



TAX UPDATE • 2008 Year-End Tax Newsletter

Changes for Individuals

Take Tax Free Capital Gains. Effective January 1, 2008, a 0% federal income tax rate on long-term capital gains and qualified dividends takes effect for some taxpayers. If you have some appreciated stocks you have held for more than one year it may be a good time to sell and realize tax-free capital gains. A new Administration and Congress in Washington could close this window of opportunity. This special rate applies to gains and dividends that are received by clients in the 10% or 15% regular income tax brackets. But even if your income is too high to personally cash in on the 0% rate, through gifting, you may have children, grandchildren, or other loved ones who might qualify.

Make an IRA Contribution. The 2008 Individual Retirement Account (IRA) contribution limit is \$5,000 (\$6,000, if age 50 or over). This is a nice way to defer income from tax and save for your retirement. You can make your contributions through April 15, 2009. Clients can even file early and use their tax refund to maximize their IRA contributions.

Manage Income for Full IRA Benefits. You can take the full IRA contribution deduction if your income is below \$85,000 (married filing jointly) or \$53,000 if you are single or head of household. Partial tax deductions are available if your income is between \$85,000 and \$105,000 (married filing jointly) or \$53,000 and \$73,000 (single or head of household).

Make a Roth IRA Contribution. Depending on your income you may be eligible to make a Roth IRA contribution in 2008. The new inflation adjusted income phase-out ranges are between \$159,000 and \$169,000 for joint filers and \$101,000 and \$116,000 for singles. While your contributions must be made after-tax, the earnings grow tax-free as long as retention and distribution rules are met.

Changes for Businesses

Deduct Bonus Depreciation. For businesses in 2008, there is a 50% first-year bonus depreciation deduction. Under this new first-year bonus depreciation provision, your business can immediately deduct half of the cost of a qualifying new asset if it is purchased and placed in service during calendar 2008.

***Hint:** An asset eligible for the 50% first-year bonus depreciation must be new (not used) and placed in use after December 31, 2007.*

Take a Section 179 Deduction. Once again in 2008 businesses may elect to expense the purchase of qualified assets versus using depreciation. This Section 179 election may be made for up to \$250,000 in purchases. Some limitations apply.

Key 2008 Exemptions and Deductions

Listed here for your reference are key deduction rates for 2008.

Personal Exemptions:

The personal exemption for each qualifying dependent increases by \$100 for 2008.

	<u>2008</u>	<u>2007</u>
Exemption	\$3,500	\$3,400

The exemption phases out by 2% for each \$2,500 (\$1,250 for married filing separately) by which your income is over:

	<u>2008 Phase Out</u>
Single	\$159,950
Married Filing Separately	\$119,975
Married Filing Jointly	\$239,950
Head of Household	\$199,950

Standard Deductions:

Standard deductions for those who do not itemize are as follows:

	<u>2008</u>	<u>2007</u>
Single	\$5,450	\$5,350
Married Filing Sep.	\$5,450	\$5,350
Married Filing Joint	\$10,900	\$10,700
Head of Household	\$8,000	\$7,850

Standard Deductions (continued)

If 65 or over and/or blind add:

	<u>2008</u>	<u>2007</u>
Single/		
Head of Household	\$1,350	\$1,300
Married/		
Surviving Spouse	\$1,050	\$1,050

Itemized Deduction Phase Out:

Deductions are reduced by 3% of every dollar of Adjusted Gross Income (AGI) over \$159,950 (\$79,975 if married filing separately) up to a maximum phaseout of 80% of your itemized deductions. Your medical expenses, investment interest, casualty losses and gambling losses are excluded.

