



Willson & Pechacek, P.L.C. Newsletter



General Edition

July 2009

New Tax Credits Present Real Opportunities

The numerous stimulus bills passed by Congress this year have provided an almost overwhelming number of new tax credits and incentives, many of which are quite significant.

Therefore, our goal for this issue of the Willson & Pechacek Newsletter is to highlight a few of the most useful and significant tax credits available for the 2009 tax year. Some of these credits are brand new, or are significantly improved versions of prior credits.

This year's tax credits are avail-

able to a much wider range of income levels than ever before.

For example, the First-Time Homebuyer's Credit (discussed page 2) is a "refundable" tax credit, meaning that someone with little or no income in 2009 (i.e., a recent graduate) can get the full benefit of the credit even if the credit exceeds the amount of tax due. Similarly, higher-income taxpayers can finally take full advantage of the new and improved energy-efficiency tax credits (page 3) because these credits are no longer reduced by income caps and the alternative minimum tax.

The existing tax credits for higher education are also larger and broader than they were for 2008.

In summary, we invite you to browse through these pages and see if there isn't some credit that works for you. As always, if you have any questions, don't hesitate to give us a call.

by Frank Pechacek

Tax "Credits" vs. "Deductions"

by Lee Rankin

While often confused, there is a difference between tax credits and tax deductions.

A tax deduction reduces the amount of income a taxpayer pays tax upon. For example, a taxpayer in the 25% tax bracket with a \$100 tax deduction will save \$25 in tax.

In contrast, if the same taxpayer receives a \$100 tax credit, the taxpayer will save \$100 in taxes,

a difference of \$75.

Thus, the \$2,500 Hope Education Credit can be more valuable than the \$4,000 tuition deduction.

Generally, tax credits are superior to tax deductions.

Of course, it is not always that simple. The rules for tax deductions and credits can vary widely, complicating their application.

However, as a general principle, a tax credit is superior to a tax deduction.

"100" Years of Practicing Law

by Brett Ryan

The office of Willson & Pechacek PLC recently celebrated an unusual milestone: In 2009, Phil and Frank had been practicing law for a combined total of 100 years!



Frank W. Pechacek, and Philip J. Willson

Philip ("Phil") Willson began practicing law in 1949, and Frank Pechacek began practicing in 1969. In 2009, Phil had 60 years and Frank had 40 years, resulting in a combined total of 100 years.

New Attorney Joins Willson & Pechacek

Karlton ("Karl") Schmidt joined the firm as an associate attorney in January of this year.

In May, 2008, Karl graduated with Distinction from the University of Iowa College of Law where he was Associate Editor for the Journal of Corporation Law.

Karl is licensed to practice law in Iowa (2008) and is a member of the American Bar Association,



the areas of estate planning, taxation, corporate law, and real estate.

Iowa State Bar Association, Polk County Bar Association, and Pottawattamie County Bar Association. He practices primarily in

Karl was born and raised in Des Moines, Iowa, and received his Bachelor of Arts with Honors from Earlham College in Richmond, Indiana.

Prior to attending law school, Karl worked with children and young adults with disabilities in the Des Moines area. Karl loves to travel, and has spent time in Australia, Germany, Guatemala, and New Zealand.

The American Recovery and Reinvestment Act of 2009

by Lee Rankin

The recently enacted American Recovery and Reinvestment Act of 2009 contains a wide-ranging tax package that includes tax relief for low and moderate wage earners, individuals and families with college expenses, and home and car purchases.

The following is an overview of the more widely applicable tax changes:

First-time Homebuyers

First-time homebuyers who purchase between January 1 and November 30 of 2009 may be eligible for a refundable tax credit of up to \$8,000. A "first-time" homebuyer actually includes any US citizen or resident alien if neither they nor their spouse owned their residence during the past 36 months. This credit does not need to be repaid as long as the

first-time homebuyer maintains the home as their principal residence for 36 months after purchase.

New car purchases

The new law allows taxpayers to deduct State and local sales tax paid on the purchase of a new car, truck (less than 8,500 lbs.), motorcycle, or motor home. The tax break is limited in two ways; first, only those taxes paid on the first \$49,500 of the cost of the new vehicle are allowed and second, the deduction is phased out for those taxpayers with an Adjusted Gross Income in excess of \$125,000 (\$250,000 for couples). The deduction is allowed regardless of whether the taxpayer elects to itemize.

