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Tax Planning for 2008: Income Tax System Similar to Last Year
Major Changes Provided By The Emergency Economic Stabilization Act of 2008
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Now that the elections are finally over, it is time to identify tax benefits that could reduce your 2008 tax bill and assist to plan income taxes ahead for 2009. With the exception of minor tax benefits which are being phased in, this year's tax system will be very similar to last year, except for over 100 tax provisions and over $150 billion in separate tax breaks which were added by the Emergency Economic Stabilization Act of 2008. While most of the tax provisions in this emergency act directly address financial bailout measures, the new law includes a much-anticipated alternative minimum tax (AMT) patch and an extensive package of tax extenders.

One of the most significant changes affecting agriculture is a provision which allows farm equipment to be depreciated faster. New farm machinery and equipment put in use in '09 can be written off over six years instead of eight years. This doesn't cover grain bins, cotton ginning assets, temperature controlled storage facilities or land improvements such as fences. This change suggests that farmers may want to delay their major equipment purchases until next year. Keep in mind, however, that the 179 expensing option was increased to $250,000 for 2008 and the 50% first year bonus depreciation provision was extended into 2008. Both of these provisions revert to last year's limits, as will be discussed later. This year's changes may mean that producers may want to take advantage of these two, more attractive provisions, this year, instead of delaying equipment purchases into 2009.

Basic tax planning requires considering the income tax consequence, both this and next year or longer into the future. This means considering whether to accelerate into 2008 or defer into 2009, income or deductions. This simulation will assist you to evaluate the impact that this actions may have on Adjusted Gross Income (AGI) and your ability to maximize itemized deductions that are tied to AGI, such as IRA deductions, standard deductions, personal exemptions, transfers to ROTH IRA's, etc. If, for example, you expect to be in a lower or at least no higher tax bracket next year, consider pulling some 2009 deductions into this year, e.g., charitable donations, early payment of property taxes, etc.

Tax Brackets

Another important item to identify early is your "tax bracket," i.e., the rate at which your last dollar of income is taxed. (See Table 1)

Table 1: Tax Rates and Tax Brackets for 2008 and 2009

	MARRIED COUPLES FILING JOINTLY		MOST SINGLE FILERS	
Tax Rate	**2008 Taxable Income**	**2009 Taxable Income[1]**	**2008 Taxable Income**	**2009 Taxable[1]**
10%	Not over $16,050	Not over $16,700	Not over $8,025	Not over $8,350
15%	$16,050-$65,100	$16,700-$67,900	$8,025-$32,550	$8,350-$33,950
25%	$65,100-$131,450	$67,900-$137,050	$32,550-$78,850	$33,950-$82,250
28%	$131,450-$200,300	$137,050-$208,850	$78,850-$164,550	$82,250-$171,550
33%	$200,300-$357,700	$208,850-$372,950	$164,550-$178,850	$171,550-$186,475
35%	Over $349,700	Over $357,700	Over $349,700	Over $178,850

[1]Estimated amounts; these are estimated amounts. The official amounts have not yet been released.

Standard Deduction Planning

Deduction planning is also affected by the standard deduction. (See Table 2). If your itemized deductions are relatively constant and are close to the standard deduction amount, you will obtain little or no benefit from itemizing your deductions each year. But simply taking the standard deduction each year means you lose the benefit of your itemized deductions. To maximize the benefits of both the standard deduction and itemized deductions, consider adjusting the timing of deductible expenses so that they are higher in one year and lower in the following year, e.g., pay property taxes every other year.

Table 2: Standard Deductions

	2008	**2009[1]**
Joint or Qualifying Widow(er)	$10,900	$11,400
Single	$5,450	$5,700
Head of Household	$8,000	$8,350
Married Filing Separately	$5,450	$5,700
Additional for Elderly/Blind–Married	$1,050	$1,100
Additional for Elderly/Blind–Unmarried	$1,350	$1,400
Taxpayer Claimed as Dependent[2]	$900	$950

[1]Estimated amounts. The official amounts have not yet been released.
[2]If an individual who can be claimed as a dependent on another's return has earned income, the standard deductions is the greater of $900 or $300 plus the earned income (but no more than the standard deduction).

