

# Bangerter, Lund & ASSOCIATES

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## Newsletter

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### New rescue plan extends expired tax breaks

Hoping to bring stability to the financial markets, President Bush signed the emergency economic rescue plan into law on October 3. The new legislation includes a wide range of provisions affecting financial institutions and individuals. For instance, it authorizes the government to spend \$700 billion for troubled financial assets, curbs excessive compensation arrangements for executives of financial firms, raises the FDIC insurance limit to \$250,000 per account until December 31, 2009, and provides relief for certain homeowners.

Although these provisions have been well-publicized, less attention has been paid to the \$100 billion in tax breaks added to the package late in the negotiations. The changes generally extend a series of recently expired tax provisions through 2009. Here is a summary of the key tax extensions.

\* AMT relief. The new law “patches” the alternative minimum tax (AMT) again by raising the exemption amounts for 2008 to \$46,200 for single filers and \$69,950 for joint filers. The patch also allows you to offset AMT liability with nonrefundable personal credits.

\* Tuition deduction. The new law reinstates the above-the-line deduction for qualified higher education expenses paid for yourself, your spouse, or a dependent. The deduction is \$4,000 for single filers with adjusted gross income (AGI) of \$65,000 or less and joint filers with an AGI of \$130,000 or less. It drops to \$2,000 for an AGI up to \$80,000 for single filers and \$160,000 for joint filers. No deduction is allowed over these thresholds.

\* Sales tax deduction. In lieu of deducting state and local income taxes, you can elect to deduct sales tax paid during the year. The sales tax deduction may be based on amounts in an IRS table plus actual amounts paid for certain big-ticket items like cars, or you can keep actual receipts for taxes paid.

\* Teacher’s deduction. Teachers and other educators may claim an above-the-line deduction for up to \$250 of unreimbursed classroom expenses. This covers books, supplies, equipment, and software.

\* Charitable IRA rollovers. Under the new law, those age 70½ or over can still transfer up to \$100,000 directly from an IRA to a qualified charity without paying any tax. This provision is reinstated through 2009.

\* Nonitemizer's deduction. The new law extends the special property tax deduction for nonitemizers previously available only in 2008. The deduction is actual property tax paid, up to a \$500 limit for single filers and \$1,000 for joint filers.

\* Business tax breaks. Among other provisions for business owners, the new law extends the research tax credit (with certain modifications), the fast 15-year write-off for restaurant and leasehold improvements, and enhanced charitable deductions for donations of food, books, and computers.

### **Act fast to cut your 2008 taxes**

Time is running out on actions you can take to cut your 2008 tax bill. Here are some strategies you should consider right now.

\* Max out your 401(k) at work; for 2008 you can contribute up to \$15,500. If you're 50 or older by December 31, you can contribute an extra \$5,000.

\* Establish a pension plan for your small business to take advantage of a tax credit of up to \$500 for each of the first three years of the plan.

\* Get your investment records in order so you can make wise year-end sell decisions, either to rebalance your portfolio at the lowest tax cost or to offset gains and losses.

\* Make gifts before year-end to utilize your tax-free \$12,000 per donee gifting allowance for 2008. But remember, these gifts to individuals are not tax-deductible.

\* Track down reinvested dividends for any stock you sell in 2008. They'll add to your cost basis and reduce taxable gain or increase deductible loss on the sale.

\* Contribute to a health savings account if you qualify for one. Within limits, contributions are tax-deductible and can be used tax-free to pay unreimbursed medical expenses.

\* Plan year-end business equipment purchases to take advantage of 50% bonus depreciation and the 2008 expensing limit of \$250,000.

Remember that the "kiddie tax" now applies to you if your child has unearned income over \$1,800 this year and is under age 19 (under age 24 if a full-time student).

See us now for an assessment of your individual situation and a review of the best 2008 tax-cutting strategies for you.

### **Tax credit available for lean-burn vehicles**

The IRS recently announced that certain advanced lean-burn technology vehicles will qualify for the alternative motor vehicle tax credit. Previously only hybrid, fuel cell, and alternative fuel vehicles qualified. Now two Volkswagen and three Mercedes lean-burn technology models that generally run on diesel fuel qualify for the credit. Reminder: The credit starts to phase out once the manufacturer sells 60,000 vehicles that qualify for the credit.

### **Partnership extension period shortened**

Partnerships are "pass-through" entities that file Form 1065 reporting partnership income but paying no income tax. Instead, the partners pay tax on their respective share of income on their personal tax returns. In the past, both partnerships and individuals could get a filing extension for six months beyond the original return filing deadline. This often created problems for partners who had difficulty getting partnership information (K-1s) on time to meet their individual extended filing deadline.

Effective for tax returns filed in 2009 (which includes the 2008 partnership return), the extension period for partnerships is shortened to five months, giving individual partners an extra month to get the information they need to file their individual returns on time.

Partnerships should mark their calendars; 2008 returns can only be extended until September 15, 2009, not until October 15 as in prior years.

This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.