

TAXOLUTIONS



►► *ideas on taxes*

BAILOUT BILL FEATURES \$150 BILLION IN TAX INCENTIVES

On October 3, 2008, President Bush signed into law a \$700 billion financial rescue package that also featured \$150 billion in tax breaks aimed at individuals and businesses, including an alternative minimum tax (AMT) patch, energy incentives, and an enhancement and extension of the research and development credit for businesses.

The Emergency Economic Stabilization Act of 2008 is primarily intended to ease the credit crunch threatening to bankrupt U.S. banks and other financial institutions by allowing the government to make direct purchases of troubled assets or to acquire them through auctions. The legislation also limits the executive compensation packages of those companies assisted by the government and eases the losses of banks that hold preferred stock in Fannie Mae and Freddie Mac. Tax incentives were added to make the bill more appealing to lawmakers who were reluctant to vote in favor of a measure that bails out Wall Street bankers, without helping ordinary Americans facing recession on Main Street. In addition, the legislation contains a number of provisions intended to provide temporary relief to victims of severe storms in the Midwest in 2008.

The following tax-related provisions are included in the Emergency Economic Stabilization Act of 2008:

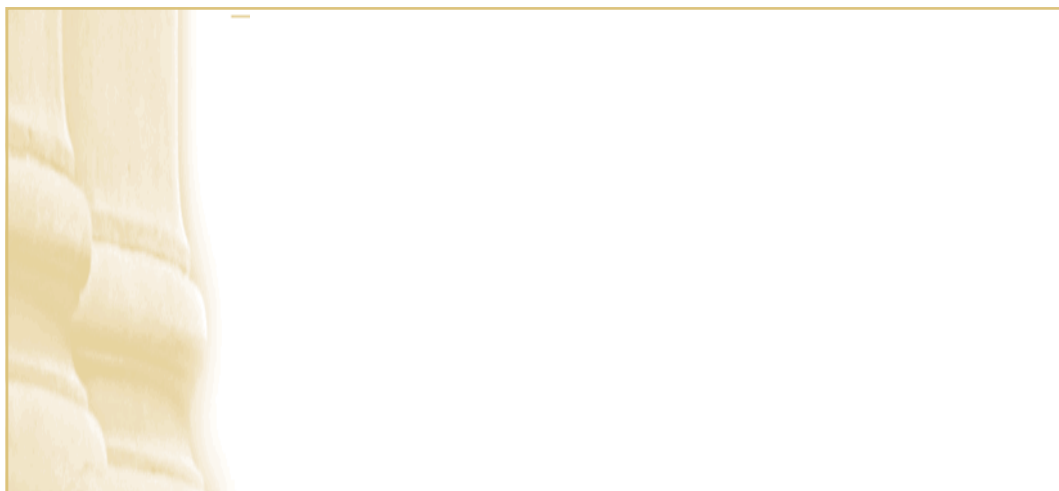
AMT Patch

A parallel tax system that can substantially increase the tax burden of Americans who claim a large number of exemptions and deductions, or who exercise incentive stock options (ISOs), the AMT has come under fire from consumer groups and legislators who would like to see it abolished. To reduce the impact of the AMT on middle-income families, Congress has been passing a “patch” each year that raises the AMT exemption amounts. The new

legislation contains the 2008 patch, which increases the exemption amounts to \$69,950 for married couples filing jointly, \$46,200 for singles and heads of household, and \$34,975 for married couples filing separately.

The new law also permits taxpayers to use nonrefundable personal credits—such as dependent care credits and education tax credits—to lower their AMT liability and removes limits in the AMT on claiming personal credits against regular tax liability. In addition, the legislation forgives the debts of taxpayers who have outstanding AMT liabilities for exercising ISOs prior to 2008.

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Mortgage Debt Tax Relief

While cancelled debt normally counts as taxable income, taxpayers whose mortgage debt on a principal residence was partly or entirely discharged, usually due to foreclosure, are permitted to claim special federal income tax relief under the Mortgage Forgiveness Debt Relief Act of 2007, provided the balance of the loan was less than \$2 million, or \$1 million for a married person filing separately. The Emergency Economic Stabilization Act of 2008 extends this tax relief through 2012.

As another break for homeowners, the new legislation extends through 2009 the additional standard deduction for real property taxes for non-itemizing taxpayers. The standard deduction will increase by an additional \$500 for single filers or \$1,000 for married taxpayers filing jointly.

The Child Tax Credit

Under the Emergency Economic Stabilization Act of 2008, the child tax credit becomes refundable up to 15% of the taxpayer's earned income in excess of \$8,500. The previous threshold was about \$12,050.

Tax-Free Charitable IRA Rollovers

The new legislation extends through the end of 2009 the ability of taxpayers to make tax-free distributions up to \$100,000 from individual retirement accounts (IRAs) for charitable purposes.

Education Tax Breaks

The above-the-line deduction of qualifying higher education tuition expenses is extended through December 31, 2009 under the new law. Taxpayers with adjusted gross incomes (AGIs) up to \$65,000 for individuals or \$130,000 for married couples filing jointly may deduct up to \$4,000 per year, and taxpayers with AGIs up to \$80,000 for

individuals or \$160,000 for joint filers can deduct up to \$2,000.

