HIGHLIGHTS OF SELECTED TAX PROVISIONS INCLUDED WITH THE EMERGENCY ECONOMIC STABILIZATION ACT OF 2008 AND SELECTED IRS COST OF LIVING ADJUSTMENTS

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The following is a list of selected deductions and credits that are impacted by the Emergency Economic Stabilization Act of 2008.

1. Boosted Alternative Minimum Tax Exemption (AMT) Amounts – Under the Act, the AMT exemption amounts (before the phaseout) for 2008 for individuals are: 1) $69,950 for married filing jointly and surviving spouses (up from $66,250 for 2007); 2) $46,200 for unmarried individuals (up from $44,350 for 2007); and 3) $34,975 for married individuals filing separately (up from $33,150 for 2007). The new law does not change the 2008 phaseout limits,

2. Personal nonrefundable credits may offset AMT and regular tax - Prior to the new law, personal nonrefundable credits for 2008, other than the child credit, the adoption credit, and the low income saver's credit, could not have exceeded the excess of regular tax liability over the tentative minimum tax (determined without regard to the alternative minimum foreign tax credit). Under the new law, for tax years beginning in 2008, the combined total of the following credits is limited to the sum of: (1) the regular tax liability reduced by the foreign tax credit allowable under Code Section 27(a), and (2) the AMT: a) Code Section 21 dependent care credit; b) Code Section 22 credit for the elderly and permanently and totally disabled; c) Code Section 23 adoption credit; d) Code Section 24 child tax credit; e) Code Section 25 mortgage credit; f) Code Section 25A Hope and Lifetime Learning credits; g) Code Section 25B lower income saver's credit; h) Code Section 25C nonbusiness energy property credit for energy-efficient improvements to a principal residence; i) Code Section 25D residential energy efficient property credit; and j) Code Section 1400C first time D.C. homebuyer credit. Thus, under the new law, the sum of the above credits may offset both the regular tax and the AMT.

3. Election to deduct state and local general sales tax retroactively extended through 2009 – Under prior law, for tax years beginning before 2008, a taxpayer may elect to claim an itemized deduction for state and local general sales taxes instead of the itemized deduction for state and local income taxes. The new law retroactively extends this election so that it applies for tax years beginning before January 1, 2010. Therefore, taxpayers may elect on their 2008 and 2009 federal income tax returns to claim an itemized deduction for state and local general sales taxes instead of the itemized deduction for state and local income taxes.

4. Above-the-line deduction for higher education expenses retroactively extended through 2009 – Eligible taxpayers may claim an above-the line deduction for qualified tuition expenses on their 2008 and 2009 federal income tax returns.

5. Above-the-line deduction for educator expenses retroactively extended through 2009 – The new law retroactively extends this deduction so that it is available for tax years beginning prior to January 1, 2010.

6. Two-year extension for nontaxable IRA transfers to eligible charities - The new law retroactively extends this deduction so that it is available for tax years beginning after January 1, 2007, and before January 1, 2010.

7. Energy credits and extended and expanded – The new law extends the placed in service date for the 30% credits for solar property, fuel cell property, and micoturbine property for eight years through December 31, 2016. In addition, for periods after October 3, 2008, in tax years ending after October 3, 2008, the new law increases the $500 per half kilowatt of capacity cap for qualified fuel cells to $1,500 per half kilowatt of capacity, and adds three new categories of property eligible for the energy credit: a) combined heat and power system property, which qualifies for a 10% credit; b) small commercial wind property, which qualifies for a 30% credit; and c) geothermal heat pump systems, which qualified for a 30% credit.

8. Residential energy efficient property credit extended and modified – The new law extends this credit for eight years, so that it is available for property placed in service before 2017.

9. Extension and modification of credit for energy-efficiency improvements to existing home – This credit, which expired for property placed in service after December 31, 2007, now applies to property placed in service after December 31, 2008 and before January 1, 2010.

10. Extension of credit for energy-efficiency improvements to new homes – The new law extends this credit so that it applies to qualified new energy efficient homes acquired through 2009.

11. First year 50% bonus depreciation for investments in recycling – For property placed in service after August 31, 2008, the new law allows 50% first year bonus depreciation for qualified refuse and recycling property.

