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## TAX TOPICS FOR 2008

1. **Personal Exemption.** The deduction for each personal exemption for 2008 is \$3,500, up from \$3,400 in 2007. This deduction is phased out as the taxpayer's adjusted gross income exceeds the following threshold amounts:

<u>Filing Status</u>	<u>Amount</u>
Joint return	\$239,950
Head of household	199,950
Single	159,950
Married, filing separately	119,975

The personal exemption amount is reduced by 2 percent for each \$2,500 (or fraction thereof) by which the taxpayer's adjusted gross income exceeds the applicable amount.

2. **Standard Deduction for 2008**

<u>Filing Status</u>	<u>Amount</u>
Single	\$5,450
Married, joint return	10,900
Head of household	8,000
Married, filing separately	5,450

3. **Additional Standard Deductions** for persons aged 65 or older or who are blind are as follows:

<u>Filing Status</u>	<u>Amount</u>
Single or head of household	\$1,350
Married or qualifying widow(er)	1,050

4. **Standard Deduction for Dependents** is the greater of \$850 or \$300 plus the amount of earned income, not to exceed \$5,450 (Note: Age is increased; 18, or full time students 18 – less than 24 yrs old; Beginning January 1, 2008)

5. **Filing Requirements for Individuals for 2008**

<u>Filing and Marital Status, Age</u>	<u>Gross Income</u>
Single, under 65	\$8,950
Single, 65 or older	10,300
Head of household, under 65	11,500
Head of household, 65 or older	12,850
Married, joint return	17,900
Married, joint return, one 65 or older	18,950
Married, joint return, both over 65	20,000
Married, filing separately	5,450
Qualifying widow(er), under 65	14,200
Qualifying widow(er), 65 or older	15,250

**NOTE:** *Self-employed persons with net earnings of \$400 or more are required to file a return regardless of the amount of gross income.*

6. Tax Rate Schedules for 2008

<b>Married, Filing Jointly or Qualifying Widow(er)</b>	
<u><i>Taxable Income:</i></u>	<u><i>Tax is:</i></u>
Not over \$16,050	10% of taxable income
Over \$16,050 but not over \$65,100	\$1,605.00 plus 15% of the excess over \$16,050
Over \$65,100 but not over \$131,450	\$8,962.50 plus 25% of the excess over \$65,100
Over \$131,450 but not over \$200,300	\$25,550.00 plus 28% of the excess over \$131,450
Over \$200,300 but not over \$357,700	\$44,828.00 plus 33% of the excess over \$200,300
Over \$357,700	\$96,770.00 plus 35% of excess over \$357,700

<b><i>Single Individuals</i></b>	
<u><i>Taxable Income:</i></u>	<u><i>Tax is:</i></u>
Not over \$8,025	10% of taxable income
Over \$8,025 but not over \$32,550	\$802.50 plus 15% of the excess over \$8,025
Over \$32,550 but not over \$78,850	\$4,481.25 plus 25% of the excess over \$32,550
Over \$78,850 but not over \$164,550	\$16,056.25 plus 28% of the excess over \$78,850
Over \$164,550 but not over \$357,700	\$40,052.25 plus 33% of the excess over \$164,550
Over \$357,700	\$103,791.75 plus 35% of the excess over \$357,700

6. Tax Rate Schedules for 2008 (continued)

**Head of Household**

<u>Taxable Income:</u>	<u>Tax is:</u>
Over \$0 but not over \$11,450	10% of taxable income
Over \$11,450 but not over \$43,650	\$1,145.00 plus 15% of the excess over \$11,450
Over \$43,650 but not over \$112,650	\$5,975.00 plus 25% of the excess over \$43,650
Over \$112,650 but not over \$182,400	\$23,225.00 plus 28% of the excess over \$112,650
Over \$182,400 but not over \$357,700	\$42,755.00 plus 33% of the excess over \$182,400
Over \$357,700	\$100,604.00 plus 35% of the excess over \$357,700

**Married, Filing Separately**

<u>Taxable Income:</u>	<u>Tax is:</u>
Not over \$8,025	10% of taxable income
Over \$8,025 but not over \$32,550	\$802.50 plus 15% of the excess over \$8,025
Over \$32,550 but not over \$65,725	\$4,481.25 plus 25% of the excess over \$32,550
Over \$65,725 but not over \$100,150	\$12,775.00 plus 28% of the excess over \$65,725
Over \$100,150 but not over \$178,850	\$21,414.00 plus 33% of the excess over \$100,150
Over \$178,850	\$48,385.00 plus 35% of the excess over \$178,850

7. **The Wage Base in 2008 for Social Security** (old age, survivors, and disability insurance) is \$102,000. Social Security the tax rate remains unchanged at 6.2 percent for both employers and employees. This is projected to increase to \$107,500 for 2009.

