



**WINDES & MCCLAUGHRY
ACCOUNTANCY CORPORATION**

*Certified Public Accountants
& Consultants*

TAX ALERTS:

The Ups & Downs of the New California Budget

On February 20, 2009, Governor Schwarzenegger signed a budget package that will cover the state's 2009 and 2010 fiscal years. The tax changes in the budget package include:

- Sales and use tax rate increase by 1%, starting April 1, 2009.
- New homebuyer credit - Purchasers of a qualifying residence may claim a credit against personal income tax for the lesser of \$10,000 or 5% of the purchase price of a principal residence that has never been occupied. The purchase of the qualifying principal residence must be made on or after March 1, 2009, and before March 1, 2010.
- Increase in the personal income tax rates by 0.25% or 0.125% depending on federal stimulus revenue.
- Decrease in the dependent exemption credit from \$309 to \$99 per person, the same amount as the personal exemption credit, for the 2009 and 2010 taxable years.
- Vehicle license fee increase by 1% and vehicle registration fee increase by 0.15%, starting May 19, 2009.
- Tax credit for small businesses (under 20 employees) hiring new employees - For taxable years beginning on or after January 1, 2009, a qualified employer may claim a credit against corporate or personal income taxes of \$3,000 for each additional full-time employee hired during the taxable year.
- Single sales apportionment factor.

Key Components of the New Economic Stimulus Package

The "American Recovery and Reinvestment Act of 2009" (the 2009 economic stimulus act), signed into effect on February 17, 2009, contains a wide-ranging tax package that includes tax relief for businesses, low- and moderate-income wage earners, individuals and families with college expenses, along with home and car purchasers. This listing covers some highlights of these new tax law changes that may affect you. These changes will be explained in detail in next quarter's Solutions. Please call our offices for more information of how the new changes may affect you and your business.

FOR BUSINESSES

- **Bonus Depreciation** - The 50% first-year bonus depreciation for new property is extended through December 31, 2009.
- **Net Operating Loss (NOL) Carryback** - A five-year carryback of 2008 NOLs is allowed for qualified small businesses with average gross receipts of \$15 million or less. The new law gives these businesses the choice to carryback NOLs three, four or five years. The new treatment will apply only to NOLs for any tax year beginning or ending in 2008.

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- **Section 179 Expensing** – The Section 179 expensing amount will remain at \$250,000 for 2009.
- **Refundable Credits in Lieu of Bonus Depreciation** – Allows businesses to monetize accumulated Alternate Minimum Tax and R&D credits in lieu of taking a bonus depreciation for all qualified properties placed in service through December 31, 2009.
- **S Corp Built-In Gain Period** – Temporarily shortens, from ten to seven years, the holding period for assets subject to the built-in-gains tax imposed after a C corporation elects to become an S corporation. This reduction applies to C corporations that convert to S corporations in tax years beginning in 2009 and 2010.
- **Estimated Taxes** – Decreases required estimated tax payments for individuals whose primary income in 2009 is from a small business. Rather than being required to make quarterly estimated tax payments based on 100% of their 2008 returns (110% if adjusted gross income exceeds threshold amounts), the new law allows computation based on 90% of their 2008 returns.

FOR INDIVIDUALS

- **Making Work Pay Credit** – Provides a credit against income tax in an amount equal to the lesser of 6.2% of the individual's earned income or \$400 (\$800 for married couples filing jointly). The credit applies in full for individuals whose modified adjusted gross income does not exceed \$75,000, or \$150,000 in the case of married couples filing jointly. The credit is phased out at a 2% rate above that limit.
- **\$250 Economic Recovery Payment** – Provides a one-time payment of \$250, for 2009 only, to individuals on fixed incomes (primarily Social Security recipients, railroad retirees, and disabled veterans). These payments will reduce any Making Work Pay Credit to which the individual would otherwise be entitled.
- **Alternative Minimum Tax (AMT) Patch** – Raises exemption amounts slightly above the 2008 patch levels. The 2009 AMT exemption amounts are: \$70,950 for joint filers and surviving spouses (up from \$69,950 in 2008); and \$46,700 for singles and heads of households (up from \$46,200 in 2008).
- **First-Time Homebuyer Tax Credit** – Raises the current maximum first-time homebuyer tax credit from \$7,500 to \$8,000 and extends it at that level for a purchase made on or before November 30, 2009. Eliminates any required repayment to the IRS after 36 months in the home. The credit phases out for taxpayers with adjusted gross income in excess of \$75,000 (\$150,000 for joint filers).
- **New Car Deduction** – A deduction is allowed for purchasers of new vehicles for state and local sales taxes or excise taxes paid on the purchase. Applies to 2009 purchases made on or after February 17, 2009. There are two limits on this new deduction:
 - 1) Deductible sales or excise taxes cannot exceed the portion of the tax attributable to the first \$49,500 of the purchase price of any one vehicle; and
 - 2) Any deduction will be phased out to the extent the purchaser has adjusted gross income exceeding \$125,000 (\$250,000 for joint returns).

Windes & McClaughry is a recognized leader in the field of accounting, assurance, tax, and business consulting services. Our goal is to exceed your expectations by providing timely, high quality, and personalized service that is directed at improving your bottom-line results. Quality and value-added solutions from your accounting firm are essential steps toward success in today's marketplace. You can depend on Windes & McClaughry to deliver exceptional client service in each engagement. For over eighty years, we have gone beyond traditional services to provide proactive solutions and the highest level of capabilities and experience.

Windes & McClaughry's team approach allows you to benefit from a breadth of technical expertise and extensive resources. We service a broad range of clients, from high net-worth individuals to privately held businesses to publicly traded companies. We act as business advisors, working with you to set strategies, maximize efficiencies, minimize taxes, and take your business to the next level.



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