

Important Changes for Taxpayers

Here are a few tax law changes you may want to note before filing your 2008 federal tax return:

1. Expiring Tax Breaks Renewed

The following popular tax breaks were renewed for tax-years 2008 and 2009:

- Deduction for state and local sales taxes on Form 1040 Schedule A, Line 5
- Educator expense deduction on Form 1040, Line 23 or Form 1040A, Line 16
- Tuition and fees deduction on Form 8917

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.

2. Standard Deduction Increased for Most Taxpayers

The 2008 basic standard deductions all increased. They are:

- \$10,900 for married couples filing a joint return and qualifying widows and widowers
- \$5,450 for singles and married individuals filing separate

returns

- \$8,000 for heads of household

Beginning this year, taxpayers can claim an additional standard deduction based on the state or local real-estate taxes paid in 2008. Also new for 2008, a taxpayer can increase his standard deduction by the net disaster losses suffered from a federally declared disaster.

3. Standard Mileage Rates Adjusted for 2008

The standard mileage rates for business use of a vehicle:

- 50.5 cents per mile from Jan. 1 to June 30, 2008
- 58.5 cents per mile driven during the rest of 2008

The standard mileage rates for the cost of operating a vehicle for medical reasons or a deductible move:

- 19 cents per mile Jan. 1 to June 30, 2008
- 27 cents from July 1 to Dec. 31, 2008
- The standard mileage rate for using a car to provide services to charitable organizations remains at 14 cents a mile. Special rates apply to the Midwest disaster area.



Enforcement

The IRS will start random exams of employment tax returns next year. The goal is to get a better idea of how much misclassification of workers and other employment tax errors contribute to the tax gap. The current estimate that payroll tax mistakes cost the Service - \$15 billion for the last 20 years.

Tax Calendar for March

Business:

- | | |
|----|--|
| 2 | W-3 with Copy A of W-2's
1098 and 1099 Due to IRS |
| 15 | Monthly Payroll Taxes
1120 and 1129S Tax Return Due |
| 20 | Monthly Sales Tax Due |

Visit our website (www.swtc-business.com) for web-only tax-tips and articles like:

- To File or Not To File?
- Small Business and COBRA payments
- Capital Gains or Losses
- Early Distributions From Retirement Accounts

Laugh Out Loud

Traffic Camera

A man was driving when a traffic camera flashed. He thought his picture was taken for exceeding the speed limit, even though he knew he was not speeding. Just to be sure, he went around the block and passed the same spot, driving even more slowly, but again the camera flashed. He thought this was quite funny, so he slowed down even further as he drove past the area, but the traffic camera flashed yet again. He tried a fourth time with the same result. The fifth time he was laughing when the camera flashed as he rolled past at a snail's pace.

Two weeks later, he got five traffic fine letters in the mail for driving without a fastened seat belt.

Stimulus Package's Tax Changes

The new stimulus law has plenty of tax cuts but was watered down to win the three GOP votes necessary for passage.

Individuals will get a **payroll tax credit** for 2009 and 2010. The new credit is 6.2% of earned income – capped at \$400 for singles and \$800 for married. Retirees and other pensioners will get a one time \$250 check instead, no later than June 17.

The credit for **first-time home buyers** maxes out at \$8,000 and don't need to be paid back. The 15-year repayment rule still applies to residences bought in 2008. Folks who buy homes in 2009 can elect to claim the credit on their 2008 returns.

Buyers of **new vehicles** can deduct the sales tax paid on the purchase even if they don't claim sales taxes as itemized deductions. They can add the tax they pay to their standard deduction.

The credit for **energy efficient home improvements** is larger for 2009 and 2010.

The first \$2,400 of **unemployment** benefits received in 2009 is tax free.

Special Charitable Contributions for Certain IRA Owners

As an alternative method for donating to a charity, certain taxpayers may transfer funds from their IRA to an eligible charitable organization. Here are ten things taxpayers who are thinking about making such a donation will need to know.

1. The IRA owner must be age 70½ or older.
2. The donor must directly transfer the money tax-free to an eligible organization.
3. The maximum amount that an IRA owner may transfer annually tax-free is \$100,000 to an eligible organization.
4. This option, created in 2006 and recently extended through 2009, is available to eligible IRA owners, regardless of whether they itemize their deductions.
5. Distributions from employer-sponsored retirement plans, including SIMPLE IRAs and simplified employee pension plans – commonly referred to as SEP Plans – are not eligible.
6. To qualify, the funds must be contributed directly by the IRA trustee to the eligible charity.
7. Amounts transferred are not taxable and no deduction is available for the amount given to the charity unless nondeductible contributions are transferred.
8. Not all charities are eligible. For example, donor-advised funds and supporting organizations are not eligible recipients.
9. Transferred amounts are counted in determining whether the owner has met the IRA's required minimum distribution rules. Where individuals have made nondeductible contributions to their traditional IRAs, a special rule treats transferred amounts as coming first from taxable funds, instead of proportionately from taxable and nontaxable funds, as would be the case with regular distributions. If nondeductible contributions are transferred to an eligible organization, a charitable contribution deduction may be allowed if itemizing deductions.

Just a thought

If all the economists were laid end to end,
they'd never reach a conclusion.

George Bernard Shaw, Irish Playwright