



1103 Westfield Avenue
Rahway, New Jersey 07065
Phone: 732-382-3800 | Fax: 732-382-0213
MAILTO:TOM@CEREFICE.COM
WWW.CEREFICE.COM
WWW.RICHHABITS.NET

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FEDERAL TAX NEWS:

The U.S. is mired in the worst recession since World War II with nearly 14.9 million people unemployed, 9.1 million working part time for economic reasons and 2.3 million who have given up hope for employment. That's 26.3 million people. There are numerous tax provisions that are available to help the unemployed and also help mitigate the costs of finding new employment.

I. Job-hunting expenses:

Such expenses are deductible to the extent they exceed 2% of adjusted gross income. Examples include:

1. Employment agency fees:
Classified ads, job counseling and referral services.
2. Costs of resumes (printing, postage).
3. Travel for interviews.
4. Telephone/Internet costs etc.

In order to deduct job-hunting expenses, the taxpayer must be seeking employment in a trade or business in which he or she is or was employed. The deduction is allowed even if the attempt to obtain a new job is unsuccessful. Job-hunting expenses are not deductible, however, for first-time job seekers (e.g., recent graduates) or for taxpayers seeking employment in a new trade or business. Job-hunting expenses are deductible only as a miscellaneous itemized deduction on Schedule A of Form 1040, subject to the 2%-of-AGI deduction floor. Individuals generally must complete Form 2106, Employee Business Expenses, if they were reimbursed by an employer or a third party or if they claim any meal, entertainment, travel, or transportation expenses.

II. Moving expenses deduction:

If an unemployed taxpayer is able to obtain employment in another geographical area, he or she will be allowed a deduction for qualified moving expenses. Moving expenses are a deduction from adjusted gross income (no 2% threshold as in job hunting costs). To qualify for the moving expense deduction you must satisfy three tests:

1. Taxpayer must change job site even if with the same employer.
2. Taxpayer move from old residence to new job must be at least 50 miles more than your old commute.
3. Taxpayer must remain at the new job location for at least 39 weeks at the new job location during the 12 months following the move. Taxpayers who are self-employed must work at least 78 weeks at the new location during the 24 months after the move.

Qualified moving expenses include the following:

1. Moving household goods and personal effects.
2. Traveling from the former residence to the new residence. Travel includes lodging, but not meals, for the taxpayer and his family.

III. Education Credits:

1. American Opportunity tax credit has a maximum value of \$2,500 per year (100% of the first \$2,000 of tuition expenses plus 25% of the next \$2,000 of tuition expenses) for the first four years of postsecondary education.
2. Lifetime Learning tax credit is \$2,000 per year (20% of up to \$10,000 of qualifying expenses incurred in a year in which the American Opportunity tax credit is not claimed with respect to a given student). Generally, the Lifetime Learning tax credit is used for individuals who are beyond the first four years of postsecondary education (e.g., retraining for new job after previously attending at least four years of college).

The American Opportunity tax credit is partially refundable and may be used to offset a taxpayer's alternative minimum tax (AMT) liability (the Lifetime Learning tax credit is neither refundable nor an AMT liability offset) for 2009 and 2010.

IV. Retirement account distributions:

The major financial asset of many unemployed taxpayers is their retirement account. Most of these plans are subject to a 10% penalty on early withdrawals, as well as the distribution being taxable when received. There are certain exceptions to this penalty:

1. Distributions that are part of a scheduled series of substantially equal periodic payments (made not less frequently than annually) for the life of the participant (or the joint lives of the participant and the participant's beneficiary). The payments under this exception, except in the case of death or disability, must continue for at least five years or until the employee reaches age 59 1/2, whichever is the longer period.
2. Distributions made to an employee after separation from service because of early retirement under the plan after attaining age 55. This exception to early distribution treatment does not apply to a traditional IRA.
3. Distributions used to pay medical expenses to the extent that the expenses are deductible (exceed 7.5%-of-AGI deduction floor, but determined regardless of whether the taxpayer itemizes deductions).
4. IRA distributions that are used to pay qualified higher education expenses of the taxpayer, the spouse, or any child or grandchild of the taxpayer or the taxpayer's spouse.

