the economy and contains numerous tax provisions that affect individuals and small businesses. The following is a summary of the key provisions for individuals and married couples.

"Making Work Pay" Credit

ARRA provides for an individual tax credit in the amount of 6.2% of earned income, not to exceed \$400 for single returns and \$800 for joint returns in 2009 and 2010. This credit phases out at adjusted gross income (AGI) in excess of \$75,000 (\$150,000 for married couples filing jointly). Eligible taxpayers can claim the credit as a reduction in the amount of income tax that is withheld from a paycheck, or through a credit on a tax return.

Economic Recovery Payment

ARRA provides for a one-time payment of \$250 to retirees, disabled individuals, Social Security beneficiaries, and SSI recipients receiving benefits from the Social Security Administration and Railroad Retirement Board; and to veterans receiving disability compensation and pension benefits from the U.S. Department of Veterans' Affairs. There is no AGI phase-out, and this one-time payment reduces the taxpayer's "Making Work Pay" credit.

Refundable Credit for Certain Federal and State Pensioners

ARRA provides for a one-time refundable tax credit of \$250 (\$500 for spouses filing jointly where both spouses are eligible) in 2009 to certain government retirees who are not eligible for Social Security benefits. This one-time credit also reduces any allowable "Making Work Pay" credit.

Unemployment Compensation Exclusion

A provision in ARRA temporarily suspends federal income tax on the first \$2,400 of unemployment benefits received by a recipient in 2009.

Expanded Tax-Free Expenses and Credits for Students

For college and graduate school students, as well as their parents and grandparents, ARRA makes two important changes. First, in 2009 and 2010 only, ARRA authorizes you to make distributions from a 529 plan, free of income tax, for the purchase of computer technology or equipment. This includes computers, educational software, internet access, and related services. Prior to ARRA, only distributions for "qualified higher education expenses" were free of income tax. Qualified higher education expenses include tuition, fees, books, supplies, and a limited amount of room and board.

Our attorneys are dedicated to offering experienced, responsive and personal legal services in the following areas

Wills
Trusts
Family Partnerships
Estate Planning
Business Succession
Probate / Administrations
Elder Law
Medicaid Planning
Guardianships
Business Formation
Retirement Planning
Asset Protection
Wealth Preservation
Family Law

Second, ARRA creates the "American Opportunity Credit," a tax credit for up to four years of college or higher education expenses. Applicable for 2009 and 2010 only, the maximum annual credit is \$2,500 per student and includes expenses for required course materials. The new American Opportunity credit is available for each college or higher-level student in the household. It is not limited to one credit per household.

Expanded and Increased "First-Time Homebuyer" Credit

Designed to stimulate the real estate market, ARRA provides for a refundable "first-time homebuyer" credit of up to \$8,000 (\$4,000 for unmarried or married filing separately). "First-time homebuyers" are those who have not owned a principal residence during the three-year period prior to the purchase. For married taxpayers, the law tests the home-ownership history of both the homebuyer and his/her spouse. To apply, the home purchase must occur before December 1, 2009. If the homebuyer uses the home as his or her (or their) principal residence for 36 months, the homebuyer will not be subject to repayment of any of the credit. This is significant in that prior credits for first-time homebuyers were subject to repayment (for example, over a 15-year period).

On February 25, 2009, the IRS announced that first-time homebuyers who purchase in 2009 can claim the credit on their 2008 federal tax return. If the home purchase closes after filing of the buyer's 2008 return, the buyer can file an amended 2008 return to claim this credit. Alternatively, first-time homebuyers may claim this credit on their 2009 return.

COBRA Assistance

Under COBRA, a former employee can pay to continue the former employer's health insurance benefits for up to 18 months after separation of service. Typically, the former

employee pays 100% of this benefit, unless the employer pays some or all as part of a severance agreement. Under ARRA, the employer must pay 65% of the cost of COBRA for former employees who:

1. *involuntarily* separated from service between September 1, 2008 and December 31, 2009; and
2. participated in their employer's health plan at the time they lost their jobs.

Qualifying employees must pay only 35% of the cost of COBRA coverage. Significantly, the employer-borne 65% of the COBRA cost will not be included in the former employee's gross income. This COBRA subsidy phases out beginning at \$125,000 modified AGI for individuals, \$250,000 for married taxpayers filing jointly. If you or a loved one lost a job between September 1, 2008, and February 17, 2009, even if COBRA coverage was not initially elected, an additional 60 days to elect COBRA coverage and receive the subsidy must now be provided by the previous employer.

