



Certified Public Accountants

February 28, 2009

Dear Client:

Two big tax bills will affect Californians. The Federal Stimulus bill will decrease your taxes and the California budget bill will increase them. Here are a few of the important changes that will affect your tax returns. We are always here to help with any future tax planning needs.

Homebuyer credits

Californians have two chances to get a tax credit: federal and state.

Federal credit: If you buy a home in 2009 on or before November 30, 2009, you can get a federal tax credit of up to \$8,000. A "credit" is treated just like withholding, so it increases the amount of your refund.

Better yet, even though you buy a home in 2009, you can report it on your 2008 return and get the refund fast. In fact, you can do that even if you've already filed your 2008 return; we just file an amended return and claim the credit. There are three major limitations:

- You only qualify if neither you nor your spouse (if married) have owned a principal residence for at least three years as of the date of purchase;
- You have to live in the residence for at least three years or you have to pay back the credit;
- Your credit is reduced if your income is \$75,000 or more and completely eliminated if it's \$95,000 (those numbers are increased to \$150,000 and \$170,000 for married filing joint).

California credit: If you buy a brand new, never-occupied home you qualify for a credit of 5% of the purchase price up to a maximum credit of \$10,000. There are no income restrictions. However:

- The credit is available if you purchase a personal residence on or after March 1, 2009, and before March 1, 2010. You must occupy the home as your residence for at least two years or you must pay the credit back;
- You take $\frac{1}{3}$ of the credit per year. This means if you buy a new house in 2009, you would take the credit on your 2009, 2010, and 2011 returns.
- The seller (builder) must provide you with a certificate that they obtain from the Franchise Tax Board within one week of the purchase.

Making Work Pay Credit

This year you'll get a credit of up to \$400 (\$800 for married filing joint). The credit is 6.2% of your *earned income* with the above maximums. "Earned income" means W-2 income or self-employment income. The IRS has already adjusted the withholding tables to account for this credit.

Economic Recovery Payment

Recipients of Social Security retirement benefits, railroad retirement benefits and veterans' disability or pension benefits plus individuals of any age eligible for SSI benefits will receive a one-time payment of \$250. Any person who was eligible to receive one of those four benefits in November or December of 2008 or January of 2009 will receive the payment. The government will start issuing the checks no later than June 17, 2009. The exact date has not been announced. No action of any kind is required on the part of an eligible recipient.

Government Retiree Credit

Certain government retirees will get their own version of the \$250 Economic Recovery Payment. However, this credit will not be sent to the recipient; it will be claimed on the 2009 tax return. Any former federal, state, or local government employee is eligible if their salary during their employment years wasn't treated as employment for FICA purposes. No individual can get both the Government Retiree Credit and an Economic Recovery Payment.

California tax rates increase

The 2009 California tax rates will increase from 1% – 9.3% to 1.25% – 10.55% (or 1.125% – 10.415% if federal stimulus money is high enough). Prepare for withholding to increase and you may have to increase your estimated tax payments. (Don't forget, California adds another 1% tax on income in excess of \$1 million.) Business rates remain the same.

Sales tax deduction on new cars

You can get a deduction for sales taxes paid on the purchase of a *new* car for purchases made on or after February 17, 2009, and no later than December 31, 2009. Passenger autos, light trucks, motorcycles, and motor homes qualify. The deduction is available even for taxpayers who 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 joint return).

California sales tax goes up

On April 1, 2009, your sales tax rate will increase by 1%. So, try to make any major purchases before April 1. The difference in sales tax on a \$50,000 car is \$500.

California car tax increase

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 (\$575 - \$325).

Exclusion for unemployment compensation

You will be able to exclude up to \$2,400 of unemployment compensation in 2009.

Hope Credit enhanced

If you or your child pays college tuition and fees in 2009, the Hope Credit has been improved in a number of ways. Most significantly, the income limitations have been increased substantially. If you were unable to take the credit in prior years because of the income limitations, you may have a better shot at it in 2009.

Child credits increased

Both the refundable Child Tax Credit and the Earned Income Credit have been increased substantially for certain taxpayers.

Residential energy credits enhanced

Credits for making energy-efficient improvements to your home have been greatly increased. The credits apply to such improvements as solar water heaters, geothermal heat pumps, and energy-efficient windows, among others.

Bonus depreciation and §179 expensing extended one year

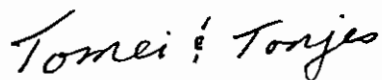
For purchases of plant and equipment used in a business, the accelerated depreciation rules have been extended for an additional year.

New California credit

California has added new credits 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.

If you have any questions, do not hesitate to contact Wayne Tomei or Stephen Tonjes at (925) 283-8700 extension 107 and 105, respectively

Best regards,



Tomei & Tonjes, LLP