Standard Mileage Rates:

The standard mileage rates for 2008 are:

Mileage	<u>2008 Rate/Mile</u>	
	<u>1/1-6/30</u>	<u>7/1-12/31</u>
Business Travel	50.5¢	58.5¢
Medical/Moving	19.0¢	27.0¢

2008 Tax Rates

The income brackets for each tax rate are:

<u>Single</u>	<u>Married Jointly</u>	<u>Head of Household</u>	<u>Tax Rate</u>
\$1-8,025	\$1-16,050	\$1-11,450	10%
\$8,026-32,550	\$16,051-65,100	\$11,451-43,650	15%
\$32,551-78,850	\$65,101-131,450	\$43,651-112,650	25%
\$78,851-164,550	\$131,451-200,300	\$112,651-182,400	28%
\$164,551-357,700	\$200,301-357,700	\$182,401-357,700	33%
Over \$357,700	Over \$357,700	Over \$357,700	35%

More Tax Law Changes

In addition to pre-programmed changes in dollar limits, here are five noteworthy new tax laws:

- **Recovery Rebate Credit.** This new credit allows clients to claim a refundable credit based on the economic stimulus check rules using 2008 information. If you did not qualify to receive the stimulus payment last year or you did not receive the full amount you could be eligible.



- **Kiddie Tax Expands.** 2008 marks the first tax year to apply the kiddie tax rules to children under 19 (24 if a qualified student). This is up from age 14 prior to 2006. This law applies the parent's tax rate to a child's excess unearned (investment) income over \$1,800 in 2008.
- **Widows Receive Higher Home-sale Gain Exclusion.** After 2007 a surviving spouse may be able to use the full \$500,000 capital gain exclusion (formerly \$250,000) when they sell their principal residence for up to two years after the death of their spouse.
- **Emergency Responder Benefit.** From 2008 to 2010 qualified emergency responders can omit certain state or local government benefits from their income. This includes up to \$30 per month in qualified payments and rebates or reductions of property or income taxes for providing services.
- **Transportation Worker Meal Expense Limits Increase.** Workers subject to the Dept. of Transportation hours of service rules can now deduct 80% of business meals. This applies to certain: air transportation workers, interstate truck drivers, interstate bus drivers, railroad workers, and merchant mariners.

2008 Housing Assistance Tax Act

Congress' action to help the slumping housing market may mean more money in your pocket. Two provisions of the new \$15 billion tax bill are of major interest.

First Time Home Buyer Credit

First-time home buyers purchasing a home after 4/9/08 and before 7/1/09 may receive a tax credit equal to 10% of the purchase price of a home that serves as your principal residence. The credit is up to \$7,500 (\$3,750 for married filing separate). However, there are a few catches:

- The credit phases out with income between \$150,000 and \$170,000 married filers; \$75,000 – 95,000 single filers
- The credit must be repaid in equal installments over 15 years commencing two years after the home is purchased
- If the home is no longer your primary residence the balance of the credit must be repaid in that tax year
- The credit is paid through your tax return, so it will not help your cash flow when you close on your new home

Non-Itemizer Property Tax Deduction

Homeowners who use the standard deduction versus itemized deductions could see their standard deduction amount increase in 2008. This special one year provision allows you to increase your standard deduction by the lesser of the amount of real property taxes paid OR \$1,000 for a married couple (\$500 if not married).

This benefit will help homeowners who have very little in itemized deductions (like seniors who have little in deductible interest expense because they have paid off their mortgages). This means the standard deductions for 2008 move from \$10,900 for joint filers to \$11,900 and from \$5,450 to \$5,950 for single filers that use this new tax law.

New Gains Tax Exclusion Rates for Vacation Home Conversions

As a result of the 2008 Housing Act the personal residence capital gains tax exclusion will now be modified when it is applied to vacation homes that have been converted to a principle residence.



Under the new law, the tax on the sale of a converted vacation home will be based on the number of days the house was not a qualified personal residence divided by the total number of days you owned it. This percentage is multiplied by the amount of gain realized on the sale of the property. For example, if you owned a vacation home for six years but lived in it as your principle residence for only the last two years when sold, 66% of the gains would not be excluded from capital gains taxes-even if below the \$250,000 and \$500,000 (married) gains exclusions for your personal home. This new tax law is effective January 1, 2009. As the rules can be complex, be sure to call to discuss your situation before you act.

Thank you for visiting

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