The new legislation also extends through 2009 the teachers' classroom expense deduction.



The State and Local Sales Tax Deduction

The Emergency Economic Stabilization Act of 2008 extends a provision that gives individual taxpayers the option of deducting state and local general sales taxes, instead of state and local income taxes, for an additional two years, to the end of 2009.

Tax Breaks for Businesses

By taking advantage of the research and development credit, businesses can lower the cost of developing and improving their products or processes. Previously, businesses claiming the alternative simplified research credit were permitted to claim 12% of qualified research expenses that exceed 50% of the average qualified research expenses for the three preceding tax years. The Emergency Economic Stabilization Act of 2008 increases the amount that may be claimed to 14% of research expenses and extends the tax break through December 31, 2009.

The new law also extends through December 31, 2009 three other provisions applicable to businesses: the New

Markets Tax Credit, deductions for certain charitable contributions by businesses, and deductions for qualifying restaurant and leasehold improvements.

Renewable Energy Incentives

The new law extends the production tax credit for wind energy developments through the end of 2009, and credits for producing electricity using biomass and other qualifying sources through September 30, 2011. The 30% credit toward both residential and commercial installations of solar panels, fuel cells, and microturbines is extended through December 31, 2016. In addition, purchasers of plug-in electric cars and trucks will receive tax breaks between \$2,500 and \$7,500.

The legislation also extends the biodiesel tax credit through the end of 2009, but closes the so-called "splash and dash" loophole that had allowed biodiesel producers based outside the U.S. to ship their fuel to the U.S., add a small amount of domestically produced biodiesel to qualify for the tax break, and export the fuel to other markets.

Energy Efficiency Incentives

Under the Emergency Economic Stabilization Act of 2008, the deduction for energy efficient commercial buildings is extended through the end of 2013, and the credit for residential energy efficiency investments is extended through the end of 2016. The residential credit is worth up to \$500 for the purchase of qualifying energy efficiency improvements or property, such as insulation or multi-paned windows.

The number of extensions and enhancements offered by the Emergency Economic Stabilization Act of 2008 highlights the importance of tax planning to make the most of these temporary changes. Give us a call for more information on how the provisions may affect you. ■

TAX BREAKS FOR JOB SEARCH EXPENSES

Looking for a new job can be a strain, especially when relocation becomes necessary. But the Federal government has taken steps to ease the stress of career transitions by offering deductions for certain expenses related to job searches and moving. To qualify for these tax breaks, however, you must meet certain criteria and maintain accurate records.

Many of the expenses incurred while hunting for a new position can be deducted from your taxable income, even if you are currently employed or don't find a new job as a result of your search. While the costs associated with a job search may appear minimal, they can add up, especially if the search involves extensive travel or paying for professional services.

Under Internal Revenue Service (IRS) rules, you are permitted to deduct certain expenses if you are looking for a new job in your present occupation. You cannot, however, deduct these expenses if you are a first-time jobseeker, if you are searching for a job in a new occupa-

tion, or if there was a substantial break between the end of your last job and your new search.

Provided you meet these conditions, you are permitted to deduct the cost of preparing and mailing copies of your resume to prospective employers, as well as any phone and fax expenses connected to your job search. Payments for placing ads in newspapers, in trade publications, or online are also potentially deductible.

In addition, you can deduct any employment and outplacement agency fees you paid out of pocket while looking for a new job. The cost of other professional services, such as career counseling or resume preparation advice, may also be deductible. If, in a later tax year, your employer reimburses you for agency fees, you are required to include the amount you receive in your gross income up to the amount of your tax benefit in the earlier year.

If you take a trip to a certain area for the primary purpose of looking for a job

or attending a job interview, you can generally deduct the cost of traveling to and from the location. If you cannot deduct the travel expenses because the main purpose of the trip is personal, you may still be able to deduct the amounts you spend while looking for a new job during your stay in the area. In calculating your driving expenses, you can use the standard mileage rate. For July 1 through December 31, 2008, the rate for business use of a vehicle is 58.5 cents per mile driven for business purposes.

Keep in mind, however, that only job search expenses exceeding 2% of your adjusted gross income (AGI) are tax deductible, and that you must itemize your deductions to take advantage of these tax breaks. Be sure to save all receipts, as they may be needed as proof of the expenses claimed. For more details on job search deductions, see IRS Publication 529.

For more information about these valuable tax breaks, give us a call. ■

A WORKING PARENT'S GUIDE TO THE CHILD AND DEPENDENT CARE TAX CREDIT

As working parents of young children know, paying for child care can take a big bite out of the family budget. The Federal government offers a number of tax breaks, including the Child and Dependent Care Credit, designed to ease the financial burdens of working families. The amount that can be claimed varies considerably, however, based on the outlays for care, the income of the parents, and the number of children or other dependents requiring care.

