2008 Federal Tax Law Changes

By Kathleen Crawford, EA

Happy New Year from Congress and the IRS! Just to make life interesting for taxpayers and keep tax return preparers scrambling, there are numerous tax law changes for 2008. This article will discuss four of the changes that affect many people.

The first change is a great deal for the middle class. For 2008, the long term capital gains rate that was 5% in 2007 will be 0%, that is zero percent. For people in the lower income tax brackets, that means that some or all money made on the sale of long term capital assets, like stocks or rentals, will be free of tax within limits. This change was discussed at length in a previous article. The zero percent rate is set to remain in affect through 2010 unless Congress changes its mind and the law.

The second changes are the mileage rates for 2008. The business mileage rate is set at $0.505 per mile, up from 48.5 cents in 2007. The 2008 medical and moving rate is 19 cents, down from 20 cents per mile in 2007…go figure. The charitable rate is still 14 cents per mile because this has been set by Congress and cannot be adjusted by the IRS.

The next change can affect taxpayers with children. In 2006, the “kiddie tax” age was changed from 14 to 18. For 2008, the age range includes children up to 24. In simple terms, the “kiddie tax” requires that children, who are dependents on their parents tax return and have unearned income, for example, interest, dividends and gains, pay at their own tax rate or their parents’ tax rate, whichever is higher. It is to keep people from moving assets to their children to avoid income tax. How old is Bill Gates’ daughter now?? For 2008, even college students who are still dependents of their parents may be affected by this. It is a complicated law and calculation. If you think your child may be affected by this law, please see a professional.

The last change does not affect taxpayers directly, but affects everyone is some way. Congress added and increased the penalties charged to tax PREPARERS when certain errors are found on a return. This change will cause tax preparers to require more information from taxpayers when preparing the returns and more notice that taxpayers are ultimately responsible for the information on their returns. Taxpayers in Oregon don’t need to worry about this change as much as people in other states. The state of Oregon licenses, tests and regulates tax preparers already, so licensed Oregon tax preparers have been following good practices for years.

The fine print is that this article is for information only. Please call Kathy or a tax professional for questions about your individual tax situation. The Jacksonville Tax Lady can be reached at 541-899-7926 or at 610 North Fifth Street.