

Accountability

Update on Wisconsin and Federal Tax Law



January 2010

President's Message

We hope everyone had a chance to spend some time with family and friends over the holidays. It's been a tough year for many, so we wish everyone a happy, healthy and prosperous year ahead!

With that said, there are a few changes to the income tax laws that we thought you should be aware of. There are many more discrepancies between state and federal laws this year than in the past. The state of Wisconsin has decided not to adopt some of the recently enacted federal law changes. We have highlighted a few of them in this newsletter.

As always, please call us if you would like further clarification on just how these changes may affect you.

Julie A Huth

There are a few differences between how Wisconsin and the federal government (IRS) taxes individuals. The following are some of the highlights of changes in Wisconsin tax law for 2009:

- 1. The top tax rate** for Wisconsin individual income tax has been increased from 6.75% to 7.75%. This applies to single, head of household, and fiduciary taxpayers whose income is over \$225,000; married filing single (MFS) taxpayers whose income is over \$150,000; and married filing joint (MFJ) taxpayers whose taxable income is over \$300,000.
- 2. Net-long term capital gain exclusion is reduced from 60% to 30%.** The capital gain is computed on the federal tax return, losses and gains must be netted. The exception is farm assets held over one year, the exclusion remains at 60%.
- 3. "Cash for Clunkers" CAR allowance** – if you used a federal electronic "cash for clunker" voucher for the down payment on a new vehicle, the voucher amount is not subject to WI sales or use tax.
- 4. 2009 required Minimum Distribution** from an IRA or qualified plan are waived, this is the same as the IRS.
- 5. Tuition Subtraction for Wisconsin has been increased to \$6000 per student.** This is for post-secondary education at a qualified Wisconsin or MN/WI reciprocity school. There are income limits with the ceiling being \$60,000 for single or head-of-household taxpayers; \$100,000 for MFJ taxpayers; and \$50,000 for MFS taxpayers.
- 6. Premiums paid for health insurance are deductible as follows for Wisconsin purposes:**
 - **100% subtraction** for self-employed and for those whose employer pays none of the premiums.
 - **66.7%** for the unemployed and not self-employed. This applies to those who had Cobra assistance.
 - **10%** of premiums paid by taxpayer for those employed and whose employer pays a portion of premiums.

- For **2010**, health insurance can be provided by an insured parent for an uninsured, unmarried, adult child up to age 27. If the adult child does not qualify as a dependent on the parent's tax return, there can be additional tax implications. Wisconsin has adopted the federal rules on this issue. Please call us if you have any questions.

7. For **2010**, the **income tax reciprocity** agreement between Wisconsin and Minnesota ends.

The following are federal items that Wisconsin has not adopted:

1. **Health Savings Accounts** – the deduction for federal purposes is added back to income for Wisconsin purposes.
2. **Depreciation for businesses** – Section 179 depreciation expense is limited to \$25,000 (the IRS allows \$250,000 this year). Federal 50% bonus depreciation is not allowed.
3. **Sales tax for new vehicle's** purchased after February 16, 2009 –a special deduction is allowed on the federal return for those who itemize or it can be added to their federal standard deduction. Wisconsin does not allow the special deduction.
4. **Unemployment Compensation** - \$2400 exempt on the federal return is not exempt on Wisconsin. Wisconsin has its own exemption calculated with a worksheet.
5. **Federal Educator Expense** is added back to Wisconsin income.
6. For **2010**, tax on Roth conversion is due in 2010 and different penalties apply.

Federal Tax Update

There are two important updates that were not mentioned in our May 2009 newsletter. The first is the **increased penalty for failure to file a partnership or S-Corp tax return**. Beginning January 1, 2009, the fee is "increased from \$89 to \$195 per partner or shareholder for each month (or fraction) up to a maximum 12 months."

The second update is part of legislation passed in November, 2009. **The First-Time Homebuyer credit was extended to April 30, 2010**. If you have a written, binding contract dated before May 1, 2010 to close on the purchase of a home before July 1, 2010, you qualify. Like previous credits, the home purchased must be the taxpayer's main residence for 36 months

and the credit amount is equal to the lesser of \$8000 (\$4000 for MFS) or 10% of the purchase price. For homes purchased after **November 6, 2009 and thru April 30, 2010**, eligibility requirements have changed:

- Homebuyer must be over 18.
- A new credit is available for long-time homeowners, those who have lived in the same residence for 5 consecutive years during the last 8 years. Long-time homeowners qualify for a credit equal to the lesser of \$6500 (\$3240 MFS) or 10% of the purchase price.
- Available to higher income taxpayers, the credit phases out for single taxpayers with adjusted gross income (AGI) between \$125,000-\$145,000 and MFJ with AGI between \$225,000 and \$245,000. These levels apply to both first-time and long-time homeowners.
- Purchase price limit is \$800,000.

In addition, those who claim the credit with a purchase after 11/6/2009 must file a paper return and use Form 5405 (First Time Homebuyer Credit), attaching a copy of the settlement statement used to complete the purchase.

Important Reminders for 2009 (2010) Tax Preparation

Social Security: Wages up to \$106,800 are subject to social security. Medicare does not have a limit. Same limits for 2010.

Mileage Rates per mile:

	<u>2009</u>	<u>2010</u>
Business...	55.0 cents	50.0 cents
Medical ...	24.0 cents	16.5 cents
Charity.....	14.0 cents	14.0 cents
Moving....	24.0 cents	16.5 cents

Health Savings Accounts:

Maximum deductible contribution 2009:

Individual....\$3000 Family....\$5950

Maximum deductible contribution 2010:

Individual...\$3050 Family...\$6150

Another tax season is quickly approaching! We look forward to seeing everyone; please contact us with any of your questions. We will be happy to help you in any way that we can.