Sales Tax Deduction for Vehicle Purchases

For eligible taxpayers who buy a new car, light truck, motor home or motorcycle in 2009 and pay state and local sales and excise taxes, ARRA permits a deduction for some or all of this tax. This deduction applies regardless of whether the taxpayer itemizes deductions on their tax return. ARRA limits this deduction to the tax on up to \$49,500 of the purchase price of an eligible motor vehicle. The deduction phases out beginning at \$250,000 AGI for joint filers, \$125,000 for other taxpayers. Purchases before February 17, 2009, are not eligible for this deduction.

Energy Efficiency and Conservation Incentives

Designed to encourage energy efficiency, ARRA provides for a 30% credit (up from 10%) for 2009 and 2010 for the cost of replacing windows and doors with energy efficient ones, installing insulation and installing energy efficient heating and cooling equipment. It also increases the aggregate credit available from \$500 to \$1,500. There is no maximum credit on:

- Electric and solar water property
- Fuel cells (but the eligible expenditure is limited to \$500 [\$1,667 for property occupied by more than one person] for each half kilowatt of capacity installed)
- Small wind and geothermal heat pump property

It appears that taxpayers who had used up their \$500 lifetime credit can now take an additional \$1,000 credit for qualifying expenditures made during 2009 and 2010.

ARRA also provides for a credit equal to \$7,500 (no weight limit) for plug-in electric vehicles and a 10% credit (up to \$4,000) for converted plug-in vehicles. Low-speed vehicles receive a 10% credit (up to \$2,500).

The energy efficiency, conservation and plug-in vehicle credits are not subject to AGI phase-outs. Therefore, all taxpayers are eligible for these credits.

Enhanced Child Tax Credits

ARRA increases eligibility for the child tax credit for many taxpayers by lowering the annual threshold to \$3,000 from \$8,300. This change to the child tax credit applies to 2009 and 2010 only.

Alternative Minimum Tax (AMT) Patch

ARRA provides for a relatively small, one-year "patch" or extension of the exemption from the Alternative Minimum Tax, but this patch will keep millions of taxpayers out of AMT. As a result of this patch, individuals earning approximately \$85,000-100,000 and married couples filing jointly earning approximately \$150,000-200,000 will be exempt from the AMT in 2009.

Estate Tax

As you know, in 2010, should Congress take no action the estate tax will be repealed for the entire year. Congress has not yet acted to avoid that repeal, however, it is almost impossible to believe they will not do something. The last proposal, but that has not yet been acted on, is a one year "patch" which will retain the estate tax at its current limits of \$3.5 million for 2010 giving Congress additional time to work on estate tax and other taxes on the "rich." The estate tax rate is 45% until 2011 when it goes to 55% on \$1 million dollar exemption. That has not yet changed.

Conclusion

By working with your planning team to understand these new income tax provisions and the opportunities they create, the estate tax consequences and how to minimize its impact on your estate, you may be able to save significant tax dollars, for yourself and possibly your parents, children and grandchildren.

Wise Women Plan for the Best and Prepare for the Worst

On average women will spend the last 15 years of their lives alone.
Women control over 50% of the wealth in this country.
Are you ready?
Learn more about these issues by attending a workshop
November 3 and 5, 2009
10:00—11:00 am, 2:00-3:00 pm or 6:30-7:30 pm

Workshop space is limited. Please call or email us to make a reservation.

263-5400 or tracy@thrashlawfirm.com

The key to the best estate planning concerns not only what you own but who and what you value....

Trustworthy...Experienced



The attorneys at the Thrash Law Firm are dedicated to offering first-rate legal services with honesty and integrity.

Erin Thrash is board certified in estate planning and probate law by the Texas Board of Legal Specialization. She is licensed to practice law in Texas and Louisiana. She has represented a long list of high net-worth clients and focuses on advanced planning and asset protection issues for her clients.



Tracy Kasperek was licensed to practice law in Texas in 2007. Her legal focus centers on wills, probate, estate planning, LG Planning and elder law.

Planning for and with women is becoming increasingly important. If you are married to a woman—can she manage without you? If you are a single woman can you manage your affairs? Who will take care of you and or your children? Take advantage of our complimentary consultation to discuss these issues and more.

We're on the web

www.thrashlawfirm.com

The hiring of an attorney is an important decision. The items discussed in this newsletter are of a general nature and not intended to provide specific legal advice. Please consult with a qualified estate planning or elder law attorney to determine the best options for your personal circumstances.

**THRASH LAW FIRM**

**3 Lakeway Centre Court, Suite 100
Austin, Texas 78734**