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CLIENT NEWSLETTER

WINTER 2008-2009

Happy New Year!

The tumultuous 2008 is over. Congress was at its busiest ever in writing *seven* new tax laws, each with hundreds of provisions. (See Addendum at end of this Newsletter.) Here's a brief summary of the new laws, followed by the 2008/2009 amounts for those items that adjust every year.

- **Stimulus Payment (Rebate):** Most taxpayers have received their 2008 Stimulus payment. However, if you did not receive the payment in 2008, you can claim it as a dollar-for-dollar credit on your 2008 income tax return filed in 2009. If you know anyone who normally is not required to file a tax return (such as people living only on Social Security), filing a 2008 tax return can entitle them to a $300 stimulus payment.

- **Depreciation on Business Assets:** For 2008 businesses can write-off 50% of the cost of an asset in addition to regular depreciation. An additional $8000 of first year depreciation on cars used for business purposes is also available in 2008. The amount of assets that can be 100% written off by businesses in 2008 is increased to $250,000.

- **Home Mortgage Debt Relief:** If a lender forgives part of a mortgage on your primary residence (due to foreclosure, restructuring, or a "short sale"), up to $2,000,000 of the forgiven debt will not be taxed as income. This applies from January 1, 2007 through December 31, 2012 (extended from 12/31/09).

- **Numerous New Provisions for Military Personnel and Families.**

- **Credit for First Time Home Buyers:** Up to 10% of the purchase price (maximum $7500) can be credited against a first time home buyer's tax liability. But it's not as good as it sounds. The credit must be paid back to the IRS equally over the next 15 years (6.67% per year). It's really an interest free loan. "First-Time" home buyer means that you have not owned a home in 3 years, so you may qualify without realizing it.

- **Real Estate Tax Deduction:** In 2008 and 2009, up to $500 ($1000 for a joint return) of real estate taxes can be deducted *even if you do not itemize deductions.*

- **Credit Card Reporting:** Beginning in 2011, income collected by merchants accepting debit/credit cards will be reported to IRS by credit card companies.

- **Cost Basis Reporting:** Also beginning in 2011, stock brokers will be required to report to the IRS not only the selling price of securities that you sell, but also the *cost* of the securities, and whether the sale is long-term or short-term.

- **Sale of Residence – New Rules:** The $250,000 gain exclusion on the sale of a principal residence ($500,000 for joint returns), *is reduced* if the property is rented out to tenants on or after January 1, 2009 and then converted to a personal residence. Also, effective in 2008, a surviving spouse now has until two years after their spouse's death to sell the principal residence and get the $500,000 exclusion.

- **RMD's Suspended for 2009 Only:** Required Minimum Distributions from IRA's, 401(k)'s, etc. will not be required in 2009. Note that *this does not apply* to those who became 70½ years old in 2008 and choose to defer their first RMD into 2009 (up to March 31).

- **Charitable Contributions from IRAs** can continue to be used to meet "Required Minimum Distributions" (maximum $100,000) of people over age 70½. This rule expired at the end of 2007 and has been extended until 12/31/09.

- **New Rollovers into Roth IRAs:** Beginning in 2008 amounts from qualified pension plans, Section 403(b) plans, and Section 457 government plans can be rolled into either a regular or Roth IRA.

- **Zero Percent Capital Gains Tax** for people in the 10% or 15% tax brackets for years 2008 through 2010. That means that in 2008 anyone with *taxable income after all deductions* of less than $65,100 (joint), $43,650 (head of household), or $32,550 (single or married filing separately) will pay *no tax* on long-term capital gains and income from "qualified" dividends. These income limits will adjust for inflation in 2009 and 2010.

- **"Marriage Penalty" Relief:** Various changes virtually eliminate the "marriage penalty". Of course this depends upon your point of view. If you are single, then this means elimination of certain tax benefits of being single.

- **Many Provisions Extended:**

  Deduction for State & Local Sales Tax
  Deduction for Higher Education
  Deduction for Teachers' Expenses
  Deduction for Personal Mortgage Insurance ("PMI")
  Residential Energy Credits, and more.

