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Tax Law Changes

For 2008:

Additional Standard Deduction for Real Estate Taxes – Non-itemizers may claim an additional standard deduction for state and local real property taxes paid for tax years 2008 and 2009. The maximum deduction is \$500 (\$1,000 for married couples filing jointly).

Increased IRA Contribution Limits – In 2008, the maximum traditional or Roth IRA contribution increases from \$4,000 to \$5,000. Filers who reach age 50 before the end of 2008 can contribute another \$1,000. The deadline for contributing to an IRA for 2008 is April 15, 2009.

Economic Stimulus Rebate – The economic stimulus rebate that was paid in 2008 will be reconciled on the 2008 tax return. Taxpayers will receive any additional credit due but do not need to repay any excess credit received. Those who did not receive an economic stimulus rebate during 2008 will get a second chance on their 2008 tax return.

Kiddie Tax – Starting in 2008, Congress gave the kiddie tax more bite. For 2008, unearned income over \$1,800, such as interest, dividends and capital gains, will be taxed at the parents marginal rate for children who are younger than 18; children who are 18 unless they provide more than half of their own support based on earned income; and children who are 19 to 23 and are full-time students unless they provide more than half of their own support based on earned income. This way, families cannot shift appreciated or dividend producing assets to their kids to take advantage of the 0% rate on capital gains and dividends, which is discussed below.

Reduction in Capital Gains Tax Rates – For 2008 through 2010, the 5% net long-term capital gain tax rate drops to 0% for those taxpayers who are in the 10% or 15% tax brackets.

Reduction in Dividend Tax Rates – Similarly, for 2008 through 2010, the special 5% maximum tax rate on dividends for taxpayers in the 10% or 15% tax brackets drops to 0%.

Refundable First-Time Homebuyer Credit – Taxpayers who purchased a principal residence after April 8, 2008 through June 30, 2009 and who have not owned a principal residence in the previous three years may claim a refundable credit for 10% of the purchase price. The maximum credit is \$7,500. Eligibility for the credit phases out for modified adjusted gross income between \$75,000 and \$95,000 (between \$150,000 and \$170,000 for married couples filing jointly). The credit must be repaid in 15 equal installments starting in 2010. Repayment is accelerated if the home is sold or is no longer used as a principal residence.

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For 2008 and 2009 planning:

Residential Energy Property Credit – The residential energy property credit has been reinstated for property placed in service in tax year 2009. This credit was suspended for tax year 2008. The 2009 credit includes biomass (corn, wood, pellet, etc.) heating systems.

Qualified Charitable Distributions – Taxpayers age 70 ½ or older may contribute up to \$100,000 tax-free from an IRA to a qualified charity. The transfer is taken into account for meeting the required minimum distribution for the year. This tax break was extended through 2009.

Sales Tax Deduction – The choice to deduct state and local sales taxes instead of state and local income taxes on Schedule A was extended through 2009.

PMI Deduction – The deduction for mortgage insurance premiums paid on a qualified residence was extended through 2009.

Tuition and Fees Deduction – The above the line deduction for up to \$4,000 of qualified higher education expenses (\$2,000 for higher income taxpayers) was extended through 2009.

Educator Expenses – The \$250 above the line deduction for out of pocket classroom expenses for teachers K - 12 was extended through 2009.

Required Minimum Distributions – The Worker, Retiree, and Employer Recovery Act of 2008 suspends required minimum distributions (RMDs) from 401(k) plans, IRAs and similar retirement accounts for 2009.

Gift Tax – The annual gift exclusion rises to \$13,000 for 2009, up from \$12,000 in 2008.

Depreciation – For taxable years beginning in 2009, the maximum Section 179 deduction is \$133,000 (\$250,000 for 2008). The deduction is reduced by the amount by which the cost of Section 179 property placed in service during the 2009 taxable year exceeds \$530,000 (\$800,000 for 2008).

NYS LLC Filing Fee – The NYS LLC filing fee for LLCs that are disregarded entities for Federal income tax purposes has been reinstated for tax years beginning on or after January 1, 2008. The filing fee for disregarded entities is now \$25. The filing deadline for Form IT-204-LL is within 30 days after the last day of your tax year (January 30th for calendar year taxpayers).



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