

New Credits, More Options This Tax Season

The recession has been difficult for many Americans, but some will find a silver lining this spring: Fatter rebate checks thanks to a mass of new tax credits.

Likewise, these filers have more options than ever to get help with their taxes, thanks to electronic filing and other resources.

Filing taxes online has been a growing trend that will keep gathering steam, experts say. Although the overall number of filings increases with population growth of between 1% and 2% per year, the growth rate is much higher with electronic filing – closer to 10%, according to Gil Luria, an analyst at equity research firm Wedbush Morgan who follows the online tax-preparation market.

"You're talking about the difference between a 22-year-old and a 77-year-old," he says. "The younger people who are entering the system are very likely to use technology to accomplish complicated tasks. ... They are very comfortable putting personal information online."

Luria notes the recession could further boost the e-filing numbers. Some filers won't have the several hundred dollars it can cost to pay an accountant to prepare their taxes, but will go online to seek guidance about all the expanded tax credits.

The IRS, along with companies like Intuit (the maker of TurboTax) and H&R Block, offer free online filing services, along with paid software to help with more complicated returns. Julie Miller, a TurboTax spokeswoman, notes that especially for young people, online filing is a natural extension of their online lives.

"Filing your own taxes is a fairly major step to your financial independence," she says. "If you're still claimed as a dependent or don't file, you can't get your own tax refund; many college kids have part time jobs or at least savings, and they should get that money. ... The stimulus has raised [awareness], and filing online is so easy that it's enabled many younger people to say, 'I'm ready to cut the cord and do this myself.'"

Tax Season 2010 features many new credits courtesy of the government's American Recovery and Reinvestment Act. In all cases, consult a tax professional, or seek information from the IRS, for more details.

One such provision of the act, which was adopted in February 2009, is a credit for first-time homebuyers. Meant to provide a boost to the ailing housing market, the federal government is offering new owners a tax credit worth as much as \$8,000 for those who purchased a primary residence in 2009 and meet certain income restrictions.

There's also a new deduction related to state and local taxes paid on certain new cars, light trucks, motor homes, and motorcycles. In states that do not have a sales tax, the federal government may allow the deduction of certain fees linked to the purchases, tax experts say.

Energy efficiency is also being rewarded. Taxpayers who make improvements to their existing homes – new insulation, energy-efficient heating and cooling systems, as well as alternative energy devices, like solar panels and wind turbines – could get as much as 30% of the cost of these qualifying projects back, up to \$1,500. But be sure to check the fine print, either with help from a tax preparer or the IRS, since there are restrictions on when the repairs must be placed in service.

Students also could be big winners this year, explains Melissa Labant, technical manager for taxation for the American Institute of Certified Public Accountants. A program called the American Opportunity Credit allows students who are attending any of their first four years of college in 2009 and 2010 to get a credit up to \$2,500. Previously, the credit had been limited to the first two years of post-secondary education, and did not cover expenses like textbooks.

Additionally, Labant says that new allowances gives parents within a certain age limit the chance to take money out of their individual retirement accounts (IRAs) to pay for qualified educational expenses without incurring penalties (though the withdrawals are still taxable). Her colleague, Tom Ochsenschlager, a vice president of taxation for the accountants group, notes that if students' 529 educational savings plans have lost money due to the stock market's swoon,

they can terminate the account and claim an ordinary loss and begin a new plan. This is a rare allowance, as 529 plans, which invest contributions in mutual funds or other vehicles, usually treat shortfalls as investment losses.

Tax rules can be complicated, so don't be shy about asking questions to learn more about these and other new features of Tax Season 2010. The IRS offers two free services for taxpayers – go here for more information. Individuals also can find information by contacting professional associations for those who prepare returns, such as those for certified public accountants and enrolled agents.

Education is the key. An early start is also important so that taxpayers have the paperwork in place to fully receive benefits, says Amy McAnarney, the executive director of H&R Block's Tax Institute.

"Now more than ever," she says, "taxes are at the forefront of people's minds, and affecting people's wallets more so than ever before."

And don't forget the IRS website, where taxpayers can read more about stimulus-related changes and other tax topics.