



Special Report

21 Things You Need to Know About the 2008 Tax Laws

What would a new year be without some tax law changes from the IRS? So here is a rundown of this year's notable changes to federal tax law: 21 changes that take effect starting with the 2008 tax year.

The most notable changes involve IRAs, the kiddie tax, and a nice capital gains and dividend tax break for those of you in the 10% and 15% tax brackets. (There's a slight chance that a few of these changes might not occur: Congress could come through before the end of 2007 to extend certain tax law changes from the last 2-3 years.)

1 Higher IRA contribution limits.

If you have a Roth IRA or Traditional IRA, you can contribute up to \$5,000 to it during 2008. That's up from a \$4,000 limit for 2007. (Don't forget that if you will be 50 or older at the end of 2008, you can add up to another \$1,000 to your IRA as a catch-up contribution.)¹

2 Higher income limits for Roth IRA and Traditional IRA holders.

The deduction and contribution phase-out ranges have been adjusted for inflation.

2a) You can take a full IRA deduction in 2008 if your modified AGI is under \$85,000 (married filing jointly) or \$53,000 (single or head of household).²

2b) You can take a partial IRA deduction if your modified AGI falls between \$85,000 and \$105,000 (married filing jointly) or between \$53,000 and \$73,000 (single or head of household).³

2c) Your option to contribute to a Roth IRA is now phased out at modified AGI levels between \$159,000 and \$169,000 (married filing jointly) and \$101,000 to \$116,000 (single or head of household).²

3 No more IRA charitable rollovers.

In 2007, taxpayers age 70½ or older had a chance to reduce their taxes through an IRA gift – a direct IRA rollover to the non-profit of their choice. In 2008, this option expires ... barring Congressional action to extend it.

Of course, you can still make charitable gifts using your IRA. You just can't do it through a direct rollover. In 2008, you have to go back to the old way of doing it:

reporting the IRA withdrawal as income, and declaring an offsetting income tax deduction for the charitable contribution. However, that brings up an issue: without the direct rollover option, any such gifts may be restricted by the AGI cap on charitable contributions, and the itemized deduction phaseout.⁴

4 The expansion of the kiddie tax.

It's getting harder to shift appreciated assets to your children.

4a) Anyone under age 19 may be hit with the kiddie tax if they have investment income or other forms of unearned income totaling more than \$1,800 in TY 2008. Income greater than \$1,800 will be taxed at their parents' marginal rate.

4b) Any full-time college student under age 24 whose earned income is less than half their support can be hit with the kiddie tax if they earn more than \$1,800 in 2008. Income greater than \$1,800 will be taxed at their parents' marginal rate.

So while the threshold for taxation has increased from \$1,700 to \$1,800, the tax will be triggered more often.

Keep in mind, this tax doesn't apply to any income your teenager *earns*. It only applies to dividends, interest income and income from non-employment sources.⁵

5 0% tax rates on some long-term capital gains.

Are you in the 10% or 15% tax bracket? Do you own securities that have appreciated? Have you held these assets for longer than one year? If you sell them in 2008, the capital gains will not be taxed at a maximum rate of 5%. In TY 2008, the 5% maximum rate drops to 0%, and it will stay at 0% through TY 2010. So if you have made a lot of money in a handful of stocks, 2008 may represent an ideal time to sell and diversify your portfolio. (You can just sell them and buy them again, or sell and buy them at once, without a tax penalty.) The 15% maximum tax rate on other long-term capital gains, however, remains the same.⁶

6 0% tax rates on some dividends.

Congress and the IRS have relaxed the tax on dividends as well (at least for those in the 10% or 15% tax bracket). In TY 2007, qualifying stock dividends of taxpayers in the 10% or 15% tax bracket were taxed at a 5% maximum rate. In 2008, the maximum rate is 0% and stays at 0% through 2010.⁶

7 Slightly larger personal exemptions.

For TY 2008, each personal and dependency exemption you claim will be worth \$3,500, as opposed to \$3,400 last year.²

8 Slightly larger standard deductions.

For TY 2008, standard deduction amounts rise by \$100-200 depending on filing status.²

- * Single or married filing separately - \$5,450
- * Married filing jointly or surviving spouse - \$10,900
- * Head of household - \$8,000

9 Higher phase-out levels for itemized deductions and personal exemptions.

9a) If your AGI is greater than \$159,950 for 2008, your itemized deductions are reduced by 1% of the amount by which your AGI exceeds \$159,950. (Last year's trigger point was \$156,400.⁷) That is true whatever your filing status. But there is a limit to this reduction: the most your itemized deductions can be reduced is by 80%. Medical expenses, casualty and theft losses, deductible gambling losses, and investment interest deductions are exempt from the reduction.³

