

TAX BRACKETS AND OTHER KEY 2008 ITEMS

The standard deduction, exemption amount and individual tax rate brackets are adjusted annually for cost-of-living increases. The adjustments are based on the average Consumer Price Index (CPI) for the 12-month period ending the previous August 31. The IRS has released the following inflation adjusted items for 2008.

- **Standard deductions.** The basic standard deduction for 2008 will be:

<i>Joint return or surviving spouse</i>	<i>\$10,900 (up from \$10,700 in 2007)</i>
<i>Single (other than head of household or surviving spouse)</i>	<i>\$5,450 (up from \$5,350 in 2007)</i>
<i>Head of household</i>	<i>\$8,000 (up from \$7,850 in 2007)</i>
<i>Married filing separate returns</i>	<i>\$5,450 (up from \$5,350 in 2007)</i>

For an individual, who can be claimed as a dependent on another's return, the basic standard deduction for 2008 will be \$900 (up from \$850 in 2007), or \$300 (same as in 2007) plus the individual's earned income, whichever is greater. However, the standard deduction may not exceed the regular standard deduction for that individual.

For 2008, the additional standard deduction for married taxpayers 65 or over or blind will be \$1,050 (same as in 2007). For a single taxpayer or head of household who is 65 or over or blind the additional standard deduction for 2008 will be \$1,350 (up from \$1,300 in 2007).

- **Kiddie tax.** The exemption from the kiddie tax for 2008 will be \$1,800 (up from \$1,700 in 2007). A parent will be able to elect to include a child's income on the parent's return for 2008 if the child's income is more than \$900 and less than \$9,000 (up from \$850 and \$8,500 in 2007).
- **AMT exemption for child under 18.** The AMT exemption for 2008 for a child under 18 will be the lesser of (1) \$6,400 (up from \$6,300 in 2007) plus the child's earned income, or (2) \$33,750 (same as in 2007).

Observation: In past years, Congress increased the AMT exemption amounts when they were about to revert to lower levels.

- **Personal exemption amount.** The personal exemption amount for 2008 will rise to \$3,500 (up from \$3,400 in 2007).

Observation: The minimum gross income thresholds for filing will also increase for 2008 since they are based upon the basic standard deduction, the additional standard deduction and the exemption amounts.

- **Phase-out of personal exemption.** The phase-out of the personal exemption for 2008 will begin at adjusted gross income of:

<i>Joint return or surviving spouse</i>	<i>\$239,950 (up from \$234,600 in 2007)</i>
<i>Single (other than head of household or surviving spouse)</i>	<i>\$159,950 (up from \$156,400 in 2007)</i>
<i>Head of household</i>	<i>\$199,950 (up from \$195,500 in 2007)</i>
<i>Married filing separate returns</i>	<i>\$119,975 (up from \$117,300 in 2007)</i>

Observation: For 2008, the exemption amount for taxpayers with adjusted gross incomes in excess of the phase-out amount is \$2,333.

- **Tax rate schedules.** The tax rate schedules for 2008 will be as follows:

**MARRIED INDIVIDUALS FILING JOINT RETURN
AND SURVIVING SPOUSES**

<u><i>If taxable income is:</i></u>	<u><i>The tax is:</i></u>
<i>Not over \$16,050</i>	<i>10% of taxable income</i>
<i>Over \$16,050 but not over \$65,100</i>	<i>\$1,605.00 plus 15% of the excess over \$16,050</i>
<i>Over \$65,100 but not over \$131,450</i>	<i>\$8,962.50 plus 25% of the excess over \$65,100</i>
<i>Over \$131,450 but not over \$200,300</i>	<i>\$25,550.00 plus 28% of the excess over \$131,450</i>
<i>Over \$200,300 but not over \$357,700</i>	<i>\$44,828.00 plus 33% of the excess over \$200,300</i>
<i>Over \$357,700</i>	<i>\$96,770.00 plus 35% of the excess over \$357,700</i>

**SINGLE INDIVIDUALS
(OTHER THAN HEADS OF HOUSEHOLDS
AND SURVIVING SPOUSES)**

<u><i>If taxable income is:</i></u>	<u><i>The tax is:</i></u>
<i>Not over \$8,025</i>	<i>10% of taxable income</i>

<i>Over \$8,025 but not over \$32,550</i>	<i>\$802.50 plus 15% of the excess over \$8,025</i>
<i>Over \$32,550 but not over \$78,850</i>	<i>\$4,481.25 plus 25% of the excess over \$32,550</i>
<i>Over \$78,850 but not over \$164,550</i>	<i>\$16,056.25 plus 28% of the excess over \$78,850</i>
<i>Over \$164,550 but not over \$357,700</i>	<i>\$40,052.25 plus 33% of the excess over \$164,550</i>
<i>Over \$357,700</i>	<i>\$103,791.75 plus 35% of the excess over \$357,700</i>

