

Highlights of 2008 Tax Law Changes: Tax Breaks Renewed, Recovery Rebate Credit, Homeowner Relief

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AMT exemptions rise; several expiring deductions and credits get a new lease on life; a new standard property tax deduction and a special first-time homebuyer credit are available to some homeowners; and retirement savings incentives expand. These are among the changes taxpayers will find when they fill out their 2008 tax returns. More information about these and other changes, summarized below, can be found on IRS.gov and in various IRS documents, including the Instructions for Form 1040.

Economic Stimulus Payments Tax Free

Economic stimulus payments are not taxable, and they are not reported on 2008 tax returns. However, the stimulus payment does affect whether a taxpayer can claim the Recovery Rebate Credit and how much credit he or she can get. The credit is figured like last year's economic stimulus payment except that the amounts are based on tax year 2008 instead of 2007. A taxpayer may qualify for the [Recovery Rebate Credit](#) if, for example, she did not get an economic-stimulus payment or had a child in 2008. See Fact Sheet 2009-3 for details. In most cases, the IRS can figure the credit. The instructions for Forms 1040, 1040A and 1040EZ have more information.

AMT Exemption Increased for One Year

For tax-year 2008, Congress raised the alternative minimum tax exemption to the following levels:

- \$69,950 for a married couple filing a joint return and qualifying widows and widowers, up from \$66,250 in 2007
- \$34,975 for a married person filing separately, up from \$33,125 and
- \$46,200 for singles and heads of household, up from \$44,350

Under current law, these exemption amounts will drop to \$45,000, \$22,500 and \$33,750, respectively, in 2009. [Form 6251](#) and the [AMT Calculator](#) provide more information.

Expiring Tax Breaks Renewed

Several popular tax breaks that expired at the end of 2007 were renewed for tax-years 2008 and 2009. As a result, eligible taxpayers can claim:

- The deduction for state and local sales taxes on Form 1040 Schedule A , Line 5
- The educator expense deduction on Form 1040, Line 23 or Form 1040A, Line 16
- The tuition and fees deduction on [Form 8917](#) and
- The District of Columbia first-time homebuyer credit on [Form 8859](#)

In addition, the residential energy-efficient property credit is extended through 2016. In general, solar electric, solar water heating and fuel cell property qualify for this credit. Starting in 2008, small wind energy and geothermal heat pump property also qualify. Use [Form 5695](#) to claim the credit.

The non-business energy property credit for insulation, exterior windows, exterior doors, furnaces, water heaters and other energy-saving improvements to a main home is not available in 2008 but will return in 2009.

Standard Deduction Increased for Most Taxpayers

Nearly two out of three taxpayers choose to take the standard deduction rather than itemizing deductions such as mortgage interest and charitable contributions. The basic standard deduction is:

- \$10,900 for married couples filing a joint return and qualifying widows and widowers, a \$200 increase over 2007
- \$5,450 for singles and married individuals filing separate returns, up \$100 and
- \$8,000 for heads of household, up \$150

Higher amounts apply to blind people and senior citizens. The standard deduction is often reduced for a taxpayer who qualifies as someone else's dependent.

New this year, taxpayers can claim an additional standard deduction, based on the state or local real-estate taxes paid in 2008. Taxes paid on foreign or business property do not count. The maximum deduction is \$500, or \$1,000 for joint filers.

Also new for 2008, a taxpayer can increase his standard deduction by the net disaster losses suffered from a federally declared disaster. A worksheet is available in the instructions for Forms 1040 and 1040A.

First-Time Homebuyer Credit

Those who bought a main home recently or are considering buying one may qualify for the [first-time homebuyer credit](#). Normally, a taxpayer qualifies if she didn't own a main home during the prior three years. This unique credit of up to \$7,500 works much like a 15-year interest-free loan. It is available for a limited time only — on homes bought from April 9, 2008, to June 30, 2009. It can be claimed on new Form 5405 and is repaid each year as an additional tax. Income limits and other special rules apply.

Tax Relief for Midwest Disaster Areas

Special tax relief related to severe storms, tornadoes or flooding, occurring after May 19, 2008, and before Aug. 1, 2008, is available to individuals in portions of Arkansas, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska and Wisconsin that were affected by these disasters. Tax benefits include:

- Liberalized rules for certain personal casualty losses and charitable contributions
- An additional exemption amount for persons who provided housing for someone displaced by these disasters
- The option to use 2007 earned income to figure a 2008 earned income tax credit (EITC) and additional child tax credit
- An increased charitable standard mileage rate for use of personal vehicle for volunteer work related to these disasters
- Special rules for withdrawals and loans from IRAs and other qualified retirement plans

Details on these and other relief provisions are in Publication 4492-B .

Contribution Limits Rise for IRAs and Other Retirement Plans

This filing season, more people can make tax-deductible contributions to a traditional IRA. The deduction is phased out for singles and heads of household who are covered by a workplace retirement plan and have modified adjusted gross incomes (AGI) between \$53,000 and \$63,000, compared to \$52,000 and \$62,000 last year.

