



TAX CHANGES BEGINNING IN 2008

2008 tax legislation contained the most first-time tax changes in the last twenty years. Here is a list of the most important:

Provision	Change
Unearned income of children	Kiddie tax expanded to children under 19 and under 24 if child is a full-time student.
Capital gains rate	Capital gains rate drops to -0- for low income taxpayers.
Refundable child tax credit	earned income formula changed to allow a few more taxpayers to qualify for the refundable credit
Residential energy credits	Small wind energy property and geothermal heat pump property added to residential energy credit provisions. Credits can be used against AMT beginning in 2008
Earned income credit	Election to include combat pay in earned income for the EIC made permanent.
First time home buyer credit	\$7,500 refundable credit for first time home buyers. AGI limits apply. Purchases on or after 4-9-08
AMT	Exemption amounts increased for one year only to \$46,200 single and \$69,950. Also for one year only, non refundable personal credits can be used against AMT.
AMT	Tax exempt bonds issued after 7-30-08 for housing no longer a preference under private activity bonds.
Employer credit for differential pay	Employer credit for differential pay to employees who are active duty military. For pay after 6-17-08.
Low income housing credit	Expanded and simplified for buildings placed in service after 7-30-08.
Rehab credit	Tax exempt use safe harbor expanded from 35% to 50%.
Minimum tax credit	Long term unused minimum tax credit is claimed as a refundable credit over 2 years (was 5 years). No AGI limit.

AMT	Low income housing credit and Rehab credits allowable against AMT.
Standard deduction	Adds real estate tax of \$500 (\$1,000 MFJ) to standard deduction.
Standard deduction	The standard deduction is increased by federally declared disaster losses.
Itemized deduction phaseout	Itemized deduction phaseout is reduced to 1% (from 2% in 2007).
10% early withdrawal penalty	Reservist called to active duty for more than 179 days not subject to early withdrawal penalties. Provision made permanent.
Gain exclusion for surviving spouse	Surviving spouse has two years from spouse's date of death to use \$500,000 home sale exclusion.
Personal residence gain exclusion	Extended time to sell home for intelligence community and foreign service employees made permanent.
Personal residence gain exclusion	Peace Corp volunteers allowed extended time to sell home
Volunteer responders	\$360 per year exclusion of rebates and reimbursements for volunteer firefighters and emergency medical responders. Also not subject to payroll taxes.
Tax exempt bond interest	Tax exempt status allowed for bonds issued after 7-30-08 and before 1-1-11 even though bonds guaranteed by Federal Home Loan Bank.
Exemption phaseout	Exemption phaseout is reduced to 1/3 (from 2/3 in 2007).
Executive compensation	Executive compensation deduction is limited to \$500,000 for financial institutions participating in the Troubled Asset Relief Program.
Casualty loss	Federally declared disaster losses no longer subject to the 10% of AGI limit.
Additional first year depreciation	50% first year bonus depreciation is available for new business equipment purchased in 2008.
Additional first year depreciation	Allows AMT and R & D credits in lieu of bonus depreciation for assets placed in service after 3-31-08 and before 1-1-09.
Conservation easements	Qualified conservation contribution percentage limits and carryover periods extended through 12-31-09.

NOL carryback	The NOL carryback for NOLs created by a federally declared disaster may be carried back 5 years (was 2 years).
Expensing allowance	Section 179 is increased from \$128,000 to \$250,000. Phaseout starts at \$800,000. 2008 only.
Production activity deduction	§199 deduction has been modified for film productions. “W-2 wages” are defined as any compensation paid for services performed in the US.
401(K)	401(K) participation changes from an “opt in” to an “opt out”.
Rollover of military death benefits	Individuals receiving military death benefits may roll them over to a Roth IRA or Coverdell Education Savings account without regard to the AGI limits beginning on or after 6-17-08.
Rollovers to Roth IRAs	Direct rollovers from retirement plans into Roth IRAs allowed beginning in 2008.
Expatriates	Rules for taxation and information reporting for US citizens and long term resident aliens change beginning for individuals who expatriate on or after June 17, 2008.
Passive income for S corporation	Gains from the sale or exchange of stock or securities are not included in the S corporation’s passive income (for tax years beginning after 5/25/07).
Stimulus payments	Spouse’s SSN not required for military family to receive stimulus payment
Statute of limitations	Statute does not apply for amended returns of veterans whose military pension is retroactively reduced for disability. For amended returns filed after 6-17-08.
Preparer penalties	“More-likely-than-not” standard repealed. Now tax preparer and taxpayer have same “substantial authority” standard.

Vern Hoven, CPA, EA, with a Master’s in Tax, is one of the most popular tax instructors in the country. Recognized by CPA Magazine as one of the top 50 IRS representation practitioners in 2008, he also presents regularly for the AICPA, CCH, and numerous state CPA Societies.

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