HEADS OF HOUSEHOLDS

<u><i>If taxable income is:</i></u>	<u><i>The tax is:</i></u>
<i>Not over \$11,450</i>	<i>10% of taxable income</i>
<i>Over \$11,450 but not over \$43,650</i>	<i>\$1,145.00 plus 15% of the excess over \$11,450</i>
<i>Over \$43,650 but not over \$112,650</i>	<i>\$5,975.00 plus 25% of the excess over \$43,650</i>
<i>Over \$112,650 but not over \$182,400</i>	<i>\$23,225.00 plus 28% of the excess over \$112,650</i>
<i>Over \$182,400 but not over \$357,700</i>	<i>\$42,755.00 plus 33% of the excess over \$182,400</i>
<i>Over \$357,700</i>	<i>\$100,604.00 plus 35% of the excess over \$357,700</i>

MARRIEDS FILING SEPARATE RETURNS

<u><i>If taxable income is:</i></u>	<u><i>The tax is:</i></u>
<i>Not over \$8,025</i>	<i>10% of taxable income</i>
<i>Over \$8,025 but not over \$32,550</i>	<i>\$802.50 plus 15% of the excess over \$8,025</i>
<i>Over \$32,550 but not over \$65,725</i>	<i>\$4,481.25 plus 25% of the excess over \$32,550</i>
<i>Over \$65,725 but not over \$100,150</i>	<i>\$12,775.00 plus 28% of the excess over \$65,725</i>

<i>Over \$100,150 but not over \$178,850</i>	<i>\$22,414.00 plus 33% of the excess over \$100,150</i>
<i>Over \$178,850</i>	<i>\$48,385.00 plus 35% of the excess over \$178,850</i>

ESTATES AND TRUSTS

<u><i>If taxable income is:</i></u>	<u><i>The tax is:</i></u>
<i>Not over \$2,200</i>	<i>15% of taxable income</i>
<i>Over \$2,200 but not over \$5,150</i>	<i>\$330.00 plus 25% of the excess over \$2,200</i>
<i>Over \$5,150 but not over \$7,850</i>	<i>\$1,067.50 plus 28% of the excess over \$5,150</i>
<i>Over \$7,850 but not over \$10,700</i>	<i>\$1,823.50 plus 33% of the excess over \$7,850</i>
<i>Over \$10,700</i>	<i>\$2,764.00 plus 35% of the excess over \$10,700</i>

- **Reduction of itemized deductions.** The allowable amount of itemized deductions will be reduced if adjusted gross income in 2008 is more than:

All returns other than married filing separately *\$159,950 (up from \$156,400 in 2007)*

Married filing separately *\$79,975 (up from \$78,200 in 2007)*

Observation: For 2008, a taxpayer will lose only 1/3 of the amount he would otherwise lose under the regular reduction computation.

- **Interest exclusion for higher education.** The interest on U.S. savings bonds redeemed to pay qualified higher education expenses may be tax-free. The exclusion is phased-out for certain higher income individuals. The phase-out level is adjusted annually for cost-of-living increases. The phase-out for 2008 will begin at modified adjusted gross income above \$100,650 on joint returns (up from \$98,400 in 2007) and above \$67,100 for other returns (up from \$65,600 in 2007). The exclusion is completely phased out for modified adjusted gross income of \$130,650 or more for joint returns and \$82,100 or more for other returns.
- **Qualified transportation fringe benefits.** For 2008, an employee will be able to exclude up to \$220 (up from \$215 in 2007) a month for qualified parking expenses, and up to \$115 a month (up from \$110 in 2007) of the

combined value of transit passes and transportation in a commuter highway vehicle.

- **Refundable child credit.** For 2008, the child credit is refundable to the extent of the greater of:
 1. 15% of earned income above \$12,050 (up from \$11,750 in 2007); or,
 2. For taxpayers with three or more qualifying children, the excess of the taxpayer's social security taxes for the tax year over his earned income credit for the year.
- **Earned income tax credit.** In 2008, the maximum amount of earned income on which the earned income tax credit will be computed is \$5,720 for taxpayers with no qualifying children, \$8,580 for taxpayers with one qualifying child and \$12,060 for taxpayers with two or more qualifying children. These amounts are up from \$5,590, \$8,390 and \$11,790 in 2007.

In 2008, the phase-out of the allowable earned income tax credit will begin at \$10,160 for joint filers with no qualifying children (\$7,160 for others with no qualifying children) and at \$18,740 for joint filers with one or more qualifying children (\$15,740 for others with one or more qualifying children). These amounts are up from \$9,000, \$7,000, \$17,390 and \$15,390 in 2007.