2008-2009 Inflation and Other Adjustments:

	2008	2009
Auto mileage rate for business	50.5 cents per mile 1/1-6/30 58.5 cents per mile 7/1-12/31	55.0 cents per mile
Auto mileage rate for medical & moving expenses	19.0 cents per mile 1/1-6/30 27.0 cents per mile 7/1-12/31	24.0 cents per mile
Auto mileage rate for charity *(no change)*	14 cents per mile	14 cents per mile
Maximum IRA & Roth IRA contribution (*no change)*	$5,000 plus extra $1,000 if over age 50	$5,000 plus extra $1000 if over age 50
Maximum SEP contribution (*increase)*	Lesser of $46,000 or 25% of compensation	Lesser of $49,000 or 25% of compensation
Maximum 401(k),403(b),457 Plan contribution limit *(increase)*	$15,500 plus extra $5,000 if over age 50	$16,500 plus extra $5,500 if over age 50
Maximum wages taxable for Social Security (*increase)*	$102,000	$106,800
Annual Gift Tax Exclusion (per person receiving gifts) *(increase)*	$12,000 ($24,000 if married)	$13,000 ($26,000 if married)
Estate Tax Exemption	$2,000,000	$3,500,000
Personal & Dependent Exemption (*increase)*	$3,500	$3,650
Standard Deduction (*increase)*	Married: $10,900; Single: $5,450; Head of Household: $8,000	Married: $11,400; Single: $5,700; Head of Household: $8,350
Additional Standard Deduction for Age 65 or Blind	Married: $1,050 per spouse Unmarried: $1,350	Married: $1,100 per spouse Unmarried: $1,400
Alternative Minimum Tax Exemption:	Married: $69,950; Single or Head of Household: $46,200; Married filing Separately: $34,975	Married: $45,000; Single or Head of Household: $33,750; Married filing Separately: $22,500 *unless Congress acts*

Tougher Enforcement of Rules for Substantiation and Documentation

Please remember that the IRS now strictly enforces the rule that deductions be evidenced by receipts, cancelled checks, credit card or bank statement entries, and log books. This is especially true for business travel and entertainment deductions, business use percentage of autos and other assets, and charitable contributions.

The rules on **Charitable Contributions** are especially tough and directed by Congress, not the IRS. All contributions of money must be evidenced by a bank record, such as a checking account, debit card, or credit card statement entry, or a written receipt from the charity. The bank record or receipt must show the name of the charity and the date and amount of the contribution. This applies to all contributions of money, from *one cent* up! The effect of this provision is to make contributions of paper money non-deductible for all practical purposes. Use checks, debit, and credit cards only. Contributions to any one organization that total $250 or more for the year *must be evidenced by a receipt. Cancelled checks are not sufficient.*

If you donate a motor vehicle to a charity, the charity must give you a Form 1098-C which reports the deductible amount of the gift. The rules are complex, but you can be quite sure that the value you get by researching on the internet is much too high.

Our best to all for the New Year. And watch for many more tax changes in 2009.

Please feel free to call or write if you have any questions.

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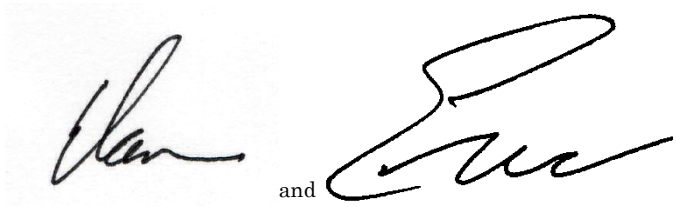

Addendum:
Tax Bills Enacted by Congress: December 2007 to December 2008

- Energy Independence and Security Act (EISA) of 2007 (12-19-2007)
- 2007 Virginia Tech Victims Act (VTVA) (12-19-2007)
- Mortgage Forgiveness Debt Relief Act (MFDRA) of 2007 (12-20-2007)
- Tax Increase Prevention Act (TIPA) of 2007 (12-26-2007)
- Tax Technical Corrections Act (TTCA) of 2007 (12-29-2007)
- Economic Stimulus Act (ESA) of 2008 (02-13-2008)
- Heartland, Habitat, Harvest & Horticulture Act (HHHHA) of 2008 (05-22-2008)
- Heroes Earnings Assistance & Relief Tax Act (HEARTA) of 2008 - (06-17-2008)
- Housing Assistance Tax Act (HATA) of 2008 (07-30-2008)
- Emergency Economic Stabilization Act (EESA) of 2008 (10-03-2008)
- Energy Improvement & Extension Act (EIEA) of 2008 (10-03-2008)
- Tax Extenders & AMT Relief Act (TEAMTRA) of 2008 (10-03-2008)