If you pay a babysitter, day care center, or other provider to care for a child or a qualifying spouse or dependent so that you can go to work or look for work, you may be able to claim the Child and Dependent Care Credit on your federal income tax return. To qualify, children

must be under age 13 at the time the care is provided, while spouses or other dependents must be physically or mentally incapable of caring for themselves.

The Child and Dependent Care Credit is a percentage of the amount of work-related child and dependent care expenses paid to a care provider. Depending upon your income, the credit can be up to 35% of your qualifying expenses. You may claim up to \$3,000 of the expenses paid in one year for one dependent or \$6,000 for two or more qualifying dependents.

In practice, however, relatively few taxpayers can claim the full 35% rate: For taxpayers with annual adjusted gross incomes (AGIs) that exceed \$15,000, the credit percentage is incrementally

phased down, falling to 20% for those making more than \$43,000 per year. The dollar limits on the credits that may be claimed are also reduced by the amount of any dependent care benefits provided by your employer that is excluded from your income. Moreover, the credit is not refundable and only serves to reduce the amount of taxes owed.

If, for example, you spent \$4,000 on care for one child during the year, up to \$3,000 could be applied toward the credit. If your income is very low, you would be able to claim 35% of this amount, for a total tax credit of \$1,050. If, however, you paid \$9,000 over the course of the year for child care for three children, but your AGI is \$75,000 per

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year, you would be permitted to claim 20% of \$6,000 of these expenses, for a total credit of \$1,200.

There are a number of conditions that taxpayers are required to meet when claiming the credit. To qualify, you must have earned income from wages, salaries, tips, other taxable employee compensation, or net earnings from self-employment. The babysitter or other caregiver cannot be someone you can claim as your dependent on your tax return or your child who is under age 19, even if he or she is not your dependent. In addition, the dependent for whom the care is provided must have lived with you for more than half the year. Finally, if you are married, you cannot claim the credit when filing separately.

Families in which one of the spouses is a full-time homemaker and does not

earn income outside the home generally are not eligible to claim the Child and Dependent Care Credit. If you are married and paid someone to care for a child or other qualifying individual, both you and your spouse must have earned income to claim the credit, unless one spouse either is a full-time student or is physically or mentally incapable of self-care.

The Federal government does, however, allow you to include payments to a wide range of care providers when claiming the credit. These include licensed day care centers, after-school care, day camps (but not overnight camps), nurseries or pre-schools (with school costs separated from child care costs), and household services, provided the assistance is necessary for the protection and well-being of the dependent. Keep in mind that additional employment taxes

may be due if you hire someone, such as a nanny or housekeeper, to come to your home to care for your children or other dependents.

When claiming the credit on your tax return, you must report the name, address, and taxpayer identification number of the care provider. For individual caregivers, this is the Social Security number. If the care provider is tax exempt, only the name and address must be reported on your return. If you are unable to provide information regarding the care provider, you may still be eligible for the credit if you can demonstrate that you exercised due diligence in attempting to obtain the required information.

Give us a call for more information on the Child and Dependent Care Tax Credit. ■

Capitalize on the Higher Standard Mileage Rates

To help ease the impact of gas prices on Americans who drive for business, the Internal Revenue Service (IRS) announced in June that it is taking the unusual step of raising the optional standard mileage rates used to calculate deductible costs of operating a car for business purposes by eight cents for the final six months of 2008.

For all business miles driven from July 1 through December 31, 2008, the rate is increased to 58.5 cents a mile. The 50.5 cent standard mileage rate remains in effect for the first six months of 2008. While the IRS normally updates mileage rates only once a year, IRS officials said the agency is making this special adjustment for the final months of 2008 in response to the recent jump in gas prices. The last time the IRS adjusted standard mileage rates mid-year was in 2005, in response to the sudden price increase at the pump in the wake of Hurricane Katrina.

The IRS further announced an increase in the rate used to calculate deductible medical or moving expenses by eight cents to 27 cents a mile for the final six months of 2008, up from 19 cents for the first six months of the year. Officials noted, however, that because the rate for providing services for charitable organizations is set by Congress, not by the IRS, this rate remains unchanged at 14 cents a mile.

"Rising gas prices are having a major impact on individual Americans," said IRS Commissioner Doug Shulman. "Given the increase in prices, the IRS is adjusting the standard mileage rates to better reflect the real cost of operating an automobile. We want the reimbursement rate to be fair to taxpayers."

The standard mileage deduction may only be claimed by businesses using four or fewer vehicles. Companies with five or more vehicles that do not qualify for the deduction generally use the

IRS standard mileage as a benchmark when setting reimbursement rates for employee driving expenses.

When filing for a deduction on their federal income tax return, individual taxpayers also have the option of calculating the actual costs of using their vehicle, rather than using the standard mileage rates. To use the actual expense method, drivers must estimate the actual costs of operating the car for business purposes, including the amounts attributable to business miles driven spent on gas, oil, repairs and maintenance, cleaning, tires and other supplies, insurance, registration fees, and licenses. Depreciation may also be included in actual costs if the car has been purchased, or lease payments may be included if the car is leased.

In addition to gas prices, the IRS considers other factors, such as the cost of new vehicles and insurance, when setting mileage rates.