The wage base for Medicare tax has been eliminated. All 2008 wages are subject to Medicare tax. The rate is 1.45 percent each for employers and employees (2.9 percent total).

8. **Taxation of Social Security Benefits**

- a. For single taxpayers with provisional income between \$25,000 and \$34,000, 50 percent of the benefits are taxable. (Provisional income is modified AGI plus half the taxpayer's social security.) For married persons filing jointly, the range is \$32,000 to \$44,000.
- b. For single taxpayers with provisional income above \$34,000 and married taxpayers filing jointly with provisional income above \$44,000, up to 85 percent of social security benefits may be taxable.

**NOTE:** This may change due to pending legislation.

9. **The Self-Employment Tax Rate** remains unchanged at 15.3 percent.  
(A quarter of coverage = \$1,050 in 2008)

10. **Social Security Earnings.** Although the earnings cap for those working and drawing social security benefits was eliminated as of January 2000 for those age 66 and over, the restriction still applies to workers under age 66 plus the additional months to full retirement age.

In 2008, a retiree between age 62 and 66 + 0 months may earn \$1,130 a month (\$13,560 a year) without affecting Social Security benefits. These taxpayers lose \$1 of benefits for every \$2 of earnings above the ceiling.

A retiree who turns 66 + 0 months in 2008 can earn income of \$3,010 per month (\$36,120 a year) until they reach that age. There is no longer a limit on earnings beginning the month the retiree attains full retirement age.

11. **Earned Income Credit.** For 2008, the earned income credit (EIC) is available to workers with qualifying children and for childless workers. Beginning in 2002 taxpayers will use AGI to qualify, not Modified Adjusted Gross Income. Furthermore, taxpayers have two schedules for the credit, one for filing Married Filing a Joint Return and a second for filing Not Married

==== > **Claiming the EIC As Married Filing a Joint Return. A taxpayer must:**

- a. Have earned income, such as wages and self-employment income, of under \$36,995 if the taxpayers have one qualifying child or under \$41,646 if they have two or more qualifying children.
- b. Have a qualifying child who lived in his/her main home in the United States for more than six months in 2008.
- c. May file without a qualifying child, must have earned income under \$15,880.

==== > **Claiming the EIC Not As Filing Married Jointly : A taxpayer must:**

- a. Have one child, taxpayer must have earned income less than \$33,995.
- b. Have two children, taxpayer must have earned income less than \$38,646.
- c. Have no children, taxpayer must have earned income less than \$12,880.
- d. Have his/her main home in the United States for more than six months in 2008.
- e. NOT be a qualifying child of another taxpayer and NOT be a dependent of another taxpayer.

f. Be at least 25 but under 65 years old. If filing a joint return, one spouse must satisfy the age test.

12. **The Optional Standard Mileage Rate** is 50.5 cents per mile for Jan 1 – June 30, 2008; 58.5 cents per mile July 1 – Dec 31, 2008. The rate for medical and moving mileage is 19 cents per mile (Jan 1 – June 30; \$0.27 / mile July 1 – Dec 31) and charitable mileage rate remains at 14 cents per mile in 2008.

A deduction using the optional rate is in lieu of automobile operating and fixed costs that are allocable to business use. These include depreciation, maintenance and repairs, tires, gasoline, oil, insurance, and registration fees. Parking fees and tolls attributable to using the automobile for business purposes may be deducted as separate items, but fuel and repairs are NOT deductible.

13. **Depreciation Methods for Farmers.** For property placed in service, farmers must use the following depreciation methods:
1. The 150 percent declining balance method over the GDS recovery period switching to the straight line method when that method yields a greater deduction.
  2. The straight line method over the GDS recovery period.
  3. The 150 percent declining balance method over fixed ADS recovery periods, switching to the straight line method when that method provides a greater deduction.
  4. The straight line method over fixed ADS recovery periods.

