



Tax Bytes

Fall 2009

Dudley's Dogma



Kudos to Victor Dozzi!

Vic is the recipient of not one, but two great awards. First, Vic was named "PICPA 40 under 40 member to watch for 2009." Additionally, he is one of Pittsburgh's 40 under 40 for 2009. He will be featured along with this year's other winners in the November 2009 issue of Pittsburgh Magazine. These awards not only celebrate Vic's professional achievement, but also his community involvement. Active in the not-for-profit com-

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Generate Energy Tax Breaks



They're back – the energy savings tax incentives. The new economic stimulus law (the American Recovery and Reinvestment Act of 2009) contains benefits for both individual and business taxpayers. Here is a brief overview.

For individuals: The new law triples the residential energy credit to 30% of qualified expenditures (up from 10%). Furthermore, the lifetime \$500 dollar cap is eliminated. It's been replaced by an overall limit of \$1,500 for 2009 and 2010 combined. The changes are effective for energy-saving installations made after 2008 and before 2011.

The enhanced residential energy credit covers a wide range of improvements, including insulation materials; exterior windows (including skylights); exterior doors and central air conditioners.

The new law also removes the dollar caps for the separate 30% credit for expenditures on qualified solar hot water property, geothermal heat pumps and wind energy property. Caveat: A \$500 cap per .5 kilowatt hour of capacity applies to qualified fuel cell property costs.

For businesses: A business building owner may claim a tax deduction equal to \$1.80 per square foot of new or existing commercial buildings that meet certain conditions. Alternatively, partial deductions of up to \$.60 per square foot are available for eco-friendly improvements affecting the building envelope, lighting systems or heating and cooling systems.

Under last year's Emergency Economic Stabilization Act, deductions may be claimed for property placed in service after 2006 and before 2014 if certain conditions are met.

Finally, the 2009 Stimulus Act includes numerous other technical modifications. For instance, it extends the credit for electricity produced from renewable sources through 2013 (through 2012 for wind facilities).

This is only a brief summary of the key rules. Call us to determine how you may benefit from the tax law changes.

Cell Phone Recordkeeping

The IRS is proposing several methods to make record keeping easier for employers that give employees cell phones for business use. These methods are the Minimal Personal Use Method,

Safe Harbor Substantiation Method and Statistical Sampling Method. The IRS accepted comments until September 4, 2009. A final decision won't be made until late in the year, or in early 2010. For more information see Notice 2009-46 on the IRS website.



Self Employment IRA Distributions

Self employed individuals under 59½ who become unemployed may take distributions from their IRA free from the 10% penalty if the distributions are used to pay health insurance premiums.

The rule which allows eligible unemployed individuals receiving unemployment to withdraw funds penalty free for distributions for health insurance, now includes the self employed who otherwise cannot collect unemployment. Self employed individuals need to show that they would have been eligible to receive unemployment benefits for 12 consecutive weeks had they been an employee.

Distributions cannot exceed the amounts paid for the health insurance premiums and the IRA distributions must be made during the same year as the premiums were paid, or in the next year.

Pennsylvania Mini Cobra



On June 10, 2009, Pennsylvania joined a number of other states and adopted a "mini COBRA" law, requiring smaller employers [with two - 19 employees] to offer employees continued health insurance coverage after a "qualifying event," and allowing the employees to qualify for the 65% federal subsidy. The law took effect on July 10th and is patterned after the federal COBRA law, but does not precisely mirror it.

A "qualifying event" is defined as termination of a covered employee's employment, the death of the covered employee, reduction in hours, a spouse's divorce or legal separation from the covered employee, a covered employee's eligibility for Medicare, a dependent child ceasing to be dependent, and the bankruptcy of the employer.

In order to be eligible for mini COBRA, a covered employee and eligible dependents must have been continuously insured under the group policy which it replaced for three consecutive months, ending with the qualifying event.

	PA Mini COBRA	Federal COBRA
Number of Employees	2 - 19	20+
Eligible for 65% Federal Subsidy?	Yes	Yes
Length of Coverage Available	9 Months	18 Months

Lite Bytes

Education Improvement Tax Credit

If your business remits taxes to the state of Pennsylvania, or has Pennsylvania business income passing through to its owners, it might be time to consider taking advantage of the Education Improvement Tax Credit. This program provides tax credits up to 75% to businesses for contributions made to qualifying scholarship and educational improvement organizations. It's a great way to earn a tax break for your business while investing in the future workforce.

Please contact us with questions.

jellenbogen@ce-cpa.com
vdozzi@ce-cpa.com

Tax Break for Company Stock Payouts

If you're getting ready to retire, you may be receiving a big payout from your company retirement plan. This is especially true for successful small business owners who have invested in their own company's stock.

Surprisingly, it's what you take out of a retirement plan, not necessarily how much you take out, that counts most for tax purposes. Following are a few details.

Absent any special circumstances, a lump-sum distribution from a qualified retirement plan is taxed as ordinary income, at individual tax rates reaching as high as 35%. That can put a big tax dent in your nest egg for retirement. However, there's a giant loophole in the tax law for payouts in the form of company stock. In that case, your taxable gain is figured on the plan's original cost of the stock.

In other words, you don't have to pay any tax on the distribution of company stock. The payout is 100% tax-free until you actually sell the stock!

To further sweeten the deal, your taxable gain from the stock sale will be treated as favorably-

taxed capital gain. Currently, the maximum tax rate on long-term capital gain is only 15%. So, you're a tax winner twice -- once at the time of distribution and once upon the sale of the company stock.

Naturally, you will face several critical decisions as you near your expected retirement date. For instance, one possible alternative is to roll over funds into an IRA to continue tax deferral.

You can save thousands of tax dollars by making the right tax choices when you retire - and more, if you have control over your company and have the ability to set up a stock plan.

We would be glad to explore this opportunity with you. Don't hesitate to call us.

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munity, Vic serves as Treasurer of the Greater Pittsburgh Arts Council, is on the advisory board for Future Tenant, works *pro bono* with a number of the arts organizations, and is on the Executive Committee of the Pittsburgh Chapter of the Pennsylvania Institute of CPAs. Vic also teaches on a variety of accounting related topics to for and not-for-profit organizations.

Congratulations Vic!