

# Private Company Services

## Personal financial services tax alert



2009 is expected to be a year of significant federal, state and local tax developments. New York State recently enacted major changes for individual taxpayers, and for your information we have summarized some of the key legislation here:

**Personal income tax rate increase:** The personal income tax rate has been increased from 6.85 to 8.97 percent for all tax filers who earn more than \$500,000. The rate is now 7.85 percent for joint filers who earn more than \$300,000, for head-of-household filers who earn more than \$250,000, and for single filers who earn more than \$200,000. This tax increase is set to expire in three years.

**Itemized deductions limitations:** Individuals with adjusted gross incomes of more than \$1 million can claim only the standard deduction or 50% of federal charitable contributions. Individuals with income between \$525,000 and \$1 million may still claim 50% of their total itemized deductions.

**2009 Estimated Tax Payments:** These changes are retroactive to January 1, 2009. Individuals have until June 15, 2009 to make up any "catch up" tax payments for the first quarter. All subsequent estimates payments should be based on the new rates and limitations enacted. If the 2009 estimates are based on 110% of 2008 tax, the 2008 tax must be recomputed using the 2009 tax rates and limitations.

***Illustration:*** Assume a NYS resident couple had NY AGI of \$2,000,000 and \$250,000 of NYS allowable itemized deduction. Further assume that \$50,000 of their NYS itemized deduction is 50% of the federal charitable contributions for 2008. The couple's 2008 NYS taxable income of \$1,750,000 is taxed at 6.85% and a tax liability of approximately \$120,000. Under the 2009 new tax rates, the same couple would pay NYS tax on \$1,950,000 of taxable income at an 8.97% rate of about \$165,000. This amounts to a 38% tax liability increase. When estimating the required 2009 NYS tax payments for the above couple, the 110% is based on the recomputed 2008 tax using the new tax rates for 2009. As a result, the required tax payment calculated to avoid underpayment penalties increases from 110% of \$120,000 (\$132,000) to 110% of \$165,000 (\$181,500), or an approximate \$50,000 increase in tax payment.

**New York state resident definition:** This amends the definition of a New York state resident and closes a loophole. Previously, a taxpayer would be considered a New York resident unless his or her spouse and minor children were not present in the taxpayer's "permanent place of abode" for more than 90 days of the tax year. In the new legislation, the "permanent place of abode" language is removed, and the taxpayer will be considered a New York resident unless those family members were not present in New York State for more than 90 days of the tax year.

**The Metropolitan Commuter Transportation Mobility Tax (MTA Payroll Tax):** Effective March 1, 2009, employers are required to pay an additional .34% tax on their payroll expense paid to employees that are employed within the 12 counties of Metropolitan Commuter Transit District including all five boroughs of New York City, Nassau, Suffolk, Westchester, Rockland, Dutchess, Orange and Putnam. The tax is to be remitted along with the employer's regular withholding remittance obligations.

- This tax also applies to self employed individuals including partners of partnerships and LLC's with apportioned income in excess of \$10,000. A separate tax return is to be filed with April 30th as the due date with quarterly estimates payments required at the same due dates for other employer quarterly estimates. The estimated tax forms and the separate returns have not been released yet.

Please contact your PwC tax professional if you have any questions or if we may be of further assistance.

**The information included herein is not intended or written to be used, and it cannot be used by any taxpayer for the purpose of i) avoiding penalties the IRS and others may impose on the taxpayer or ii) promoting, marketing or recommending to another party any tax related matters. (The foregoing disclosure has been affixed pursuant to U.S. Treasury Regulations governing tax practice.)**