

Dairy Keeper News & Information Notice 2009

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News & Information Notice Subject: Income Tax Tips for 2008 Returns

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.

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.

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.

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

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 non farm 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.

Resource: U.S. Treasury Department, Internal Revenue Service.