

Looking Now to Your 2008 Tax Return

January 1, 2008 represented more than the start of a new year; it was also the date when several new tax changes took effect. For example:

- **The tax on higher-income taxpayers goes down.** Starting with 2008, you may be able to get more tax savings from your personal exemption and itemized deductions. The tax rules limit your tax savings from personal exemptions if your income is too high (\$239,950 for marrieds filing jointly, \$159,950 for singles). There is a similar limit on itemized deductions, but the income threshold is different (generally \$159,950). The good news is that this limit is being gradually relaxed. **The tax savings you lose in 2008 because of the limits will be only one-half of what you lost in 2007.**
- **The tax on lower-income investors goes down.** This change may not affect you, but it might affect someone in your family. Starting in 2008, the capital gains tax from the sale of stocks, real estate and the like will be eliminated for taxpayers in the bottom tax brackets. Tax law changes had reduced this tax rate to 5% by 2007, but in 2008 the tax rate is zero percent. However, this freebie may not be around forever. Unless Congress takes action, the capital gains tax will increase starting in 2011. **So eligible taxpayers may want to strike while the iron is hot.**
- **The tax on young adults goes up.** The so-called “kiddie tax” has been expanded for 2008 and young adults may now be ensnared in its trap. The kiddie tax basically treats the investment income of children as if it were received by their parents. So instead of a child paying tax on the investment income at a low tax rate, the tax is computed in the parents’ higher bracket. In 2007, the kiddie tax applied only to taxpayers under age 18. For 2008, it applies to taxpayers who are either (1) under age 19 or (2) age 19 through age 23 and are full-time students.
- **The home sale exclusion rule eased for surviving spouses.** Under a longstanding tax law rule, a married couple filing a joint return can generally exclude up to \$500,000 of gain on the sale of a home if it was owned and used as a principal residence for at least two of the five years before the sale. However, the exclusion is limited to \$250,000 for single taxpayers. What’s more, in the past, the \$250,000 limit also applied to a surviving spouse unless the home was sold in the year of the deceased spouse’s death.

Starting in 2008, a law change gives surviving spouses get some extra time to decide what to do with the family home. A surviving spouse will qualify for a maximum \$500,000 exclusion if sale of the home occurs not later than two years after the date of the deceased spouse’s death. The new rule applies to any qualifying sale taking place after 2007. So for example, if one spouse died on July 1, 2006, the surviving spouse has until July 1, 2008 to sell the home and still qualify for a maximum \$500,000 exclusion.

These are the most important changes, and we hope you find the information useful. If you have any questions about these important changes or want more details, please contact us.

Sincerely,