

THE LEDGER

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FINANCIAL BAILOUT LAW PATCHES AMT AND EXTENDS TAX BREAKS

The Emergency Economic Stabilization Act of 2008 was passed by Congress on October 3 and signed into law on the same day by President Bush. While the main objective of the law is to restore stability to the financial markets, the legislation also makes hundreds of changes to the tax code. Here is a brief look at some of those changes.

AMT relief

The Congress has passed various laws in order to limit the effect of the alternative minimum tax (AMT) on individual taxpayers.

- The alternative minimum tax (AMT) exemption amounts for 2008 are increased to \$46,200 for single taxpayers and to \$69,950 for couples filing joint returns. Without this "patch," millions of additional middle-income taxpayers would have paid higher taxes for 2008.
- In 2007, certain personal credits (including the dependent care credit, the elderly and disabled credit, and the Hope Scholarship and Lifetime Learning credits) were able to offset the AMT liability. That benefit is extended to 2008.
- Certain taxpayers that paid AMT in prior years are entitled to an AMT credit. In 2008, the credit is equal to 50% of the long-term unused minimum tax credit. In 2007, only 20% of the credit could be utilized.

Energy tax breaks

The law extends tax deductions and credits for renewable energy and energy-saving

investments by businesses and homeowners.

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GIVE A GIFT THAT COUNTS

Are you searching for gift ideas for the holiday season? It's never easy, especially for older children and teenagers. They're too old for toys, but do they really need another sweater or computer game?

Have you thought of giving financial gifts? They may sound less exciting, but they can grow in value and in the long run they'll be much more appreciated. Here are a few ideas to get you started.

- Fund a child's Roth IRA. If your teenagers worked this summer, chances are they spent their earnings. But they can use your gift to open a Roth IRA, up to the amount of their earnings or the regular \$5,000 limit. The IRA will grow tax-free, and by the time the teenager retires, your gift should have compounded to a substantial tax-free retirement fund.
- Fund a 529 education account. Anyone can contribute to a child's Section 529 college savings plan, which accumulates savings for tuition and living expenses. There are no income restrictions on the donor, and few practical limits on the amount that can be saved. Your gift will grow tax-free in the plan.
- You could also make your gift to a Coverdell education savings account. These IRA-like accounts also grow tax-free, but there's a limit on total contributions of \$2,000 a year from all sources. The amount of your gift may also be limited, depending on your income.
- Give shares in a mutual fund along with a book on basic investing.

Please contact us for information on the tax aspects of giving financial gifts.



2008 HOUSING LAW COULD AFFECT YOU

The housing assistance law passed by Congress in July, 2008 will give many taxpayers a fresh opportunity to enter the housing market. But it will also slam the door on a long-time tax break. How will the new rules affect you?

First home purchase

The Housing and Economic Recovery Act of 2008 provides "first-time" home buyers who purchase a home between April 9, 2008, and July 1, 2009, a tax credit equal to 10% of the

purchase price, up to a maximum credit of \$7,500. The credit is reduced for those married filing jointly whose adjusted gross income exceeds \$150,000 (\$75,000 for single filers). To qualify for the credit, the home buyer cannot have owned a principal residence in the three previous years. But there is a catch. Unlike most tax credits, this one must be paid back. The amount of the credit is repaid over 15 years, interest-free, beginning two years after the year of purchase. If you sell your home before then, the unpaid

balance becomes due in the year of the sale. However, the credit due back cannot exceed the gain on the sale of the home, thus providing a measure of protection if the value of your home drops.

Property tax deduction

Another feature of the new housing law allows homeowners who use the standard deduction on their tax return to deduct real estate property taxes, too. Before this change, property tax deductions were limited to taxpayers who itemize. The deduction is the lesser of the actual property taxes paid or \$1,000 per married couple (\$500 filing single). The deduction was extended through 2009 by the recent bailout law.

Home sale rules

For many years, homeowners have been permitted to exclude up to \$500,000 from taxable gain on the sale of their home. The requirement has been that you had to use the home as your primary residence for two

of the five years prior to the sale.

Under these rules, those who owned a vacation home could sell their primary home, move into their second or vacation home for a couple of years, and then sell it tax-free by applying the exclusion to that property as well.

The new legislation changes all of that. Now the exclusion is adjusted for the number of years the home was not used as a primary residence. For example, suppose you owned the home for twenty years before selling it in 2011, and you used it as your primary residence for only the last two years before the sale. Your nonexcludable gain is 1/20 (one year nonqualified use) of the total gain on the sale.

These new rules take effect for sales after 2008, and only nonqualified use after 2008 will require adjustment of the exclusion.

For details on how the 2008 housing law could affect you, give us a call at 630-953-4900.



FINANCIAL BAILOUT LAW PATCHES AMT

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Business items

The research and development credit, which had expired December 31, 2007, is modified and extended through 2009. Also extended through 2009 is 15-year straight-line depreciation for qualified leasehold, restaurant, and retail improvements.

Individual extenders

For individual taxpayers, the new law extends a popular set of tax breaks through 2009. Among them are the following:

- The optional itemized deduction for state and local sales taxes.
- The deduction for qualified higher education expenses.
- The above-the-line deduction for classroom supplies purchased by teachers.
- Tax-free contributions from IRAs to charities by older taxpayers.
- The additional standard deduction for property taxes paid by those who don't itemize.

Child tax credit

The income threshold for refundability of the child tax credit (a credit of \$1,000 for each qualifying child under age 17) was lowered to \$8,500 for 2008. This change will make more low-income taxpayers eligible for a refund of the child tax credit.