Higher Education

The new law replaces and expands the Hope credit for 2009 and 2010 with a \$2,500 higher-education tax credit that is available for the first four years of college. The credit is subject to a phase-out for Adjusted Gross Income in excess of \$80,000

(\$160,000 for couples). In addition, 40% of the allowable credit is refundable with an exception that no part is refundable if the taxpayer claiming the credit is a child subject to "kiddie" tax.

Computers as an education expense

Another educational provision for 2009 and 2010 permits computers and computer technology (including internet access) to qualify as "qualified education expenses" for Section 529 education plan distributions.

Please keep in mind these are summaries of the more widely applicable individual tax changes provided by the American Recovery and Reinvestment Act of 2009.

If you would like more details about the new law, please do not hesitate to call.

Energy Upgrade Credits for Homeowners

by Karl Schmidt

For 2009, Congress has provided tax credits of up to \$1,500 or 30% of the cost of qualifying home energy improvements. These credits fall into three broad categories:

1. Heating/Cooling Equipment (furnaces, air conditioners, water heaters, etc.);
2. Building Envelope Improvements (windows, insulation, etc.); and
3. Energy Generation Equipment (solar panels, wind micro-turbines, geothermal heating/cooling, etc.).

The credits for Heating/Cooling Equipment and Building Envelope Improvements are capped at a combined \$1,500 total credit, and must be placed in service as an upgrade to the taxpayer's principal residence during 2009 or 2010. In contrast, the credits for Energy Generation Equipment generally are not capped at any dollar amount and may qualify even if installed at a vacation property.

1. Heating/Cooling

Far and away, the best use of these credits is to subsidize the replacement of an

old, inefficient furnace. In addition to the \$1,500 tax credit, energy efficient furnaces will also qualify for generous cash rebates from your local utility. For example, a taxpayer who is a Black Hills Energy customer and who purchases a high-efficiency furnace can receive an additional rebate of between \$250.00 and \$400.00 from the utility, depending upon the energy efficiency rating of the furnace. Mid-American Energy offers similar rebates.

Finally, even without the rebates, upgrading to a more energy efficient furnace can save significant

Now is a fantastic time to upgrade an old, inefficient furnace.

amounts of money on heating bills. According to Mid-American Energy estimates, replacing a 15-year-old furnace in a 2,000 square foot home will cost between \$1,700.00 and \$2,900.00, but will save \$250.00 to \$420.00 a year in energy costs. After factoring in the energy tax credits, local utility rebates, and the utility savings, upgrading an older furnace can be an extremely attractive investment as well as a benefit to

the environment.

2. Building Envelope

Similarly, taxpayers can earn a 30% credit on qualifying energy efficient windows and building envelope upgrades. However, keep in mind that the credit is capped at \$1,500.00. This means that after spending \$5,000.00 on energy-efficient windows or roofing, you will not receive any additional tax credit.

Note also that the criteria is much stricter for windows, skylights and doors placed in service after June 1, 2009.

3. Energy Generation

Separate but related credits are available for people who want to install small-scale energy generation equipment, such as solar panels (photovoltaic or water heating), micro-turbine wind generators, or geothermal systems.

As an investment, this type of equipment will probably take decades to recover the cost of the investment (unless you are paying an extremely high rate for electricity or heat). Instead, people typically buy this type of equipment for remote locations or as a way to show their support for renewable energy. In this context,

(Continued on page 4)

(Continued from page 3)

small business owners may want to consider installing a micro-wind turbine on their premises because the turbines attract the attention of passing motorists and associate your company with the idea of renewable energy.

These credits are set at 30% of the cost for qualifying equipment, but most are not subject to the \$1,500 limit that applies to the other energy credits, so the credits can be quite large and may be carried forward to future tax years, if needed.

Conclusion

The new home energy tax credits present a great opportunity to receive a substantial credit on your 2009 taxes in exchange for investing in the long-term energy efficiency of your home.

If history is any guide, energy prices are unlikely to decrease in the coming years, so upgrading the energy efficiency of your home in 2009 and 2010 can be a sound choice for your pocketbook as well as the environment. If you have any questions, try the resources listed to the right, or contact our office.

Home Energy Resources

For an easy-to-read chart of requirements, visit:

www.energystar.gov and click on "Tax Credits for Energy Efficiency."

For a comprehensive listing of state, local, and utility credits and rebates, visit: www.dsireusa.org

This site also contains concise summaries of the available rebates and programs.

If you can not access the internet, please contact this author and he would be happy to respond to your questions.

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Newsletter

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