Your retirement plan may allow employees to receive a hardship distribution because of an immediate and heavy financial need. Hardship distributions are limited to the employee's elective deferrals and generally do not include any income earned on the deferred amounts. What is an immediate and heavy financial need is determined based on all relevant facts and circumstances.

V. Mortgage Relief Act of 2007: Taxpayers who have their mortgage restructured may benefit from provisions of the Mortgage Relief Act of 2007. This Act applies to the discharge of debt after 2006 and before 2010 (before 2013, as extended by the Emergency Economic Stabilization Act of 2008). Up to \$2 million in debt forgiven on qualified principal residence debt may be excluded from gross income. Qualified principal residence debt refers to acquisition debt, which is the debt incurred as the result of the purchase, construction, or substantial improvement of a personal residence, and which is secured by the residence.

These rules apply to the taxpayer's primary home, not to second homes, such as vacation homes. If the taxpayer takes advantage of the new provision for excluding the debt forgiveness, a basis reduction is required.

VI. Unemployment benefits: Typically, unemployment benefits are taxable as gross income at the federal level and, in many states, are subject to state income tax as well. One of the recent changes recently enacted is an exclusion of unemployment from gross income of up to \$2,400 per individual. The exclusion applies to unemployment compensation received in any tax year starting in 2009. The exclusion applies only to unemployment compensation paid as part of a governmental program, not amounts paid by private supplemental unemployment compensation plans (for example, unemployment benefits paid by a company either under its own initiative or due to a union agreement).

VII. Increased earned income credit for 2009:

Workers who experience a layoff in 2009 are likely to have reduced earned income during the year. Certain low-income workers are eligible for a refundable credit termed the earned income credit (EIC). The EIC is calculated as a percentage of the taxpayer's earned income up to a maximum earned income amount. The percentage credit available to taxpayers is phased out as adjusted gross income exceeds certain thresholds or if the unearned income exceeds a certain amount (\$3,100 in 2009). The credit percentage increases as the number of qualifying children increases.

VIII. COBRA subsidy:

Health coverage under an employer's group plan may be continued under the Consolidated Omnibus Budget Reconciliation Act of '85 (COBRA) for former employees and dependents for a period up to 18 months after loss of employment. Premiums are generally required to be paid by the terminated employee at no more than 102% of the policy premium.

Terminated employees may elect to continue coverage under COBRA and pay only 35% of the premium for a period not to exceed nine months. The employer will receive a subsidy for the 65% unpaid by the employee. Generally, the COBRA premiums paid by a terminated employee are deductible as medical expenses but only if total medical expenses exceed 7.5% of AGI.

IX. Making work pay credit:

The making work pay credit is a refundable credit against income tax of 6.2% of earned income, up to a maximum credit of \$400 (\$800 for joint return). The credit is phased out starting at \$75,000 of modified AGI for single filers (\$150,000 for joint returns) at a rate of 2% of income above the threshold level. Thus the \$400 credit is phased out completely at AGI of \$95,000 (and the \$800 credit at \$190,000 for joint returns).

STATE TAX NEWS:

New Jersey unemployment benefits have been extended an additional 13 weeks. The maximum benefits period is now 92 weeks.

FINANCIAL PLANNING:

The IRS has recently issued new rules regarding IRA rollovers. Required Minimum Distributions (RMDs) were suspended for tax year 2009 by the Worker, Retiree, and Employer Recovery Act. Nonetheless, many individuals still received RMDs during 2009. For those individuals who did not need the RMDs, they have a window of opportunity to roll these 2009 RMDs back into their IRAs, if they do so by November 30, 2009.

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WWW.CEREFICE.COM

WWW.RICHHABITS.NET

TOM@CEREFICE.COM

WWW.LINKEDIN/IN/TOMCORLEY

WWW.TWITTER.COM/RICHHABITS.NET

WWW.BLOG.RICHHABITS.NET

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Tom Corley

Cerefice & Co.

1103 Westfield Avenue

Rahway, NJ 07065

USA

phone: 732-382-3800

fax: 732-382-0213

web: www.cerefice.com

email: tom@cerefice.com