

6 Tax Tips For Tough Times

US News & World Report - March 13, 2009 - Recession or no, we're now in the thick of tax season and its time to account for what meager cash you may have left.

Fortunately, these strange economic times also offer some unique ways to save on your tax bill when Uncle Sam comes calling on April 15.

With the help of Barbara Weltman, tax expert and author of "J.K. Lasser's Guide for Tough Times", here some tips on how to keep a bit more of your money at a time when every dollar really counts.

Make The Most Of A Mortgage Workout

If your home is in foreclosure or you've if worked out a plan with your lender to reduce mortgage debt, there's an extra tax benefit that accompanies getting your debt reduced. Usually, canceled debt is counted as income.

But under a new rule, the IRS will let you exempt that charge on up to \$2 million for married couples, or \$1 million for married couples filing separately. An example, care of the IRS: You borrow \$10,000 and default on the loan after paying back \$2,000. If the lender is unable to collect the remaining debt from you, there is a cancellation of debt of \$8,000, which generally is taxable income to you.

This exemption eliminates that extra tax, although it's important to remember the exemption only counts on primary residences, so speculators are out of luck. For more from the IRS on the Mortgage Forgiveness Debt Relief Act of 2007, check here.

Get Your (New) House In Order

In an effort to get millions of unsold homes off the market, there are lots of incentives right now for homeowners willing to take the plunge and buy during tough times. Tax credits are no exception.

New credits include the following:

- For homes purchased between April 8, 2008 and the end of the year, there is a tax credit worth 10 percent of the purchase price up to \$7,500
- To claim the credit, you must be a first-time homebuyer, and meet certain income limits (if you're single, the credit begins to phase out for incomes above \$75,000 and above \$150,00 for joint filers.)
- The credit is basically an interest-free loan that must be repaid in equal amounts over 15 years, starting in the second year you claim the credit until you reach the \$7,500 level.

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- For example, if you claim the credit in 2008, you start repaying in 2010. Even better for recent homebuyers:
- If you bought a home in the early months of 2009, you can claim another new tax credit (of up to \$8,000 that doesn't need to be repaid if you're in the home for more than 36 months) on your 2008 return.
- The new form is 5405, available at www.irs.gov and you can check the box for either the 2008 or 2009 credit on your return. Similar income limits apply.

Be Sure To Get All Of Your Stimulus Cash (From Last Year!)

It's called the Recovery Rebate Credit. Remember those stimulus checks issued during 2008? Well, they were based on your 2007 tax and income status. If your situation changed during 2008, you might be entitled to more money.

Say you had a baby, or lost your job. More dependents or a lower income level could qualify you for more money under the original stimulus plan. You won't get a separate check, but you can get credit for it on your return. See the Recovery Rebate Credit worksheet in the instructions for the 1040 to see if you qualify. Also, the IRS is offering this handy calculator.

Write Off The Job Hunt

Job hunting is tough enough, but be sure to keep track of those receipts. You can deduct the cost of printing resumes, subscribing to online job services, traveling to visit employers, and some similar expenses. Careful documentation is a must, since the write-offs are considered miscellaneous itemized deductions (which also have to total more than 2% of gross adjusted income to be claimed).

Investment Losses

Capital loss rules haven't changed this year, even though stocks are still sinking. But don't forget that you can always use capital losses to offset capital gains (if you actually managed any), and extra losses can be used to offset up to \$3,000 of ordinary income. Plus, losses beyond that level can be carried forward and used against future gains.

Keep An Eye Out For Next Year

Tax laws are changing fast, and the Obama Administration is likely to change at least a few tax laws to help boost the economy before the year is out. More are expected through the end of this year, and they could be retroactive, so be sure to check back for changes occasionally, instead of just waiting until April 15, 2010 rolls around.

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