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What's New

What's New for 2009

Making work pay credit. If you have earned income from work, you may be able to take this credit. It is 6.2% of your earned income but cannot be more than \$400 (\$800 if married filing jointly). See page 47.

Government retiree credit. You may be able to take this credit if you get a government pension or annuity, but it reduces any making work pay credit. See page 47.

Economic recovery payment. Any economic recovery payment you received is not taxable for federal income tax purposes, but it reduces any making work pay credit or government retiree credit. See pages 29 and 47.

Cash for clunkers. A \$3,500 or \$4,500 voucher or payment made for such a voucher under the CARS "cash for clunkers" program to buy or lease a new fuel-efficient automobile is not taxable for federal income tax purposes.

Buying U.S. Series I Savings Bonds with your refund. You can now receive up to \$5,000 of U.S. Series I Savings Bonds as part of your income tax refund without setting up a TreasuryDirect® account in advance. For more details, see Form 8888.

Unemployment compensation. You do not have to pay tax on unemployment compensation of up to \$2,400 per recipient. Amounts over \$2,400 are still taxable. See page 27.

COBRA subsidy. The 65% subsidy for payment of COBRA health care coverage continuation premiums is not taxable for federal income tax purposes.

Home mortgage principal reductions. Any Pay-for-Performance Success Payments that reduce the principal balance of your home mortgage under the Home Affordable Modification Program are not taxable.

American opportunity credit. The maximum Hope education credit has increased to \$2,500 for most taxpayers. The increased credit is now called the American opportunity credit. Part of the credit is now refundable for most taxpayers. Claim that part on line 66. Claim any other education credits on line 49. See pages 40 and 72.

Alternative minimum tax (AMT) exemption amount increased. The AMT exemption amount has increased to \$46,700 (\$70,950 if married filing jointly or a qualifying widow(er); \$35,475 if married filing separately).

IRA deduction expanded. You may be able to take an IRA deduction if you were covered by a retirement plan and your 2009 modified adjusted gross income (AGI) is less than \$65,000 (\$109,000 if married fil-

ing jointly or qualifying widow(er)). If your spouse was covered by a retirement plan, but you were not, you may be able to take an IRA deduction if your 2009 modified AGI is less than \$176,000. See pages 31 and 32 for details and exceptions.

Deduction for motor vehicle taxes. If you bought a new motor vehicle after February 16, 2009, you may be able to deduct any state or local sales or excise taxes on the purchase. In states without a sales tax, you may be able to deduct certain other taxes or fees instead. Take the deduction on Schedule A if you are itemizing deductions and are not electing to deduct state and local general sales taxes. If you are not itemizing deductions, these taxes increase your standard deduction and are claimed on Schedule L. See the instructions for line 40a beginning on page 35.

First-time homebuyer credit. The credit increases to as much as \$8,000 (\$4,000 if married filing separately) for homes bought after 2008 and before May 1, 2010 (before July 1, 2010, if you entered into a written binding contract before May 1, 2010). You can choose to claim the credit on your 2009 return for a home you bought in 2010 that qualifies for the credit. See page 72.

You generally must repay any credit you claimed for 2008 if you sold your home in 2009 or the home ceased to be your main home in 2009. See the instructions for line 60 on page 46.

Credit for nonbusiness energy property. You may be able to take this credit for qualifying energy saving items for your home placed in service in 2009. See the instructions for line 52 on page 45.

Credits increased. The following credits have increased for some people.

Additional child tax credit (line 65). See Form 8812.

Residential energy efficient property credit (line 52). See Form 5695.

Standard mileage rates. The 2009 rate for business use of your vehicle is 55 cents a mile. The 2009 rate for use of your vehicle to get medical care or to move is 24 cents a mile.

Personal casualty and theft loss limit. Each personal casualty or theft loss is limited to the excess of the loss over \$500 for 2009. In addition, the 10% of AGI limit generally continues to apply to the net loss.

Earned income credit (EIC). The EIC has increased for people with three or more children and for some married couples filing jointly. You may be able to take the EIC if:

Three or more children lived with you and you earned less than \$43,279 (\$48,279 if married filing jointly),

Two children lived with you and you earned less than \$40,295 (\$45,295 if married filing jointly),

One child lived with you and you earned less than \$35,463 (\$40,463 if married filing jointly), or

A child did not live with you and you earned less than \$13,440 (\$18,440 if married filing jointly).

The maximum AGI you can have and still get the credit also has increased. You may be able to take the credit if your AGI is less than the amount in the above list that applies to you. The maximum investment income you can have and still get the credit has increased to \$3,100. See page 48.

Divorced or separated parents. A noncustodial parent claiming an exemption for a child can no longer attach certain pages from a divorce decree or separation agreement instead of Form 8332 if the decree or agreement was executed after 2008. The noncustodial parent must attach Form 8332 or a similar statement signed by the custodial parent and whose only purpose is to release a claim to exemption. See page 18.

Qualifying child definition revised. The following changes to the definition of a qualifying child apply.

To be your qualifying child, a child must be younger than you unless the child is permanently and totally disabled.

A child cannot be your qualifying child if he or she files a joint return, unless the return was filed only as a claim for refund.

If the parents of a child can claim the child as a qualifying child but no parent so claims the child, no one else can claim the child as a qualifying child unless that person's AGI is higher than the highest AGI of any parent of the child.

Your child is a qualifying child for purposes of the child tax credit only if you can and do claim an exemption for him or her.

Tax on child's investment income. The amount of taxable investment income a child can have without it being subject to tax at the parent's rate has increased to \$1,900. See Form 8615 on page 38.

