Tax Tips You Can Use February 2009

Happy New Year from Congress and the IRS

By Kathleen Crawford, EA

Happy New Year from Congress and the IRS! With all the economic turmoil, Congress has added to the uncertainty with five tax bills and many tax law changes in 2008. There are several standard updates of mileage rates and exemptions for 2009. But taxpayers need to know that there are many important changes for 2008 returns. This article will discuss three changes to make life interesting and tax preparation difficult.

The first changes to note are the mileage rates for 2009. The business mileage rate is set at 55 cents per mile, down from 58.5 cents in the second half of 2008. The 2009 medical and moving rate is 24 cents, down from 27 cents per mile in the second half of 2008. The charitable rate is still 14 cents per mile because this has been set by Congress and cannot be adjusted by the IRS. In addition, the personal exemption for the taxpayer and each dependent is $3500 for 2008.

The stimulus payment will be accounted for on the 2008 return. As you may recall, the stimulus payment was a “pre-refund” of 2008 tax credits. If you did not get the payment for some reason, then you may get it on the 2008 return. If you did get one, then the actual amount you got will be compared with the amount of credit that your 2008 return says you should have gotten. If they are the same, then all is well. If the check you got is less than the 2008 return says you should have gotten, then you will get a credit for the difference on your 2008 return. If you somehow got more than you should have- all is forgiven and you can keep it.

The next change is a three year change that started in 2008. It has been a great deal for the middle class. For 2008, the long term capital gains rate that was 5% in 2007 was 0%, that is zero percent. For people in the lower income tax brackets, that meant that some or all money made on the sale of long term capital assets, like stocks or rentals, was free of tax within limits. The zero percent rate is set to remain in affect in 2009 and 2010 unless Congress changes its mind and the law. Of course the fall in stock and housing prices makes gains a rarer event and losses are handled the same way as always, that is, the losses cancel gains and then only $3000 per year can be subtracted against other income.

The last change of note for this article is the deduction of property tax for people who use the standard deduction. As background information, taxpayers must choose the standard deduction or itemized deductions on schedule A. Itemized deductions are the sum of taxes paid, mortgage interest, charity and some medical and other expenses. A married couple filing joint has a standard deduction of $10900.00 for 2008. So unless a family’s itemized expenses are more than $10900, the return would use the standard amount. For 2008 and 2009, a taxpayer can use the standard deduction, but add up to $500 ($1000 Joint) to the standard amount for state and local property taxes.

If you are not confused yet, then you should research the first time home buyer credit, that you get now, but have to pay back over the next 15 years as addition tax or the changes in the sale of home exclusion if you have moved out of your home for any period of time. In order to help some people, the additional laws require everyone to keep better records or make mistakes or pay unnecessary tax. It is no wonder that tax preparers have gray hair!

The Jacksonville Tax Lady, LLC can be reached at 541-899-7926 and is located in beautiful, historic Jacksonville at 610 N. Fifth Street across from the Pony Espresso.

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.