Disaster relief

The law provides tax relief for victims of natural disasters in areas declared by the President as federal disaster areas. Relief includes suspension of income limits for deducting casualty losses, expanded Hope and Lifetime Learning education credits, and special breaks for businesses.

FDIC insurance

The law temporarily increases the amount of FDIC insurance coverage for bank accounts. Accounts are covered for up to \$250,000 from October 3, 2008, through December 31, 2009. Previously, accounts were only insured up to \$100,000.

For details and planning guidance on provisions in this new law that will affect you, please contact us.

TIME IS RUNNING OUT FOR TAKING ACTION TO CUT YOUR 2008 TAX BILL

The tax moves you make, or fail to make, before the end of the year can have a major impact on you and your business. Consider the following tax-cutting suggestions.

Income and deductions

It's often a good idea to shift income and deductions at the end of the year. The deductions brought into this year may reduce your 2008 tax liability while you generally don't have to pay current tax on income deferred to 2009 or beyond. For example, to push income into 2009, you could postpone taking capital gains until next year, especially if the sale then qualifies for lower long-term tax rates. To pull deductions into 2008, you might accelerate state and local income tax payments due in January. The taxes are deductible in 2008 if paid this year.

IRA contributions

This year contribution limits to IRAs increased to \$5,000 (\$6,000 if age 50 or over). Contributions to traditional IRAs are tax-deductible. However, if you or your spouse have a company retirement plan and your income exceeds certain thresholds, the deduction is reduced or eliminated. Roth IRA contributions are never tax-deductible, but future distributions may be tax-free.

Capital gains and losses

When it makes sense, you may realize capital gains and losses at year-end to cancel each other out. Any excess loss may offset up to \$3,000 of ordinary income. Be sure to weigh all the relevant economic factors, not just the

issue of taxes. For taxpayers in the 25% tax bracket or higher, the maximum tax rate on long-term gain is 15%. For taxpayers in the lowest two tax brackets, the rate for 2008 is 0%. This may be an opportunity for you or other low-bracket family members to cash in on sales of appreciated assets with zero taxes on the gain.

Kiddie tax

Due to a recent tax law change, the kiddie tax affects more children this year, including some who would otherwise benefit from the 0% capital gains rate. For 2008, the kiddie tax generally applies to children under age 19 or full-time students under age 24 who have more than \$1,800 in investment income this year. If possible, try to minimize income subject to the kiddie tax by shifting funds to investments where income is tax-deferred or tax-free.

Business equipment

If you run a business, you're allowed to currently deduct up to \$250,000 for assets placed in service before the end of the year. The deduction is phased out if purchases exceed \$800,000 this year.

Another tax provision lets you take 50% "bonus" depreciation on qualified new business assets placed in service in 2008. This means that 50% of the qualified assets' cost is deducted immediately for tax purposes in 2008. Bonus depreciation expires (with certain exceptions) after 2008, so you might want to consider increasing your 2008 year-end equipment purchases.

Extended tax breaks

The economic rescue law signed on October 3 contained an

extension of several expired or about-to-expire tax breaks. Be sure to take action before year-end to benefit from those that apply to you. It's important that you check your 2008 tax situation now.

For a review of the tax-cutting steps that make sense in your situation, contact our office at 630-953-4900.



Thanks! We appreciate you!

Thank you for selecting Cray, Kaiser Ltd. for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time. Also, thank you for recommending us to your family, friends, and associates.

We appreciate your referrals.



HSAs Limits Released

The IRS has released the inflation-adjusted contributions limits for health savings accounts (HSAs) for 2009. HSAs allow taxpayers with high-deductible health insurance plans to set aside pretax dollars that can be withdrawn tax-free to pay unreimbursed medical expenses. The 2009 contribution limit for individuals is \$3,000; the limit for family coverage is \$5,950. A catch-up contribution of an additional \$1,000 is permitted for individuals who are 55 or older.

Extensions Shortened

In the past, both individuals and partnerships have been able to get six-month extensions for filing their tax returns. Generally that has meant an October 15 final deadline for filing. Having both deadlines on the same date has made it difficult for

some individuals to get the partnership tax information for the year (reported on Form K-1) in time to include it on their personal tax returns as required.

The IRS has fixed the problem by shortening the extension period for partnerships from six months to five months, effective for 2009 filings. Therefore, partnerships that request extensions for 2008 tax returns must file by September 15, 2009.

New Travel Rates Issued

The IRS recently issued new business travel per diem rates, effective October 1, 2008. The rate for travel to high-cost localities is \$256, up from \$237. For other U.S. locations, the rate is \$158, up from \$152. The meal and incidental expense rate is unchanged at \$58 for high-cost areas and \$45 for other locations.

For additional information, contact our office.

BY THE NUMBERS**IMPORTANT DATES FOR WINTER 2008-09****December****December 15, 2008**

Due date for the fourth installment of 2008 estimated tax for corporations.

December 31, 2008

Final day for participants in a calendar year flexible spending plan to incur expenses. Check your records to ensure that you will spend all of the funds that you put away on a tax-free basis, as such plans are considered "use it or lose it."

January**January 15, 2009**

Due date for the fourth installment of 2008 estimated tax for individuals.

February**February 2**

Employers must furnish W-2 statements to employees. 1099 information statements must be furnished by banks, brokers, and other payers.

February 2

Employers must file 2008 federal unemployment tax returns and pay any tax due.

March**March 2**

Payers must file information returns (such as 1099s) with the IRS.*

*March 31 if filing electronically

This newsletter is issued quarterly to provide you with an informative summary of current business, financial, and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details and/or professional assistance.

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