Elective salary deferrals. The maximum amount you can defer under all plans is generally limited to \$16,500 (\$11,500 if you have only SIMPLE plans; \$19,500 for section 403(b) plans if you qualify for the 15-year rule). The catch-up contribution limit for individuals age 50 or older at the end of the year has increased to \$5,500 (except for section 401(k)(11) plans and SIMPLE plans, for which this limit remains unchanged).

Limit on exclusion of gain on sale of main home. In certain cases, gain from the sale of your main home is no longer excludable from income if it is allocable to periods after 2008 when neither you nor your spouse (or your former spouse) used the property as a main home. See Pub. 523.

Electric vehicle credits. You may be able to take a credit for:

- A plug-in electric drive motor vehicle placed in service in 2009 (see Form 8936),
- A plug-in electric vehicle bought after February 17, 2009 (see Form 8834), or
- Conversion of a vehicle to a plug-in electric drive motor vehicle placed in service after February 17, 2009 (see Form 8910).

Certain tax benefits for Midwestern disaster areas expired. Certain tax benefits for Midwestern disaster areas have expired, including special charitable contribution rules and the election to use your 2007 earned income to figure your 2008 EIC and additional child tax credit. See Pub. 4492-B.

Recovery rebate credit expired. This credit has expired and does not apply for 2009.

Mailing your return. You may be mailing your return to a different address this year because the IRS has changed the filing location for several areas. If you received an envelope with your tax package, please use it. Otherwise, see *Where Do You File?* on the back cover.

What's New for 2010

Earned income credit (EIC). You may be able to take the EIC if:

- Three or more children lived with you and you earned less than \$43,352 (\$48,362 if married filing jointly),
- Two children lived with you and you earned less than \$40,363 (\$45,373 if married filing jointly),
- One child lived with you and you earned less than \$35,535 (\$40,545 if married filing jointly), or

- A child did not live with you and you earned less than \$13,460 (\$18,470 if married filing jointly).

The maximum AGI you can have and still get the credit also has increased. You may be able to take the credit if your AGI is less than the amount in the above list that applies to you. The maximum investment income you can have and still get the credit is still \$3,100.

IRA deduction expanded. You may be able to take an IRA deduction if you were covered by a retirement plan and your 2010 modified AGI is less than \$66,000 (\$109,000 if married filing jointly or qualifying widow(er)). If your spouse was covered by a retirement plan, but you were not, you may be able to take an IRA deduction if your 2010 modified AGI is less than \$177,000.

Recapture of first-time homebuyer credit. If you claimed the first-time homebuyer credit for a home you bought in 2008, you generally must begin repaying it in 2010. See Form 5405 for details.

Roth IRAs. Half of any income that results from a rollover or conversion to a Roth IRA from another retirement plan in 2010 is included in income in 2011, and the other half in 2012, unless you elect to include all of it in 2010. In addition, for any tax year beginning after 2009, you can make a qualified rollover contribution to a Roth IRA regardless of the amount of your modified AGI.

Alternative minimum tax (AMT) exemption amount. The AMT exemption amount is scheduled to decrease to \$33,750 (\$45,000 if married filing jointly or a qualifying widow(er); \$22,500 if married filing separately).

Domestic production activities income. The percentage rate for 2010 increases to 9%. However, the deduction is reduced if you have oil-related qualified production activities income.

Personal casualty and theft loss limit reduced. Each personal casualty or theft loss is limited to the excess of the loss over \$100 (instead of \$500).

Expiring tax benefits. The following benefits are scheduled to expire and will not be available for 2010.

- Deduction for educator expenses in figuring AGI.
- Tuition and fees deduction in figuring AGI.
- Increased standard deduction for real estate taxes or net disaster loss.
- Itemized deduction or increased standard deduction for state or local sales or excise taxes on the purchase of a new motor vehicle.
- Deduction for state and local sales taxes.
- The exclusion from income of up to \$2,400 in unemployment compensation.
- The exclusion from income of qualified charitable distributions.
- Government retiree credit.
- District of Columbia first-time homebuyer credit (for homes purchased after 2009).
- Extra \$3,000 IRA deduction for employees of bankrupt companies.
- Certain tax benefits for Midwestern disaster areas, including the additional exemption amount if you provided housing for a person displaced by the Midwestern storms, tornadoes, or flooding.

Personal exemption and itemized deduction phaseouts ended. For 2010, taxpayers with AGI above a certain amount will no longer lose part of their deduction for personal exemptions and itemized deductions.

Allowance of certain personal credits against the AMT. The allowance of the following personal credits against the AMT has expired.

- Credit for child and dependent care expenses.
- Credit for the elderly or the disabled.
- Lifetime learning credit.
- Mortgage interest credit.
- Credit for nonbusiness energy property.
- District of Columbia first-time homebuyer credit.

Filing Requirements

These rules apply to all U.S. citizens, regardless of where they live, and resident aliens.



Have you tried IRS e-file? It's the fastest way to get your refund and it's free if you are eligible. Visit www.irs.gov for details.

Do You Have To File?

Use Chart A, B, or C to see if you must file a return. U.S. citizens who lived in or had income from a U.S. possession should see Pub. 570. Residents of Puerto Rico can use TeleTax topic 901 (see page 94) to see if they must file.



Even if you do not otherwise have to file a return, you should file one to get a refund of any federal income tax withheld.

You should also file if you are eligible for any of the following credits.

- Making work pay credit.
- Government retiree credit.
- Earned income credit.
- Additional child tax credit.

- Refundable American opportunity credit.
- First-time homebuyer credit.
- Refundable credit for prior year minimum tax.
- Health coverage tax credit.

Exception for certain children under age 19 or full-time students. If certain conditions apply, you can elect to include on your return the income of a child who was