For married couples filing jointly, in which the spouse who makes the IRA contribution is covered by a workplace retirement plan, the income phase-out range is \$85,000 to \$105,000, up from \$83,000 to \$103,000 last year.

Where an IRA contributor who is not covered by a workplace retirement plan is married to someone who is covered, the deduction is phased out if the couple's income is between \$159,000 and \$169,000, up from \$156,000 and \$166,000 in 2007.

The phase-out range remains \$0 to \$10,000 for a married individual filing a separate return who is covered by a

retirement plan at work.

The worksheet in the instructions for Form 1040 Line 32 or Form 1040A Line 17 can help a taxpayer figure the IRA deduction.

For 2008, the elective deferral (contribution) limit for employees who participate in 401(k), 403(b) and most 457 plans remains unchanged at \$15,500. This limit rises to \$16,500 in 2009. The catch-up contribution limit for those aged 50 to 70-½ remains at \$5,000 in 2008 but rises to \$5,500 in 2009.

The AGI phase-out range for taxpayers who contribute to a Roth IRA is \$159,000 to \$169,000 for joint filers and qualifying widows and widowers, compared to \$156,000 to \$166,000 in 2007. For singles and heads of household, the comparable phase-out range is \$101,000 to \$116,000, compared to \$99,000 to \$114,000 in 2007.

Standard Mileage Rates Adjusted for 2008

The standard mileage rate for business use of a car, van, pick-up or panel truck is 50.5 cents per mile from Jan. 1, 2008, to June 30, 2008, up 2 cents from 2007. The rate is 58.5 cents for each mile driven during the rest of 2008.

From Jan. 1, 2008, to June 30, 2008, the standard mileage rate for the cost of operating a vehicle for medical reasons or as part of a deductible move is 19 cents per mile, down a penny from 2007. The rate is 27 cents from July 1 to Dec. 31.

The standard mileage rate for using a car to provide services to charitable organizations is set by law and remains at 14 cents a mile. As noted earlier, special rates apply to the Midwest disaster area.

Exemptions Rise

The value of each personal and dependency exemption is \$3,500, up \$100 from 2007. Most taxpayers can take personal exemptions for themselves and an additional exemption for each eligible dependent. An individual who qualifies as someone else's dependent cannot claim a personal exemption, and though personal and dependency exemptions are phased out for higher-income taxpayers, the phase-out rate is slower than in past years.

This is one of more than three dozen individual and business tax provisions that are adjusted each year to keep pace with inflation. A complete rundown of these changes can be found in [2008 Inflation Adjustments Widen Tax Brackets, Change Tax Benefits](#).

Earned Income Tax Credit Rises

The maximum earned income tax credit (EITC) is:

- \$4,824 for people with two or more qualifying children, up from \$4,716 in 2007
- \$2,917 for those with one child, up from \$2,853 last year and
- \$438 for people with no children, up from \$428 in 2007.

Available to low and moderate income workers and working families, the EITC helps taxpayers whose incomes are below certain income thresholds, which in 2008 rise to:

- \$41,646 for those with two or more children
- \$36,995 for people with one child and
- \$15,880 for those with no children

[One in six taxpayers claim the EITC](#), which, unlike most tax breaks, is refundable, meaning that individuals can get it even if they owe no tax and even if no tax is withheld from their paychecks.

Taxes Lowered for Many Investors

The five-percent tax rate on qualified dividends and net capital gains is reduced to zero. In general, this reduction applies to investors whose taxable income is below:

- \$65,100, if married filing jointly or qualifying widow or widower
- \$32,550, if single or married filing separately or
- \$43,650, if head of household.

Note that taxable income is normally less than total income. The worksheet for Form 1040 Line 44, Form 1040A Line x or Schedule D and its instructions provide details.

Kiddie Tax Revised

The tax on a child's investment income applies if the child has investment income greater than \$1,800 and is:

- Under 18 old
- 18 years of age and had earned income that was equal to or less than half of his or her total support in 2008 or
- Over 18 and under 24, a student and during 2008 had earned income that was equal to or less than half of his or her total support.

Previously, the tax only applied to children under age 18. [Form 8615](#) is used to figure this tax.

Self-Employment Tax Changes

For those who receive Social Security Retirement or disability benefits, any Conservation Reserve Program (CRP) payments are now exempt from the 15.3-percent social security self-employment tax. Schedule SE and its instructions and [Publication 225, Farmer's Tax Guide](#), have the details.

More farmers and self-employed people this year can choose the optional methods for figuring and paying the self-employment tax. These optional methods allow those with net losses or small amounts of business income a way to obtain up to four credits of Social Security coverage. The income thresholds for both the farm optional method and the nonfarm optional method are increased for 2008 and indexed for inflation in future years. Choosing an optional method may increase a taxpayer's self-employment tax but it may also qualify him for the earned income tax credit, additional child tax credit, child and dependent care credit or self-employed health insurance deduction. Schedule SE and its instructions have details.