Observation: Taxpayers must use IRS tables to determine the amount of their earned income credit. While these tables are based on the inflation adjusted figures set out above, because the credit under the tables is the same for everyone within a \$50 range, there may be slight differences between the credit under the tables and the credit the taxpayer would determine using those inflation adjusted figures.

The amount of disqualified income (generally investment income) a taxpayer may have before losing the entire earned income tax credit will increase to \$2,950 in 2008, up from \$2,900 in 2007.

- **Education credits.** For 2008, the Hope and Lifetime Learning credits phase-out ratably for taxpayers with modified adjusted gross incomes of \$48,000 to \$58,000 (\$96,000 to \$116,000 for joint filers). For 2007, these figures were \$47,000 to \$57,000 (\$94,000 to \$114,000 for joint filers).

For 2008, the Hope credit will be 100% of up to \$1,200 (up from \$1,100 in 2007) of qualified higher education tuition and related expenses plus 50% of the next \$1,200 (up from \$1,100 in 2007) of such expenses; for a total credit of \$1,800.

- **Election to expense certain depreciable assets.** The amount, which may be treated as an expense under Code Section 179 in 2008, will be \$128,000 (up from \$125,000 in 2007). For 2008, the \$128,000 limit will be reduced (but not

below zero) when more than \$510,000 of Section 179 property is placed in service (up from \$500,000 in 2007).

- **Adoption credit.** An individual is allowed a credit against income tax (and AMT) for qualified adoption expenses. The total expenses, which may be taken as a credit for all tax years with respect to the adoption of a child by the taxpayer, will be limited to \$11,650 for 2008 (up from \$11,390 in 2007). For 2008, the credit for the adoption of a special-needs child will be \$11,650, regardless of the extent to which the taxpayer has qualified adoption expenses (up from \$11,390 in 2007).

The adoption credit begins to phase out for taxpayers with modified adjusted gross income of \$174,730 (up from \$170,820 in 2007). The credit is completely phased-out for taxpayers with modified adjusted gross income of \$214,730 or more.

- **Adoption exclusion.** Similar inflation adjustments and phase-out rules apply for purposes of the exclusion for employer-provided adoption assistance. The total amount which can be excluded from an employee's gross income per child (whether or not he has special needs) will be limited to \$11,650 in 2008 (up from \$11,390 in 2007). Note that the exclusion for the adoption of a child with special needs applies regardless of whether the employee has qualified adoption expenses.
- **Student loan interest deduction.** For 2008, the deduction phases out ratably for taxpayers other than joint filers with modified adjusted gross incomes between \$55,000 and \$70,000 (\$115,000 and \$145,000 for joint filers). For 2007, the corresponding figures were \$55,000 and \$70,000 for taxpayers other than joint filers; \$110,000 and \$140,000 for joint filers.
- **Modified adjusted gross income (MAGI) limits for making deductible contributions by active plan participants to traditional IRAs.** In general, an individual who isn't an active participant in certain employer-sponsored retirement plans, and whose spouse isn't an active participant, may make an annual deductible cash contribution to an IRA up to the lesser of: (1) a statutory dollar limit (for 2008, \$5,000, increased to \$6,000 for those age 50 or older), or (2) 100% of the compensation that is included in his gross income for that year. If the individual (or his spouse) is an active plan participant, the deduction phases out over a specified dollar range of modified adjusted gross income.

For taxpayers filing joint returns, the otherwise allowable deductible contribution will be phased out ratably in 2008 for MAGI between \$85,000 and \$105,000 (up from between \$83,000 and \$103,000 in 2007).

For 2008, for single taxpayers and heads of household, the otherwise

allowable deductible contribution will be phased out ratably for MAGI between \$53,000 and \$63,000 (up from between \$52,000 and \$62,000 in 2007). For married taxpayers filing separate returns, the otherwise allowable deductible contribution will continue to be phased out ratably for MAGI between \$0 and \$10,000.

For married taxpayers who are not active plan participants but whose spouse is such a participant, the otherwise allowable deductible contribution will be phased out ratably for MAGI between \$159,000 and \$169,000 (up from between \$156,000 and \$166,000 in 2007).

- **MAGI limits for making contributions to Roth IRAs.** Individuals may make nondeductible contributions to a Roth IRA, subject to the overall limit on IRA contributions. The maximum annual contribution, which can be made to a Roth IRA, is phased out for taxpayers with MAGI over certain levels for the tax year. For taxpayers filing joint returns, the otherwise allowable contributions to a Roth IRA will be phased out ratably in 2008 for MAGI between \$159,000 and \$169,000 (up from between \$156,000 and \$166,000 in 2007). For single taxpayers and heads of household it will be phased out ratably for MAGI between \$101,000 and \$116,000 (up from between \$99,000 and \$114,000 in 2007). For married taxpayers filing separate returns, the otherwise allowable contribution will continue to be phased out ratably for MAGI between \$0 and \$10,000.

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