9b) As for personal exemptions, the reduction levels apply at \$239,950 for married filing jointly, at \$119,975 for married filing separately, \$199,950 for head of household and \$159,950 for single filers. Personal exemptions are reduced by 2% for each \$2,500 of adjusted gross income above those income levels. However, the reduction cannot exceed \$1,167 per exemption.³ (These trigger points have gone up \$3,550-5,350 from TY 2007.⁷)

10 Many COLA adjustments regarding defined benefit and defined contribution plans.

For example, in TY 2007, you could put up to \$45,000 in the typical defined contribution plan. This year, the limit rises to \$46,000. For a full rundown of these many COLA changes, visit www.irs.gov/newsroom/article/0,,id=174873,00.html.

11 Tax brackets readjusted for inflation.

The 15%, 25%, 28%, 33%, and 35% brackets have all readjusted north by about 2% for 2008. Thanks to these new, slightly higher taxable income limits, you may be able to avoid a higher tax bracket. For example, the dividing line between the 15% and 25% bracket will be \$65,100, as opposed to \$63,700 in TY 2007.²

12 Higher depreciation and expense deduction limits for businesses.

Section 179 limits have been set higher for TY 2008. The maximum amount of equipment placed in service that you can expense in 2008: \$128,000, as compared to \$125,000 for TY 2007. You can place up to \$510,000 of assets in service in TY 2008 and retain the benefit of expensing, because the annual investment limit for TY 2008 has risen from \$500,000.³

13 No more chances to deduct state sales tax payments.

Do you like to itemize deductions? Do you usually deduct your state sales tax payments instead of your state and local income taxes? No more. For 2008, you only have the choice of deducting your state and local income taxes.³

14 Increase in limits on tax-free parking and transit passes for employees.

For TY 2008, employees can now enjoy up to \$220 per month of employer-paid parking and up to \$115 per month in transit passes tax-free. These amounts have increased \$5 per month from TY 2007.⁸

15 A slight increase in the Earned Income Credit (EIC).

For 2008, working families with two or more children and low- and moderate-income workers can take a maximum EIC of \$4,824, increased from \$4,716. The income limit for the EIC for joint return filers with two or more children rises to \$41,646.²

16 Non-taxable combat pay will no longer be considered for the Earned Income Credit (EIC).

In TY 2007, nontaxable combat pay could be used in the calculation of earned income for the EIC. President Bush's signature extended this provision of the Tax Relief and Health Care Act of 2006 into 2007, but it is gone for TY 2008.³

17 No deductions for mortgage insurance premiums.

In December 2006, Congress passed a tax law making mortgage insurance tax-deductible in 2007, which was certainly advantageous for homeowners who could choose mortgage insurance over a piggyback loan. But this special itemized deduction (applicable only to mortgages originated in 2007) is set to expire in 2008 ... unless Congress extends it before New Year's Day.⁹

18 The tuition and fees deduction may not be available in 2008.

Congress may yet save this deduction from expiration. Individuals could deduct up to \$4,000 in college tuition and fees in 2007, but this deduction is scheduled to phase out for TY 2008.³

19 Teachers may not be able to deduct the cost of classroom supplies next year.

In TY 2007, educators could deduct up to \$250 of expenses in classroom supplies on their federal returns. This deduction opportunity is set to expire in TY 2008, barring an 11th-hour renewal.³

20 The Hope credit rises by \$150.

This is the popular tax credit that helps parents putting kids through their first two years of college. For TY 2008, the credit increases from \$1,650 to \$1,800.²

21 A higher income limit for the savers credit.

This is the credit helping middle-class investors who contribute to their retirement plans at work. The new income limits for 2008 have been adjusted for inflation.²

- * Single or married filing separately - \$26,500
- * Married filing jointly or surviving spouse - \$53,000
- * Head of household - \$39,750

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Citations.

¹ money.aol.com/retirement/fct1/_a/retirement-planningdefined-contribution/20050225134209990013

² www.irs.gov/newsroom/article/0,,id=174876,00.html

³ turbotax.intuit.com/tax-tools/tax_law_changes_turbotax/article

⁴ waysandmeans.house.gov/hearings.asp?formmode=view&id=6388

⁵ www.forbes.com/beltway/2007/05/29/kiddie-tax-congress-oped-cx_to_0530onink.html

⁶ www.sltrib.com/business/ci_7671027

⁷ money.aol.com/kiplingers/tax/canvas3/_a/sneak-peek-at-2008-tax-savings/20071004160909990002

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⁹ www.bankrate.com/brm/news/mortgages/20061214_deduct_mortgage_insurance_a1.asp