12. Brokers must report customer's adjusted basis and character of gain or loss – For sales of certain securities after **December 31, 2010**, the new law provides that every broker that is required to file an information return reporting the gross proceeds of a covered security must include in the return the customer's adjusted basis in the security and whether any gain or loss with respect to the security is short term or long term.

13. Additional FUTA surtax is extended through 2009 – Under prior law the Federal Unemployment Tax Act (FUTA) was imposed at a rate of 6.2% through 2008 (the total of the permanent 6% tax rate plus a temporary 0.2% surtax rate). The new law provides that the 6.2% FUTA tax rate continues to apply through 2009, and the 6.0% rate applies for calendar year 2010 and later years.

14. Eased casualty loss rules – For disasters declared in tax years beginning after 2007, for taxpayers that itemize, the new law waives the 10% of AGI limitation for a "net disaster loss," which is the excess of personal casualty losses attributable to a "Federally declared disaster" occurring before 2010 in a "disaster area", over personal casualty gains.

15. Longer carryback of NOLs attributable to federally declared disasters – The new law, for NOLs for tax years beginning after 2007, in connection with a disaster declared after that date, provides a special five-year carryback period for NOLs to the extent of a qualified disaster loss.

16. Refundable child credit eased – For the 2008 year, the new law modifies the earned income formula for the determination of the refundable child credit to apply to 15% of earned income in excess of $8,500.

17. Preparer penalty eased – For tax returns prepared after May 25, 2007, the new law revises the definition of an "unreasonable position" and changes the standards for imposition of the tax return preparer penalty. The preparer standard for undisclosed positions is reduced to "substantial authority," which conforms to the taxpayer standard. The preparer standard for disclosed positions is set at "reasonable basis."

18. Tax relief for community banks with losses on Fannie Mae and Freddie Mac preferred stock - Under the new law, for sales or exchanges after December 31, 2007, in tax years ending after that date, applicable financial institutions may treat their losses on Fannie Mae and Freddie Mac preferred stock as ordinary losses.

19. Three-year extension for home mortgage debt forgiveness relief – Taxpayers may generally exclude up to $2 million of mortgage debt forgiveness on their principal residence. Under prior law, these mortgage relief provisions are effective for indebtedness discharged on or after January 1, 2007, and before January 1, 2010. The new law extends the mortgage debt relief for three additional years through 2012.

IRS COST OF LIVING ADJUSTMENTS

In Revenue Procedure 2008-66, the IRS sets for the following selected cost of living adjustments.

1. Tax Rate Tables. For taxable years beginning in 2009, the tax rate tables under Section 1 are as follows:

Table 1 – Section 1(a) – Married Individuals Filing Joint Returns and Surviving Spouses

If Taxable income is:	**The Tax Is:**
Not over $16,700	10% of the taxable income
Over $16,700 but not over $67,900	$1,670 plus 15 % of the excess over $16,700
Over $67,900 but not over $137,050	$9,350 plus 25% of the excess over $67,900
Over $137,050 but not over $208,850	$46,741.50 plus 33% of the excess over $208,850
Over $372,950	$100,894.50 plus 35% of the excess over $372,950

Table 2 – Section (1(b) – Heads of Households

If Taxable Income is:	The Tax is:
Not over $11,950	10% of the taxable income
Over $11,950 but not over $45,500	$1,195 plus 15% of the excess over $$11,950
Over $45,500 but not over $$117,450	$6,227.50 plus 25% of the excess over $45,500
Over $117,450 but not over $190,200	$24,215 plus 28% of the excess over $117,450
Over $190,200 but not over $372,950	$44,585 plus the excess over $190,200
Over $372,950	$104,892.50 plus 35% of the excess over $372,950

Table 3 – Section 1(c) – Unmarried Individuals (other than Surviving Spouses and heads of Households).

