



## **Summary of the Changes in Federal Tax Law for 2008**

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### **1. Economic Stimulus Payments**

If you received an economic stimulus payment in 2008, it is not taxable and it is not reportable on your tax return. If you did not receive a full payment, you may be eligible for Recovery Rebate Credit. Last year's Economic Stimulus Payment was based on 2007 tax return information, while the Recovery Rebate Credit will be based on 2008 return information.

You may qualify for the credit if your 2008 qualifying income was less than 2007. Or, the birth of a child may affect your credit. Other factors may also make you eligible for the credit.

### **2. Increased Exemptions & Standard Deductions**

Each personal exemption you can claim is \$3,500.

The standard deductions are now as follows:

Married filing jointly	\$10,900
Single filers	\$ 5,450
Head of household	\$ 8,000

### **3. Tax credit of up to \$7,500 for First-Time Homebuyers**

If you are a first time buyer who purchased a primary residence after April 8, 2008, you may qualify for a tax credit equal to 10% of up to \$75,000 of the purchase price, so long as you had not owned a residence in the previous three years.

The credit phases out for adjusted gross incomes of between \$150,000 and \$170,000 for joint filers, and between \$75,000 to \$95,000 for single filers.

This credit actually operates like an interest-free loan from the government and is repaid over a 15 year period. The repayment period begins two years after the year in which you claim the credit. For example, if you claim a \$7,500 tax credit for a purchase in 2008, you will have to pay an extra \$500 of income tax in 2010 and in later years.

If you sell the residence before the credit is fully repaid, the balance is recaptured in the year you sell. If the profit on the sale is less than the unpaid credit, the amount due is limited to the amount of your profit.

#### 4. Tax Deduction on Property Taxes for Non-Itemizers

If you do not itemize your deductions, you may for 2008 and 2009 take a deduction for real property taxes paid. This would have the effect of giving you an even larger standard deduction. If you file jointly, you can deduct up to \$1,000 of real property taxes that were paid in 2008. If you file as a single person, you can deduct up to \$500 of real estate tax payments made during the year.

#### *5. Reduction in Capital Gains & Dividend Tax Rates*

Before 2008, long-term capital gains from the sale of assets held longer than one year were taxed at a maximum rate of 5%, to the extent the seller was in the 10% or 15% tax brackets. In 2008, the 5% maximum rate drops to 0% through 2010. The 15% maximum tax rate on long-term capital gains for taxpayers in higher brackets remains the same.

Also in 2008, the special 5% maximum rate on dividends of taxpayers in the 10% and 15% tax brackets drops to 0% through 2010.

#### *6. Reduction in Itemized Deductions & Personal Exemptions for High-Income Taxpayers*

Itemized deductions and personal exemptions are phased out as your income rises. In 2008, the reduction of itemized deductions occurs once your adjusted gross income exceeds \$159,950, regardless of filing status. Your itemized deductions are reduced by 1% of the amount by which your AGI exceeds \$159,950, but you can never lose more than 80% of your itemized deductions.

Medical expenses, investment interest deduction, deductible gambling losses, and any casualty and theft losses are not subject to the cut. Personal exemptions are reduced by 2% for each \$2,500 of Adjusted Gross Income over \$239,950 for marrieds filing jointly, \$199,950 for heads of households and \$159,950 for singles, but the reduction cannot exceed \$1,167 per exemption.

#### *7. Exemptions for the Alternative Minimum Tax (AMT)*

Congress increased the AMT exemptions for 2008 only. The exemptions are \$46,200 for single taxpayers and heads of households, \$69,950 for married couples filing joint returns, and \$34,975 for married couples filing separately.

Unless Congress acts in 2009, the exemption levels will drop to \$45,000 for married filing jointly, \$33,750 for singles and heads of household, and \$22,500 for married couples filing separately.

#### *8. Direct Donations of IRAs to Charity*

For 2008 and 2009, IRA owners age 70½ and older can donate up to \$100,000 of their IRAs directly to charity without having to report the withdrawal as income, and the donation is not included in taxable income. Amounts donated in this way count as all or part the IRA owner's required minimum distribution.

### *9. Higher Income Limits for Deductible IRAs & Roth IRAs*

If you are covered by a retirement plan at work, you can take a full IRA deduction if your modified adjusted gross income is less than \$85,000 (married filing jointly), or \$53,000 (single or head of household). A partial deduction is allowed until your adjusted gross income reaches \$105,000 if you are married filing jointly, or \$73,000 if you are single or a head of household.

Also, the opportunity to contribute to a Roth IRA is now phased out as your modified adjusted gross income rises between \$159,000 and \$169,000 if you are married filing jointly, or \$101,000 to \$116,000 if you are single or a head of household.

### *10. A Revised "Kiddie Tax"*

Beginning in 2008, Congress extended the kiddie tax. In 2007, a child's unearned income over \$1,700, such as gains and dividends, was taxed at the parents' marginal rate until the year the child is 18.

The threshold increases to \$1,800 in 2008, but the age is raised to 19. For full-time students whose earned income is less than half their support, the age is increased to 24. This change prevents families from shifting appreciated assets to their kids in order to take advantage of the 0% rate on capital gains available in 2008.

### *11. State and Local Sales Tax Deduction*

The opportunity for itemizers to choose to deduct their state *sales* tax payments instead of deducting state and local *income* taxes was reinstated for 2008. This option will expire after 2009.

### *12. Tuition and Fees Deduction*

The deduction for up to \$4,000 of college tuition and fees was reinstated by Congress for 2008 and 2009.

### *13. Refundable Child Tax Credit*

The \$12,050 income threshold needed to qualify to claim the child tax credit if it exceeds your regular income tax bill is lowered to \$8,500 for 2008.

### *14. Tax Relief for Midwestern Flood Victims*

Victims of the Spring 2008 floods in 10 Midwestern states, including Arkansas, Illinois, Kansas and Missouri, are eligible for a number of tax breaks:

Itemizers can deduct all their uninsured losses, without regard to the \$100 floor or 10% of adjusted gross income offset.

Victims can withdraw up to \$100,000 from an IRA or company plan without penalty and

pay tax on the payouts over three years. Any amounts that are recontributed during that time will be treated as rollovers, and any tax paid can be refunded by filing IRS Form 1040X.

Victims can borrow the lesser of \$100,000 or their vested benefit from company plans.

Anyone housing flood victims for 60 days or more gets a \$500 tax exemption for each one, up to a maximum of \$2,000.

The standard mileage rate for flood-related charitable driving in 2008 is 36¢ per mile for driving done before July 1, and 41¢ per mile for driving done after June 30.

The \$1,800 and \$2,000 maximums for the Hope and Lifetime Learning credits, respectively, are doubled for 2008 and 2009 for students in colleges in the disaster area.

#### *15. Increased Section 179 Expense Reduction*

The maximum amount of equipment placed in service that businesses can expense doubles for 2008 to \$250,000.

The annual investment limit increases to \$800,000 for 2008. You will not therefore lose the benefit of expensing until you place more than that amount of assets in service.