**NOTE:** We have discovered that many tax returns have been filed incorrectly using the 200 percent declining balance method, and/or the incorrect recovery period. Use Form 3115 to correct depreciation.

14. **Depreciation Limits for Passenger Automobiles.** The passenger automobile category includes trucks and vans with gross vehicle weights of 6,000 pounds or less. For passenger automobiles, light trucks and vans placed in service in 2008, the maximum annual depreciation allowed is as follows:

<u>Year</u>	<u>Cars</u>	<u>50% Add.</u>	<u>Light Trucks/Vans</u>	<u>50% Add.</u>
	<u>Amount</u>		<u>Amount</u>	
First tax year	\$2,960	\$10,960	\$3,160	\$11,160
Second tax year	\$4,800	\$ 4,800	\$5,100	\$5,100
Third tax year	\$2,850	\$ 2,850	\$3,050	\$3,050
Each succeeding tax year	\$1,775	\$1,775	\$1,875	\$1,875

The maximum ceiling assumes 100 percent business use of the automobile. If business use is less, the ceiling is proportionately reduced. For example, if an automobile were driven 60 percent for business, the deduction would be limited to \$6,756 (\$10,960 x 60 percent).

15. **Expense election of capital assets (Sec. 179).**

<u>Tax Year Beginning in</u>	<u>Maximum Expense Deduction</u>
2008	\$250,000 and 50% bonus depreciation
2011 and thereafter	\$25,000

If a taxpayer purchased more than \$800,000 worth of depreciable equipment, the expensing allowance is reduced at the rate of \$1 for every \$1 of investment in depreciable equipment above \$800,000. (You must have earned income greater than zero.)

**SUVs (Sport Utility Vehicles):** Congress restricted expensing for SUVs to \$25,000. This applies for SUVs with GVWs more than 6,000 lbs but less than 14,000 lbs. For SUVs with GVW < 6,000 lbs the light truck rules apply on the previous page. SUVs weighing more than 14,000 lbs are allowed a \$250,000 expensing allowance. Some states have decoupled the SUVs from full allowance and applied the \$25,000 limit. Three exceptions: a) >9 passengers, b) > 6' box, c) Cargo vans.

16. **Single-Purpose Agricultural Structures.** The recovery period for single-purpose agricultural structures is 10 years. Code Section 168.
17. **Nonresidential Real Property.** The recovery period was increased to 39 years for property placed in service after May 13, 1993.
18. **Deduction of Organization Dues.** The 1993 Tax Act prohibited deductions for amounts paid after 1993 for any membership in any club organized for business, pleasure, recreation, or other social purposes. Newly issued regulations define a "club" as any membership organization whose principal activity is to provide members access to entertainment facilities. Membership in professional organizations, business leagues, trade associations, and chambers of commerce would not be considered to be organized for pleasure. As such, dues for membership in various farm organizations, trade associations, etc. should be deductible.
19. **Deductions for Meals.** Beginning in 1998, 100 percent of the cost of business meals for employees is deductible if meals are at and for the convenience of the employer, no longer limited to 50%.
20. **Business Trip Expenses.** Beginning January 1, 1994, business trip expenses for a taxpayers' spouse, dependents or other individuals cannot be deducted unless those individuals are *bona fide* employees traveling with the taxpayer for a business purpose.
21. **New Contribution Rules.** Beginning in 2007, individuals who give separate cash contributions (gifts) of any amount or more are required to obtain a receipt from the organization receiving the donation. This documentation must be in writing and must be contained in the taxpayer's file before the filing of 2007 tax returns.
22. **Estimated Tax Payments.** To avoid potential penalties, taxpayers with a 2008 adjusted gross income (AGI) of \$150,000 or less should make estimated tax payments of withholdings equal to their 2007 taxes, or make prepayments equal to 90 percent of their 2008 taxes. If taxpayers' 2008 AGI exceeded \$150,000, they must pay a sum equal to 110 percent of their 2007 tax or 90 percent of their current year's return. Similarly, if 2008 income is 40% higher than 2007, taxpayers must follow these estimated tax guidelines.
23. **Leasehold improvements.**

A lessor that disposes of or abandons a leasehold improvement, made by the lessor for the lessee, upon termination of the lease may use the adjusted basis of the improvement at such time in determining gain or loss. This provision applies to improvements disposed of or abandoned after June 12, 1996.
24. **Self-employed health insurance deduction.**

The deduction for health insurance expenses of self-employed individuals and their spouses and dependents is 100% in 2007.
25. **Qualified long-term care insurance. (Self-employed)**

A qualified long-term care insurance contract will generally be treated as an accident and health insurance contract. The deduction for 100 percent of health insurance expenses of self-employed individuals applies to long-term care insurance premiums.

