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Itemizers who elect to deduct state sales taxes in lieu of state income taxes get no benefit from this change, since the auto sales tax is already included in the sales tax deduction. Itemizers who deduct state income taxes will get a separate deduction for auto sales taxes; non-itemizers will add the sales tax amount to their standard deduction amount.

Indexed Tax Brackets:

Thanks to higher inflation in the past year, the 10 percent, 15 percent, 25 percent, 28 percent, 33 percent and 35 percent tax brackets all kick in at approximately 5 percent higher levels of income than in 2008.

Larger Personal Exemptions:

For 2009, each personal exemption you can claim is worth \$3,650, up by \$150 from 2008.

Higher Standard Deductions:

For 2009, the standard deduction for marrieds filing a joint return rises to \$11,400, up by \$450 from 2008. Joint filers can also add in up to \$1,000 of property taxes paid.

For single filers, the amount increases to \$5,700 in 2009, up by \$250 over 2008. Singles can also deduct up to \$500 of real estate tax payments.

Heads of household can claim \$8,350, a jump of \$350 from 2008.

Non-itemizers who pay real estate taxes can claim even larger standard deductions. Non-itemizers can also add any casualty losses that occurred in presidentially-declared disaster areas.

• Reduction in Itemized Deductions and Personal Exemptions for High-Income Taxpayers:

As noted earlier, itemized deductions and personal exemptions are phased out as your income rises. In 2009, the reductions are a bit less painful. The cutback in itemized deductions occurs once your Adjusted Gross Income exceeds \$166,800, regardless of your filing status. Your itemized deductions are reduced by 1 percent of the amount by which your AGI exceeds \$166,800, but you can never lose more than 80 percent of your itemized deductions. Also, your medical expenses, investment interest deduction, deductible gambling losses and any casualty and theft losses are not subject to the cut. Personal exemptions are reduced by 2 percent for each \$2,500 of Adjusted Gross Income over \$250,200 for married filing jointly, \$208,500 for heads of

households and \$166,800 for singles, but the reduction cannot exceed \$1,217 per exemption.

Section 179 Expense Deduction:

The maximum amount of equipment placed in service in 2009 that businesses can expense stays at \$250,000. And the annual investment limit remains \$800,000. Thus, you won't begin to lose the benefit of expensing until you place more than \$800,000 of assets in service in 2009.

Tax-Free Parking for Employees:

Starting in 2009, firms can pay for \$230 a month of parking tax-free for employees, up \$10 per month from 2008. The cap on tax-free transit passes is now \$230 a month as well, the same as for parking. The limit had been \$115 a month in 2008.

Tax Credit for College Tuition:

For 2009 and 2010, the Hope credit is replaced by a new credit of up to \$2,500 per student a year for four years of college, not just the first two years. It now also covers the cost of books, and begins to phase out at \$80,000 of Adjusted Gross Income for single filers and \$160,000 for joint filers. If the credit is more than your income tax liability, 40 percent of it is refundable. Also, the full credit is allowed against the Alternative Minimum Tax.

Child Tax Credit:

If the credit exceeds the filer's tax liability, all or part of the credit will be refunded if the filer earns more than \$3,000 in 2009 and 2010, down from \$12,550 in earnings previously.

Earned Income Tax Credit (EITC):

For families with three or more children, the maximum Earned Income Tax Credit for 2009 and 2010 rises by \$628.50. And the phaseout of the credit for joint filers starts at higher income levels in 2009 and 2010, allowing more of them to claim the credit.

Higher Income Limits for Deductible IRAs and for Roth IRAs:

If you are covered by a retirement plan at work, you can take a full IRA deduction in 2009 if your modified Adjusted Gross Income is less than \$89,000 (married filing jointly) or \$55,000 (single or head of household). A partial deduction is allowed until your Adjusted Gross Income reaches \$109,000 if you are married filing jointly, or \$75,000 if you are single or a head of household. Also, the opportu-

nity to contribute to a Roth IRA is now phased out as your modified Adjusted Gross Income rises between \$166,000 and \$176,000 if you are married filing jointly, or \$105,000 to \$120,000 if you are single or a head of household.

Increased Contribution Limit for 401(k) Plans:

The maximum employee contribution rises to \$16,500 from \$15,500 in 2009 for these and similar workplace retirement plans, including 403(b)s and the federal Thrift Savings Plan. Workers age 50 and older in 2009 can put in an additional \$5,500 this year, also a \$500 increase from 2007. Thus, their maximum contribution is \$22,000.

State Tax Exemption:

The federal estate tax exemption rises to \$3,500,000 from its 2008 level of \$2,000,000.

Higher Annual Gift Tax Exemption:

For 2009, you can give any individual up to \$13,000 without owing any gift tax—a \$1,000 increase over 2008.

Exemptions for the Alternative Minimum Tax (AMT): The exemption levels rise to \$70,950 for married filing jointly, \$46,700 for singles and heads of household, and \$35,475 for married couples filing separately. Otherwise, more than 20 million filers would have been added to the AMT rolls. Congress is likely to act again to prevent this from happening for the 2010 tax year. Also, interest on private-activity bonds issued in 2009 and 2010 is exempt from the Alternative Minimum Tax.

Credit for Residential Energy-Efficient Property

The credit for 30 percent of the cost of installing solar water heating equipment, solar electric equipment, geothermal heat pumps or small wind turbines in your primary residence or a second home is no longer limited to \$2,000 after 2008. But the credit for fuel cell property still cannot exceed \$500 per half-kilowatt capacity.

Credit for Energy-Saving Home Improvements

The old 10 percent tax credit of the cost of energy-saving home improvements is increased to 30 percent for 2009 and 2010, up to a maximum of \$1,500 in the two-year period. It applies to qualified skylights, windows, outside doors, biomass fuel stoves and high-efficiency furnaces, water heaters and central air conditioners. In addition, the dollar limits on the particular type of

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