



2008 Tax Update

Presented By:

Michele Knight, CPA, CEA

History of Alternative Minimum Tax

- Tax Reform Act of 1969 enacted the AMT, but Congress never addressed the problem of inflation.
- Aimed at 155 individuals with income $>$ \$200,000.
- Without interference, by 2010, 32 million taxpayers will eventually pay AMT.
- In 2003, exemptions were raised to postpone many taxpayers from paying AMT.
- “Working Families of 2004”: Remains at higher levels for 1 more year, to give Congress more time to address problems.

Alternative Minimum Tax Basics

- The AMT is a separate tax system.
- AMT is calculated via Form 6251, which is then attached to the 1040.
- In effect, you are simply adding back some tax deduction and income exclusions to your regular taxable income to arrive at your alternative minimum taxable income, which is then subject to different tax tables.

Alternative Minimum Tax Basics

- The AMT ignores several itemized deductions:
 - investment expenses
 - employee business expenses
 - medical/dental expenses
 - investment-related transactions
 - income from tax-exempt bonds
 - the “spread” on incentive stock options
 - state and local taxes
 - many others

Alternative Minimum Tax Basics

- Calculating the AMT
 - Complete tax return in usual manner.
 - Fill out Form 6251, which calculates taxable income using AMT rules.
 - Subtract an exemption, based on marital status.
 - End Result = new taxable amount of income.
 - AMT tax is calculated via the AMT tax tables.

2007/2008 AMT & IRS Issues

- In 2007, the AMT was set to penalize 23 million taxpayers, with incomes > \$100,000.
- Once again, Congress passed a *temporary* AMT fix at the 11th hour on December 21st.
- The IRS will need 7 - 10 weeks to update AMT-related forms...expect delays.
- Fingers crossed for 2008!

Capital Gains & Kiddie Tax

- Capital Gains Rates
 - 15% on long-term capital gains, *except for* taxpayers in the 10% and 5% brackets, which pay 5% on long-term capital gains
 - In 2008, capital gains rate for lower tax brackets drops to 0% for the 10% and 5% brackets
- Who Qualifies?
 - Taxable income = AGI less deductions & exemptions
 - MFJ – taxable income up to ~ \$16,000
 - Single – taxable income up to ~ \$8,000
- Income Shifting
 - Many parents have capitalized on the lower capital

Kiddie Tax Changes

- The “Kiddie Tax” forces unearned income above a threshold (\$1,700) to be taxed at the parents’ higher tax rate.
- The Kiddie Tax applies to children:
 - Up to age 14 (prior to 2006)
 - Up to age 18 (2006 – 2007)
 - Up to age 19/23 for students (2008 and forward)

Tax Myths –

#1 People over 55 benefit when selling a house

- Under the old law: you could exclude up to \$125,000 in gains once in your lifetime.
- After Taxpayer Relief Act of 1997:
 - Age is irrelevant.
 - Exclusion of \$250,000 (\$500,000 for MFJ) any time you sell a principal residence.
 - Must live in residence two out of last five years.
- Could this go away?



Tax Myths – #2 Filing Extensions Avoids Taxes

- The US has a quarterly tax system with an annual reconciliation process.
- Taxes are due quarterly on 4/15, 6/15, 9/15 and 1/15.
- Forms are due on 4/15 or 10/15 (if Form 4868 is filed by 4/15).
- Extending your tax return does not affect your payment schedule, you should always calculate your need for making estimated tax payments.

Tax Myths –

#3 Bonuses Are Taxed Higher

- Payroll systems often use an aggregate method to calculate withholdings.
- Scenario:
 - Annual Salary \$120,000 (\$10,000/month).
 - Bonus of \$20,000 would appear to be a \$30,000/month payment, or \$360,000 annual salary.
 - Taxes withheld on bonus and monthly payment are based on \$360,000 salary, not \$140,000.
- Only a withholding issue, not a year-end filing

Numbers to Know

	2007	2008
Social Security Wage Limit	\$97,500	\$102,000
Mileage—Business	48.5 cents/mile	50.5 cents/mile
Mileage—Medical & Moving	20 cents/mile	19 cents/mile
Mileage—Charitable Purpose	14 cents/mile	14 cents/mile
Contribution limits for 401(k) , SEP plans and 403(b) annuities	\$15,500	\$15,500
Workers aged 50+ catch-up provision for 401(k), SEP & 403(b)	\$5,000	\$5,000
IRS Contribution Limits	\$4,000	\$5,000
Aged 50+ catch-up for IRA's	\$1,000	\$1,000
1099-MISC Reporting Limit	\$600	\$600