The **alternative minimum tax (AMT)** amount was increased to $69,950 and $46,200 for joint and single filers, respectively, for 2008 by the Emergency Economic Stabilization Act of 2008. This patch was designed to insulate middle income taxpayers from the AMT, but keep in mind that the patch is only for 2008. Hopes are high that in 2009 Congress finally will face up to the need to find a permanent solution to the AMT and pass AMT reform rather than yet another patch. While it is difficult to develop tax saving strategies around the AMT, tax payers should consider its potential implications as early as possible. The AMT will require tax payers to compute their income taxes under two systems, the regular tax system and the so-called alternative minimum tax (AMT) system and pay the higher of the two amounts. The AMT will have a greater impact on tax payers with incomes between $100,000 and $500,000 and/or tax payers who deduct a significant amount of state and local taxes (income, property, and/or sales taxes) or miscellaneous itemized deductions (like unreimbursed employee business expenses), or claim multiple dependents exemption. The credits for tuition and dependent care will continue to offset the minimum tax.

Expensing Option

The Section 179 expensing option for depreciable property used in business, i.e., computers, office furniture, equipment, vehicles, or other tangible business property, was increased to $250,000 for 2008 and will be reduced to $133,000 in 2009. Also, the Economic Stimulus Act of 2008, passed on February 13, 2008, increased the phase-out of this benefit from $500,000 to $800,000 of equipment purchased, i.e., for every dollar spent on new equipment about $800,000, the 250,000 expensing amount is reduced by a like amount.

In addition, first-year bonus depreciation equal to 50% of the cost (reduced by the Section 179 deduction) of most new (not used) equipment and software acquired and placed in service by December 31 of this year may be claimed this year. The 50% first-year bonus depreciation break will expire at year-end unless Congress takes further action.

Keep in mind that the expensing option is capped at $25,000 for SUVs with loaded weights between 6,000 and 14,000 pounds. Non-SUVs, such as heavy pick-ups and nine passengers or larger buses, are exempt from this limit.

NOTE: The Emergency Economic Stabilization Act of 2008 includes over 100 tax savings provisions for both business and individuals which too numerous to list here.

Individuals - Tax relief for individual taxpayers in the Emergency Economic Stabilization Act of 2008 primarily come in the form of a handful of popular “extenders,” i.e., extended provisions due to expire. These are just a few of the provisions which were extended.

☞ The above-the-line higher education tuition deduction was extended through December 31, 2009. The deduction allows eligible taxpayers to deduct the costs of qualified higher education expenses paid during the year for themselves, a spouse, or a dependent.

☞ The new law extends the additional standard deduction for real property taxes for non-itemizers through 2009. Congress authorized a maximum $500 additional standard deduction ($1,000 for joint filers) in the Housing Assistance Tax Act of 2008 but made it available only for the 2008 tax year.

☞ For 2008 and 2009, teachers and other education professionals can deduct, above-the-line, up to $250 of certain out-of-pocket classroom expenses, including the cost of books, supplies, equipment, and software used in the classroom. First introduced in 2002, this deduction is available to qualified educators regardless of whether or not they itemize their deductions.

☞ The *American Jobs Creation Act of 2004* and subsequent legislation allowed individuals to deduct state and local general sales taxes in lieu of state and local income taxes. This deduction expired at the end of 2007. The new law makes the deduction retroactive for 2008 and extends it for two years through December 31, 2009.

☞ The new law permits taxpayers to make tax-free distributions of up to $100,000 from IRAs directly to charity through December 31, 2009. This popular charitable contribution option had expired January 1, 2008.

☞ The $1,000 **child tax credit** is available through 2010 and reverts to $500 in 2011. Under the new law, the earned income floor falls to $8,500, down from $12,050 in 2007 (15% of earned income above the floor, up to $1,000/child, is refundable).

☞ Self-employed individuals are allowed to claim the amount paid for **self-employed health insurance premiums** during the taxable year (up to the net income from the business the insurance plan is under) without regard to the 7.5% cap of AGI, required for itemized medical deductions. The insurance premiums would cover medical care for themselves, their spouses and dependents as an adjustment (deduction) to gross income. **Caution:** The IRS has interpreted that this benefit only applies to deductions related to the business, i.e., the program must be sponsored by the business and available to all employees.