

# HAMBLIN & ASSOCIATES, INC.

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## **Tax Credits – Overview:**

There are several types of credits that offset personal and business taxes. Some credits are refundable if they exceed the tax liability, some are non refundable, or a combination of both. Some credits carry forward and some just die.

Every type of credit is not covered in this section because many do not generally apply to our clients. Also, many clients are phased out by income limits. For example, the earned income credit for persons with two children is maximized at \$12,060.00 of earned income and completely phased out at \$36,995.00 of earned income.

## **Federal Credits**

### **1. Fuel Tax Credit – IRS Form 4136**

Excise tax of 18.4 cents for gasoline and 24.4 cents for diesel fuels are paid on each gallon of fuel in the form of a highway use tax. If fuel is purchased and tax is paid the tax can be credited or refunded if the use of the fuel was non-highway such as farming, boating, other non-highway used. Special rules for farmers and good records need to be maintained.

### **2. Employer Payroll Tax Credit – IRS Form 8846**

Equal to the amount of social security and Medicare tax employer pays on employee's tips.

### **3. Disabled Access Credit – IRS Form 8826**

The disabled access credit is a nonrefundable tax credit for an eligible small business that pays or incurs expenses to provide access to person who have disabilities. The credit is equal to 50% of the expenses incurred in any year that exceed \$250.00, but do not exceed \$10,250.00, for a maximum annual credit of \$5,125.00.

Business can write off up to \$15,000.00 per year in otherwise capitalizable costs if they are associated with accessibility for the handicapped. Both the credit and the deduction can be used in tandem. The deduction is equal to the cost incurred or paid less the credit claimed. An eligible small business is one that had gross receipts for the prior year less than \$1,000,000.00, or that had no more than 30 full time employees during the preceding tax year.

### **4. First Time Home Buyer Credit:**

For qualifying home purchases between April 9, 2008 and July 1, 2009, eligible first-time home buyers get a refundable tax credit equal to the lesser of 10% of the purchase price of a principal residence or \$7,500.00 (\$3,750.00 for married individuals filing separately) (Code Sec. 36, as amended by Act Sec. 3011).

If two or more unmarried persons purchase a home together, the credit will be shared between them. Rules are yet to be drafted on this.

### **First Time Home Buyer Credit (Cont'd):**

The credit phases out for individual taxpayers with modified adjusted gross income between \$75,000.00 and \$95,000.00 (\$150,000 - \$170,000 for joint filers) in the year of purchase.

To be qualified as a "first time home buyer," a purchaser or spouse must have had no ownership in a principal residence in the U.S. for the three year period before the qualifying home purchase.

The credit is automatically recaptured ratably over 15 years, with no interest charged, beginning in the 2<sup>nd</sup> year after the year the home is purchased. The recapture is computed as additional income tax, computed each year at 6 $\frac{2}{3}$ % of the credit. At the maximum \$7,500.00 credit, the amount repaid in future years would be \$500.00.

The credit is essentially a long-term interest free loan from the government. If the residence is sold or converted, recapture occurs.

### **5. Earned Income Credit:**

A refundable credit for singles or married with children on a relative low income. Maximum credit with one qualifying child is \$2,977.00; with two or more qualifying children is \$4,824.00. Credit phased out completely at earned income levels of \$36,995.00 and \$41,646.00, depending on the number of children. Some low-income singles, with income under \$15,800.00 may also qualify for credit.

### **6. Child Tax Credit:**

Taxpayers who have one or more qualifying children may be entitled to a child tax credit of \$1,000.00 per child. A qualifying child has to be under 17 years old and a dependent.

The credit is non refundable for taxpayer with one child, and refundable if there are two or more qualifying children. Credit is phased out when adjusted gross income (AGI) reaches \$110,000.00 for married and \$75,000.00 for single taxpayers.

### **7. Higher Education Credits for Tuition:**

There are two education related credits: The Hope Scholarship credit and the Lifetime Learning credit. Credits are for tuition pay for taxpayers or dependents pursuing college or vocational training.

The Hope Credit is 100% of the first \$1,200.00 of qualifying tuition expense and 50% of the second \$1,200.00. This applies to first two years of education expense.

The Lifetime Learning Credit applies after the Hope Credit. Credit is 20% of the first \$10,000.00 of tuition per year. The credit is phased out at AGI levels of \$48,000.00 to \$50,000.00 for singles, \$96,000.00 to \$116,000.00 for married.

### **8. Foreign Tax Credit:**

Amount of foreign tax paid is shown on the stock brokerage statements, usually taken as a credit against income tax or that can be used as an itemized deduction. Credit has been large in current years as more foreign stocks are purchased by U.S. individuals and funds.

### **9. Enterprise Zone State Tax Credit:**

There is a hiring tax credit of 50% for the first year for an eligible employee. The credit then decreases 10% per year for the first five years of employment. The second part of the Enterprise Zone Tax Credit is a 6% sales tax credit on all equipment purchased. Examples of qualified equipment are computers and fax machines. Please give the office a call for additional information regarding eligibility factors for new or existing employees.