Amounts paid for eligible long-term care premiums are treated as medical expenses deduction to the extent that the amounts do not exceed to following annual limitations:

<u>Age at Close of Tax Year</u>	<u>Limitation</u>
40 or less	\$ 310
41 - 50	580
51 - 60	1,150
61 - 70	3,080
71 or older	3,850

After 1997, the maximum allowable amounts will be adjusted for inflation at the rate, by which the medical care component of the **Consumer Price Index** exceeds the component for August, 1996.

26. <b>2008 Retirement plan</b>	<u>Contribution Levels</u>
401(k)	\$15,500 > 50yrs + 5,000 (catch up)
403(b)	\$15,500 > 50yrs + 5,000 (catch up)
457	\$15,500 > 50yrs + 5,000 (catch up)
Keogh, Profit Share	\$46,000 > 50yrs + 5,000 (catch up)
Roth 401k	\$15,500 > 50yrs + 5,000 (catch up)

27. **Individual retirement Accounts (IRA).**

Effective for tax years beginning **after December 31, 1996**, (increase in amount for 2005) nonworking spouses will be allowed to contribute up to \$4,000 per year to a deductible IRA.

Effective for post-1996 distributions, the 10-percent additional tax on early distributions from qualified plans will not apply to distributions from an IRA that are used to pay medical expenses in excess of 7.5 percent of adjusted gross income.

The 10-percent tax will not apply to distributions from an IRA for payment of health insurance premiums to an individual after separation from employment.

Contribution limits for traditional and ROTH IRAs are \$5,000 for 2008 and thereafter with annual adjustments for inflation after 2008.

Taxpayers who are age 50 and above will be permitted to contribute "catch ups" to their IRAs. They can contribute to an IRA an additional \$1,000 in 2006 and all years thereafter. These catch up payments can be either deductible or made to a ROTH IRA, if the base-line AGI limits are met for regular contributions for the year.

**NORTH CAROLINA TAX CREDIT POINTERS**

- 28. **Conservation Tillage Equipment.** North Carolina allows a credit for the purchases of conservation tillage equipment for in state farming business purposes (including tree farming) in the amount of 25 percent of the cost of the equipment. The credit may be claimed only by the first purchaser of the equipment and may not exceed \$2,500 in any one income year. The credit may not exceed the taxpayer's total income tax for the year. Any excess credit may be carried forward for five years. The basis of the equipment purchased is reduced by the amount of the credit used.
- 29. **Property Taxes Paid on Farm Machinery.** North Carolina allows a credit of up to \$1,000 for the amount of property taxes paid on farm machinery by an individual farmer, general partners or an "S" corporation engaged in the business of farming.

**NOTE:** These and other credits can be missed; however, they are now listed specifically in the North Carolina tax instruction booklet. Credits include: Gleaning credit, and a Business credit to stimulate economic growth in tiered counties.

30. **Credit for recycling oyster shells.** The credit is \$1.00 per bushel donated. The credit is limited to the tax liability and any unused portions of the credit can be carried forward for 5 succeeding years.
31. **Credit for Construction of Poultry Compositing Facility.** The credit is allowed for the construction of a composting facility for poultry carcasses. The credit is 25% of the installation, materials and equipment costs of construction paid during the taxable year, not to exceed \$1,000.00 for any single installation. Cost-share grants cannot be used to calculate the credit. Any unused credit may not be carried forward.

### **IMPORTANT TAX TOPICS**

1.) **INTERNAL REVENUE SERVICE (IRS) ENFORCEMENT ACTION.**

IRS will send fewer notices over a shorter period of time before taking enforcement action on unpaid taxpayer liability issues. Business taxpayers will be sent only two notices within an 11-week period.

**It is now even more important for taxpayers with tax, interest, and/or penalty issues to make payment or appeal the issue(s) in a timely matter to avoid the IRS enforcement actions.**

- 2.) For taxpayers in financial distress, IRS is more likely to favorably accept an “offer in compromise” than at any time in the recent past. Careful planning with realistic numbers and expectations may be of benefit to some taxpayers that are in these circumstances.