

# AHLBECK & COMPANY

## CERTIFIED PUBLIC ACCOUNTANTS

### UPDATE ON TAX CHANGES AND ISSUES

#### PERSONAL INCOME TAXES

- Dependents under age 19 and dependent full-time students under age 24 with investment income over \$900 are subject to income tax.
- The maximum tax rate for qualifying dividends and long-term capital gains of 15% (lower tax brackets subject to a 0% rate) is extended through 2010.
- All cash contributions require substantiation. Donations of household items and clothing must be in good used condition or better and be properly supported.
- After 2008, gains from a principal residence sale can no longer be excluded from gross income for periods the home is not used as a principal residence. Nonqualified use prior to 2009 is ignored and allocation is based on usage.
- The exclusion of up to \$100,000 allowed for traditional or Roth IRA distributions paid to a qualified charity for taxpayers at least age 70 ½ has been extended through 2009.
- Victims of federally declared disaster areas may elect to deduct the casualty loss in the year preceding the disaster. For 2008 and 2009, the 10%-of-adjusted-gross-income (AGI) limit is also waived in federal disaster areas and non-itemizers are allowed to claim a deduction for these losses. Additional tax relief is also allowed for the "Midwestern Disaster Area" (includes several Illinois counties).
- You may be able to take a recovery rebate credit on your 2008 return if you did not qualify for a 2008 economic stimulus payment or received a reduced amount.

#### ESTIMATED TAXES

- Taxpayers are subject to penalty unless total 2009 quarterly estimated tax

payments or withholding are the lesser of 90% of the expected 2009 tax liability or 100% of the actual 2008 tax liability (110% if adjusted gross income is greater than \$150,000 for married filing joint).

#### EDUCATION

- Coverdell Education Savings Account (Education IRA) contributions are \$2,000.
- Qualified distributions from Section 529 plans are generally tax-free. Plan contributions are subject to gift tax and if in excess of the annual gift tax exclusion, they may be spread ratably over five years.
- For 2008 and 2009, the maximum Lifetime Learning Credit is \$2,000 and the Hope Scholarship Credit is \$1,800. Alternatively, you may deduct up to \$4,000 for qualified post-secondary expenses. You are not required to itemize but income limits apply.
- All student loan interest is deductible up to \$2,500 based on income limitations.

#### CHILD AND DEPENDENT CARE

- "Qualifying" child and dependent care expenses are eligible for a credit.

#### DEDUCTIONS AND CREDITS

- First-time homebuyers can take a credit up to \$7,500 for the price of a home purchased after April 8, 2008 (subject to income phase-out), to be paid back over 15 years.
- Non-itemizers can claim an additional standard deduction for state and local real property taxes paid in 2008 up to \$1,000 for married filing jointly.
- For 2008 and 2009, teachers may deduct up to \$250 for classroom expenses.
- The 2008 standard mileage rate for medical and moving expenses is 19 cents prior to June 30 and 27 cents in the second half of 2008, while the 2009 rate

will be 24 cents. The charity mileage deduction remains at 14 cents.

- You may take a residential energy property credit for expenses paid in 2009 (not 2008) for qualified energy saving items installed in your principal residence.

## RETIREMENT PLANNING

- The maximum IRA contribution is \$5,000 in 2008 and 2009. If age 50 or older, catch-up contributions are allowed.

- For 2008, participants in 401(k), 403(b), SEP or 457 plans can defer up to \$15,500 (\$16,500 in 2009) and up to \$10,500 (\$11,500 in 2009) to a SIMPLE plan. Individuals age 50 or older are eligible for catch-up contributions. The additional amount allowed in 2008 and 2009 is \$2,500 for SIMPLE IRAs or SIMPLE 401(k) plans and \$5,000 (\$5,500 in 2009) for other qualified plans.

- Some long-term employees with 403(b) tax-sheltered annuity contracts might have higher catch-up contribution limits.

- Annual employer contributions to profit sharing and stock bonus plans, as well as SEPs, are 25% of compensation (reduced for self-employed individuals). Overall, contributions are limited to \$46,000 for 2008 and \$49,000 for 2009.

- Roth 401(k) and 403(b) plans offer alternatives to traditional qualified plans. Contributions are taxable but distributions are tax-free (not tax deferred).

- Starting 2008, direct rollovers from qualified plans to Roth IRAs are allowed.

- The income limitation is eliminated on conversion of a traditional IRA to a Roth IRA starting in 2010. Income from 2010 conversions may be spread ratably over 2011 and 2012.

## BUSINESS

- For 2008, you may be able to deduct up to 6% of your qualified domestic production activities income from certain business activities.

- IRS Code Section 179 depreciation expense is limited to \$250,000 for 2008 (\$133,000 for 2009), subject to phase-out when asset purchases exceed \$800,000 (\$530,000 for 2009). Vehicles are excluded (except those over 6,000 pounds, which are then limited to \$25,000).

- A bonus first-year depreciation deduction of 50% is allowed for qualified property placed in service in 2008.

- The 2008 standard mileage rate for business is 50.5 cents prior to June 30 and 58.5 cents in the second half of 2008, while the 2009 rate will be 55 cents.

- Self-employed health insurance and qualified long-term care insurance for you or your family are deductible, subject to limitations.

- In 2009, wages up to \$106,800 are subject to FICA.

## ESTATES AND TRUSTS

- For 2009, the estate tax exclusion is \$3,500,000 and the exclusion for gifts of present interests increased to \$13,000.

- The IRS allows 65 days after year-end for distributions of trust income, if elected.

## ABOUT AHLBECK & COMPANY

Ahlbeck & Company offers a diverse menu of services. We are more than an accounting firm. We are your business partner, willing to assist in all aspects of your individual and business needs. To review any of these items or any other tax issues, please contact us.

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