

## **NEW FOR 2008:**

### **Everyone:**

Free e-filing with a computer is offered to taxpayers with Adjusted Gross Income (AGI) over \$56,000 by filling their tax forms on IRS' Web site. Unlike for filers with AGI of \$56,000 and below, this e-file option won't "interview" you and put your income, write-offs and credits on the right forms. Filers must do that themselves, so only those who are comfortable with the tax law should use this option. E-filing greatly reduces the turnaround time for a refund.

Rebate Credit (Advance) or Rebate Recovery Credit: Early in 2008, Congress passed and the President signed the Economic Stimulus Package Act of 2008. Taxpayers were granted a rebate equal to the lesser of their net income tax liability of \$600 to individuals, \$1,200 for joint filers. Additional rebates of \$300 per child were available for each child claimed as a dependent. Rebates were available for taxpayers with an earned income of at least \$3,000, and were reduced by 5% of the amount that exceeded adjusted gross income of \$75,000 for singles and \$150,000 for joint filers.

The rebate credit is based on the 2008 return, but an advance of the credit referred to as "The Stimulus Payment" was estimated based on the 2007 return. Thus, you get the better of the stimulus payment or the rebate credit. If you did not file a 2007 return by October 15, 2008 or if your rebate should be higher for any reason, a Rebate Recovery Credit is available to you in 2008.

The IRS is providing the ability to look up the amount of the rebate you received on [www.irs.gov](http://www.irs.gov).

Capital Gains – Max Tax Rate on Qualified Dividends and Net Cap Gains Reduced: For tax years beginning after 2007, the 5% maximum tax rate on qualified dividends and net capital gain in excess of net long-term capital gain over net short-term capital loss is reduced to 0%.

Net capital gain is still taxed at a maximum of 15% for income taxed at 25% if it were ordinary income. The 15% maximum tax rate on qualified dividends and net capital gain has not changed. The new 0% rate applies for both regular tax and AMT.

Child Tax Credit: The credit is currently refundable to the extent of 15% of your earned income that exceeds approximately \$12,050. Under the new law, the earned income floor falls to \$8,500.

Kiddie Tax Rules: Under kiddie tax, parents' tax highest rate applies to child's unearned income over \$1,800 for 2008 if the tax is higher than what the child would pay on his own, and the child does not file a joint return.

Depreciation:

Section 179 deduction is increased to \$250,000 for 2008 (up from \$125,000 in 2007). The maximum for enterprise zones and renewal community businesses is \$285,000 and Gulf Opportunity Zone is \$350,000. The limit on total purchased assets is increased to \$800,000 (\$1.4 million for Gulf Opportunity Zone).

Special Depreciation Allowance is the first year 50% bonus depreciation which is allowed for tangible personal property, computer software and leasehold improvements placed in service in 2008. This deduction is available for new property only and is equal to 50% of the adjusted cost basis of the property.

The total depreciation deduction, including Section 179 deduction, for a passenger automobile (that is not a truck or a van) you use in your business and first placed in service in 2008 is \$2,960 (\$10,960 for automobiles for which the special depreciation allowances applies). The maximum deduction you can take for a truck or a van you use in your business and first placed in service in 2008 is \$3,160 (\$11,160 for trucks or vans for which the special depreciation allowance applies). Limits are higher for SUVs and trucks that weigh more than 6,000 pounds.

Education:

Higher Education Tuition Deduction: This deduction allows eligible taxpayers to deduct the costs of qualified higher education expenses paid during the year for themselves, a spouse, or a dependent. The deduction is barred to taxpayers who file married filing separately or if another person can claim an exemption for the taxpayer as a dependent on his or her tax return.

The maximum deductible amount is \$4,000 for taxpayers with AGI not exceeding \$65,000 (\$130,000 for joint filers). Taxpayers whose income exceeds that limit but does not exceed \$80,000 (\$160,000 for joint filers) may deduct up to \$2,000 in qualified expenses. For many taxpayers, the HOPE or Lifetime Learning credit is also an option.

Real Property Taxes: The new law extends the additional standard deduction for real property taxes for non-itemizers through 2009. The maximum additional standard deduction authorized in the Housing Assistance Tax Act of 2008 is \$500 (\$1,000 for joint filers) and only available in 2008.

The deduction is in addition to the standard deduction. It is not an above-the-line deduction that lowers a taxpayers AGI. For 2008, the \$10,900 standard deduction

for joint filers will increase to a maximum of \$11,900 with the additional standard deduction for non-itemizers, while the \$5,450 standard deduction for single individuals will increase to a maximum of \$5,950, and the head-of-household amount from \$8,000 to \$8,500.

### **Pension Plans:**

Roth 401(k) switch to Roth IRA is available to workers with adjusted gross incomes over \$100,000 tax free.

IRA Contribution Limits are Increased: The contribution for traditional and Roth IRAs have increased to the lesser of \$5,000 (\$6,000 for taxpayers 50 or older at the end of the tax year) or taxable compensation. If modified AGI exceeds \$85,000 for joint filers or \$53,000 for single filers, the maximum IRA contributions begin to be phased out. The provision that allowed you to make a tax-free distribution from IRAs for charitable purposes was set to expire in 2008, but it has been extended through December 31, 2009. The maximum charitable distribution amount is still \$100,000.

Alternative Minimum Tax (AMT): For 2008, the exemption amounts are \$69,950 if your filing married joint, \$46,200 for single and Head of Household filers, and \$34,975 for separate filers.

### **Teachers:**

Teacher's Classroom Expense Deduction expired at the end of 2007 and renewed for tax-years 2008 and 2009. This deduction is an above the line deduction available to teachers and other education professionals of up to \$250 of certain out-of-pocket classroom expenses, including the cost of books, supplies, equipment and software used in the classroom. This deduction is available to qualified educators regardless of whether or not you itemize. Expenses that exceed \$250 and non-classroom supplies may be deducted as an employment-related miscellaneous itemized deduction subject to the 2% floor for taxpayers who itemize.

### **Real Estate:**

#### ***First-Time Homebuyers who purchase a home after January 1, 2009 and before December 1, 2009:***

Qualifying taxpayers can receive a credit up to \$8,000 for joint filers and \$4000 for married filing single if you qualify as a first-time homebuyer.

To be considered a first-time homebuyer you, and your spouse, if married, did not own any other main home throughout a three year period ending on the date of purchase.

The amount of credit phases out for taxpayers whose adjusted gross income is more than \$150,000 for joint filers and \$75,000 for singles.

You have a choice to claim this credit on your 2008 tax year form or on your 2009 tax year form.

**Repayment of this credit is not required** by the qualifying first-time homebuyer.

**First-Time Homebuyers who purchased a home *after April 8, 2008 and on or before December 31, 2008:***

As a first-time homebuyer you may have qualified to receive a credit up to \$7,500 for joint filers and \$3,750 for married filing separate individuals.

**Repayment of this credit is required** by the qualifying first-time homebuyer over a 15 year period beginning with the 2010 tax year.