If Taxable Income is:	The Tax is:
Not over $8,350	10% of the taxable income
Over $8,350 but not over $33,950	$835 plus 15% of the excess over $8,350
Over $33,950 but not over $82,250	$4,675 plus 25% of the excess over $33,950
Over $82,250 but not over $171,550	$16,750 plus 29% of the excess over $82,250
Over $171,550 but not over $372,950	$41,754 plus 33% of the excess over $171,550
Over $372,950	$108,216 plus 35% of the excess over $372,950

Table 4 – Section 1(d) - Married Individuals Fling Separate Returns

If Taxable Income is:	The Tax is:
Not over $8,350	10% of the taxable income
Over $8,350 but not over $33,950	$835 plus 15% of the excess over $8,350
Over $33,950 but not over $68,525	$4,675 plus 25% of the excess over $33,950
Over $68,525 but not over $104,425	$13,318.75 plus 28% of the excess over $68,525
Over $104,425 but not over $186,475	$23,370.75 plus 33% of the excess over $104,425
Over $186,475	$50,477.25 plus 35% of the excess over $186,475

Table 5 – Section 1(e) – Estates and Trusts

If Taxable Income is:	The Tax is:
Not over $2,300	15% of the taxable income
Over $2,300 but not over $5,350	$345 plus 25% of the excess over $2,300
Over $5,350 but not over $8,200	$107.50 plus 28% of the excess over %5,350
Over $8,200 but not over $11,150	$1,905.50 plus 33% of the excess over $8,200
Over $11,150	$2,879 plus 35% of the excess over $11,150

2. Unearned income of Minor Children Taxed as if Parent's Income (the Kiddie Tax) - For taxable years beginning in 2009, the amount in Code Section 1(g)(4)(ii)(I), which is used to reduce the net unearned income reported on the child's return that is subject to the "kiddie tax" is $950.

3. Adoption Credit – For taxable years beginning in 2009, under Section 23(a)(3) the credit allowed for an adoption of a child with special needs is $12,150. For taxable years beginning in 2009, under Section 23(b)(1) the maximum credit allowed for other adoptions is the amount of qualified adoption expenses up to $12,150. The available adoption credit begins to phase out under Section 23(b)(2)(A) for taxpayers with modified adjusted gross income in excess of $182,180 and is completely phased out for taxpayers with modified adjusted gross income of $222,180 or more.

4. Child Tax Credit – For taxable years beginning in 2009, the value used in Section 24(d)(1)(B)(i) to determine the amount of the credit under Section 24 that may be refundable is $12,550.

5. Hope and Lifetime Learning Credits- (1) For taxable years beginning in 2009, the Hope Scholarship Credit under Section 25A(b)(1) is an amount equal to 100 percent of qualified tuition and related expenses not in excess of $1,200 plus 50 percent of those expenses in excess of $1,200, but not in excess of $2,400. Therefore, the maximum Hope Scholarship Credit for taxable years beginning in 2009 is $1,800; (2) For taxable years beginning in 2009, a taxpayer's modified adjusted gross income in excess of $50,000 ($100,000 for a joint return) is used to determine the reduction under Section 25A(d)(2)(A)(ii) in the amount of the Hope Scholarship and Lifetime Learning Credits otherwise allowable under Section 25A(a).

6. Earned Income Credit – (1) For taxable years beginning in 2009, the following amounts are used to determine the earned income credit under Section 32(b).

Item	**Number of Qualifying Children**		
	One	**Two or More**	**None**
Earned income Amount	$8,950	$12,750	$5,970
Maximum Amount of Credit	$3,043	$5,028	$457
Threshold Phaseout Amount (Single, Surviving Spouse, or Head of Household)	$16,420	$16,420	$7,470
Completed Phaseout Amount (Single Surviving Spouse, or Head of Household)	$35,463	$40,295	$13,440
Threshold Phaseout Amount (Married Filing Jointly)	$19,540	$19,540	$10,590
Completed Phaseout Amount (Married Filing Jointly)	$38,583	$43,415	$16,560

(2) Excessive investment income – For taxable years beginning in 2009, the earned income tax credit is not allowed under Section 32(i) if the aggregate amount of certain investment income exceeds $3,100.

7. Low-Income Housing Credit – For calendar year 2009, the amount used under Section 42(h)(3)(C)(ii) to calculate the State housing credit ceiling for the low-income housing credit is the greater of (1) $2.30 multiplied by the State population, or (2) $2,665,000.

8. Alternative Minimum Tax Exemption for a Child Subject to the “Kiddie” Tax – For taxable years beginning in 2009, for a child to whom the Section 1(g) “kiddie tax” applies, the exemption amount under Sections 55 and 59(j) for purposes of the alternative minimum tax under Section 55 may not exceed the sum of (1) the child’s earned income for the taxable year, plus (2) $6,700.

