



TAX TIP

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From the desk of:

Peggy Yost

SEVEN TAX LAW CHANGES INCREASE BENEFITS OF YEAR-END TAX PLANNING

First-time home buyer's credit. If you are a first-time homebuyer of a principal residence any time from April 9, 2008 through June 30, 2009, you may be entitled to claim a refundable tax credit of 10% of the purchase price of a principal residence, with the maximum credit set at \$7,500. Furthermore, you can claim the credit on your 2008 income tax return even if the purchase occurs in the first half of 2009. Thus, you do not need to accelerate the purchase to have it fall before this year-end. Yet, you do need to be sure your annual income does not exceed the eligibility level. The credit phases out with modified adjusted gross income in the \$75,000 to \$95,000 range (\$150,000 to \$170,000 for joint return filers). "If the way things stand now you think your income will be above the \$75,000/\$150,000 threshold, recognize that reducing income for 2008 will expand your credit eligibility," Scharin advises.

Additional standard deduction for property taxes. For 2008—and 2008 alone—individuals who claim the standard deduction can claim an additional standard deduction amount of up to \$500 (\$1,000 for joint return filers) to the extent they pay real estate taxes that would be deductible if they itemized their deductions. Some taxpayers who normally itemize may find that this new tax break leaves them in a better position by claiming the standard deduction in 2008. "If you are in this category, consider turning the usual year-end strategy on its head: Shift as many deductible expenses (such as charitable contributions) from 2008 into 2009. That way, you can claim the bigger standard deduction in 2008 and have more itemized deductions to claim next year when this additional standard deduction is no longer available. This maximizes your combined deductions for the two years," Scharin explains.

Restriction on home-sale exclusion. If ever you were planning to turn your vacation home into your principal residence and sell what is currently your primary home, this may be the year to make the move. You can sell the property you had been using as your principal residence for at least two of the last five years, and generally exclude up to \$250,000 (\$500,000 for joint return filers) of gain. Then, two years after making your vacation home into your new principal residence, you can sell it and exclude all the gain, to the extent it does not exceed the \$250,000/\$500,000 ceiling. Due to a law change, however, if you turn your vacation home into your principal residence after this year, gain allocable to time you owned the home after 2008, and did not use it as your principal residence, would not be eligible for the home-sale exclusion.

Stimulus payments. If you did not qualify for a full stimulus payment amount (\$600 for singles, \$1,200 for joint return filers, and \$300 per qualifying child) in 2007, you have one more opportunity to make up the difference. If your disqualification was

due to your income exceeding the \$75,000 (\$150,000 for joint return filers) threshold, seek out ways to get your 2008 income in line for maximizing your stimulus payment eligibility.

Zero percent capital gains. Starting in 2008, capital gains and qualified dividends are tax-free to the extent that your income would be taxed in 10% or 15% tax brackets if it were ordinary income. If you have capital gains or qualified dividend income and your taxable income does not exceed the top of the 15% tax bracket threshold (i.e., \$32,550 for single filers, \$43,650 for heads of households, and \$65,100 for joint return filers), every dollar that you reduce your ordinary income lets you get a dollar of tax-free capital gain or qualified dividend. As Scharin points out, "Because this tax break is tied to taxable income, not adjusted gross income, making year-end charitable contributions or otherwise increasing itemized deductions can raise your eligibility for tax-free capital gains."

Age for Kiddies is creeping up. The age ceiling for imposing the kiddie tax has risen in 2008 from age 17 to as high as 23 for full-time students. In general, the investment income in excess of \$1,800 that these young people have in 2008 will be taxed at their parents' top tax rate. This means that the incentive for your children to implement their own year-end tax planning moves to reduce their net investment income can be as great as yours. Selling investments that show a paper loss is a good way to reduce that investment income. Key point: If your children are subject to the kiddie tax, your income level determines whether they qualify for 0% capital gains on investment income above \$1,800—so do not have them sell at a gain on the expectation that their lower income will get them the tax-free capital gain treatment.

Bigger business car deductions. If you claim a deduction for the actual costs of using your car for business driving, a tax incentive awaits your getting a new car before year-end. Due to a "bonus depreciation" deduction available in 2008 alone, you can claim up to \$10,960 in depreciation for a new automobile, or \$11,160 for a light truck or van placed in service in 2008; \$8,000 of this deduction is due to the bonus depreciation that is scheduled to expire after year-end. With so many great car deals available, this would be the year to buy the car.


"Once you have implemented some of these year-end opportunities and totaled up your tax savings, consider reducing the income tax withheld from your paycheck for the remainder of this year," Scharin advises. "This way, you can start to enjoy the tax savings even before you file your 2008 income tax return. If you do this, however, be sure to determine whether you need to make some readjustments to the withholding once 2009 rolls around."

Bob D. Scharin, Senior Tax Analyst for the Tax & Accounting business of Thomson Reuters.

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Accounting Practice Sales	www.accountingpracticesales.com	46
AccuFund	www.accufund.com	4
Advanced Micro Solutions	www.1099-etc.com	21
ATX	www.atxinc.com	3
BASE	www.baseonline.com	34
BQE Software	www.billquick.com	IBC
CCH, a Wolters Kluwer business	www.cchgroup.com	BC
Cougar Mountain Software	www.cougarmtn.com	29
Emochila Websites	www.emochila.com	20
Intuit	www.rightformyclients.com	7
Nova Southeastern University	www.nova.edu/business	13
Tax News & Tips	www.taxnewsandtips.com	46
TaxWise	www.taxwise.com	5
TaxWorks	www.taxworks.com	6
Thomson Tax & Accounting	www.thomsonreuters.com	IFC
UBCC	www.ubcc.com	8
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Executive Editor

Sidney Kess, CPA, J.D., LL.M

Editor

T. Steel Rose, CPA
cpa@cpamagazine.com

Copy Editor

Myrna Nelson

Columnists

Phyllis Bernstein, CPA
Stephen W. Bodine, CPA
E. Martin Davidoff, CPA, Esq.
Arthur P. Jensen, CPA
Sidney Kess, CPA, J.D., LL.M
Martin Shenkman, CPA, J.D.

Graphic Design

NJ Graphic Design, Inc.
jake@cpamagazine.com

Publisher

Angie Rose
angie@cpamagazine.com

Advertising

Sherry Hall
sherry@cpamagazine.com
Patty Jeffersen
patty@cpamagazine.com
888-610-1144

Marketing

Chelsea Gamble
chelsea@cpamagazine.com

Subscription Changes

Erika Spretz
erika@cpamagazine.com

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