9. Standard Deduction – (1) For taxable years beginning in 2009, the standard deduction amounts under Section 63(c)(2) are as follows:

Filing Status	**Standard Deduction**
Married Individuals Filing Joint Returns and Surviving Spouses (Section 1(a))	$11,400
Heads of Households (Section 1(b))	$ 8,350
Unmarried Individuals (other than Surviving Spouses and Heads of Households (Section 1(c))	$ 5,700
Married Individuals Filing Separate Returns (Section 1(d))	$ 5,700

(2) Dependent – For taxable years beginning in 2009, the standard deduction amount under Section 63(c)(5) for an individual who may be claimed as a dependent by another taxpayer cannot exceed the greater of (1) $950, or (2) the sum of $300 and the individual’s earned income.

(3) Aged or blind – For taxable years beginning in 2009, the additional standard deduction amount under Section 63 (f) for the aged or blind is $1,100. These amounts are increased to $1,400 if the individual is also unmarried and not a surviving spouse.

10. Overall Limitation on Itemized Deductions - For taxable years beginning in 2009, the "applicable amount" of adjusted gross income under Section 68(b), above which the amount of otherwise allowable itemized deductions is reduced under Section 68, is $166,800 (or $83,400 for a separate return filed by a married individual).

11. Qualified Transportation Fringe – For taxable years beginning in 2009, the monthly limitation under Section 132(f)(2)(A), regarding the aggregate fringe benefit exclusion amount for transportation in a commuter highway vehicle and any transit pass, is $210. The monthly limitation under Section 132(f)(2)(B), regarding the fringe benefit exclusion amount for qualified parking, is $230.

12. Income from United States Savings Bonds for Taxpayers Who Pay Qualified Higher Education Expenses – For taxable years beginning in 2009, the exclusion under Section 135, regarding the income from United States savings bonds for taxpayers who pay qualified higher education expenses, begins to phase out for modified adjusted gross income above $104,900 for joint returns and $69,950 for other returns. The exclusion is completely phased out for modified adjusted gross income of $134,900 or more for joint filers and $84,950 or more for other returns.

13. Personal Exemption – (1) Exemption Amount. For taxable years beginning in 2009, the personal exemption under Section 151(d) is $3,650. The exemption amount for taxpayers with adjusted gross income in excess of the maximum phaseout is $2,433 for taxable years beginning in 2009. (2) Phaseout – For taxable years beginning in 2009, the personal exemption amount begins to phaseout at, and reaches the maximum phaseout amount after, the following adjusted gross income amounts:

Fling Status	**AGI – Beginning of Phaseout**	**AGI- Maximum Phaseout**
Married Individuals Filing Joint Returns and Surviving Spouses (Section 1(a))	$250,200	$372,500
Heads of Household (Section 1(b))	$208,500	$331,000
Unmarried Individuals (other than Surviving Spouses and Heads of Households (Section 1c))	$166,800	$289,300
Married Individuals Filing Separate Returns (Section 1(d))	$125,100	$186,350

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Filing Status	**AGI – Beginning of Phaseout**	**AGI- Maximum Phaseout**
Married Individuals Filing Joint Returns and Surviving Spouses (Section 1 (a))	$250,200	$372,700
Heads of Households (Section 1(b))	$208,500	$331,000
Unmarried Individuals (other than Surviving Spouses and Heads of Households (Section 1(c))	$166,800	$289,300
Married Individuals Filing Separate Returns (Section 1(d))	$125,100	$186,350

14. Election to Expense Certain Depreciable Assets – For taxable years beginning in 2009, under Section 179(b)(1) the aggregate cost of any Section 179 property a taxpayer may elect to treat as an expense cannot exceed $133,000. Under Section 179(b)(2) the $133,000 limitation is reduced (but not below zero) by the amount by which the cost of Section 179 property placed in service during the 2009 taxable year exceeds $530,000.

15. Annual Exclusion for Gifts - (1) For calendar year 2009, the first $13,000 of gifts to any person (other than gifts of future interest in property) are not included in the total amount of taxable gifts under Section 2503 made during the year.

(2) For calendar year 2009, the first $133,000 of gifts to a spouse who is not a citizen of the United States (other than gifts of future interests in property) are not included in the total amount of taxable gifts under Section 2503 and 2523(i)(2) made during that year.

REFERENCES

1. 2008 Thomson Reuters /IRA. All rights reserved.

2. Revenue Procedure 2008-66.