

JOHN P. COLE, C.P.A.

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To: Valued Tax Client
From: John P. Cole, CPA
Subject: Highlights of New Tax Updates and **New Contact Information**

Similar to prior years, I am writing this letter to highlight some of the key changes to the tax code that may have some impact on your 2008 tax return. I will not be including any tax rules for 2009 (other than those enacted in 2008 which are also subject to change) and thereafter as we have a new President coming into office and I expect significant changes to the tax code going forward.

2008 Key Provisions:

- In October of this year President Bush signed the Economic Rescue Bill. This Bill provided historic support for the Financial Markets. In addition, the Emergency Stabilization Act of 2008 was approved in October as well and provides tax incentives for both individuals and businesses. **The following are the key provisions are included in the Emergency Economic Stabilization Act of 2008:**
- The Alternative Minimum Tax (AMT) exception amount for individuals is increased for tax years beginning in 2008 to \$66,250 for married individuals signing a joint return and surviving spouses; \$42,600 for unmarried individuals and \$34,975 for married individuals filing separate returns.
- For tax years beginning in 2008, the nonrefundable personal tax credits are allowed to the full extent of the taxpayer's regular tax and AMT liability.
- Homeowners may claim an additional standard deduction for real property taxes, up to \$500 (\$1,000 for joint returns) for any tax year beginning in 2008 or 2009.
- The election to deduct state and local sales taxes in lieu of state and local income taxes is extended to apply to tax years before 2010.
- The deduction for qualified tuition and related expenses is extended for two years through 12/31/2009.
- The deduction for eligible educator expenses, allowing eligible educators an above the line deduction of up to \$250 for educational expenses has been extended.
- For the 2008 tax year, if the total amount of a taxpayer's allowable child tax credit exceeds the taxpayer's total tax liability (regular and AMT) the taxpayer is eligible for a refundable child care credit equal to 15% of the taxpayer's earned income in excess of \$8,500, up to the per child credit amount.
- The 15 year MACRS recovery period for qualified leasehold improvement property is extended to apply to property placed in service in 2008/2009.

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- A credit is available for tax years beginning after 12/31/2008 for new qualified plug-in electric drive motor vehicles. The amount of the credit is \$2,500 plus \$417 for each kilowatt hour of traction battery capacity in excess of four kilowatt hours.
- Personal casualty losses attributable to a federally declared disaster occurring in 2008 or 2009 are deductible without regard to whether the losses exceed 10% of a taxpayer's AGI.
- Reacting to the slump in housing sales and rising unemployment numbers, Congress passed the **Housing and Economic Recovery Act of 2008**. **Below are some of the key highlights and provisions of this Act:**
- A first time homebuyer who purchases a principal residence after 4/8/08 and before 7/1/09 can qualify for a credit of up to \$7,500. The credit is recaptured ratably over 15 years, with no interest charge.
- Homeowners may claim an additional standard deduction for real property taxes up to \$500 (\$1,000 for joint returns) for any tax year beginning in 2008.
- Gain from sale of a principal residence allocable to periods the property is not used as the principal residence by a taxpayer, the taxpayer's spouse or the taxpayer's former spouse is not excluded from the taxpayer's income.
- The state housing credit volume cap for the low-income housing credit is temporarily increased for calendar years 2008/2009.
- A Corporation may elect to claim a credit for a portion of its unused AMT and research credits that are attributable to tax years beginning before 1/1/06 instead of taking the 50% bonus depreciation deduction on any eligible qualified property.
- **Military tax relief.** Congress passed the Heroes Earnings Assistance and Relief Act in 2008. This bill provides tax breaks for members of the military (active and reserve) and their families and clarifies the tax treatment of state and local benefits provided to volunteer fire fighters and emergency medical responders. **The Heroes Act includes the following:**
- Members of a military family, their spouses and qualifying children are not required to have a social security number to claim the refundable tax credit for eligible individuals for the 2008 tax year if the credits are claimed on a joint return.
- The availability of the election to treat combat zone compensation that is otherwise excluded from gross income is made permanent.
- An eligible small business employer can claim a temporary tax credit for up to 20% if the military differential wage payments it makes to qualified workers during the tax year. The military credit does not apply to any payments made after 12/31/2009.
- The rules allowing penalty free distributions from retirement plans for individuals ordered to active duty on or after 12/31/07 for more than 179 days are now permanent.
- For purposes of the exclusion of gain from the sale of a principal residence, an individual can elect to suspend the running of the 5 year ownership and use testing period during

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any period that the individual or the individual's spouse is serving outside the US as part of the Peace Corps.

- A mark to market tax is imposed on the net unrealized gain in the property of certain individuals who expatriate.
- The minimum penalty for failure to file a tax return within 60 days of the due date (with extension) is increased to the lesser of \$135 or 100% of the net tax due.
- **President Bush signed the Economic Stimulus Act of 2008 which included the following:**
 - A refundable rebate is available for individuals in 2008 and the rebate amount is equal to the greater of: the taxpayer's net income tax liability (not to exceed \$600 or \$1,200 for joint filers) or \$300 (\$600 for joint filers) if the individual has either: a) at least \$3,000 of earned income, Social Security benefits or certain veteran's benefits (including survivors of disabled veterans) or b) net income tax liability of at least \$1 and gross income greater than the sum of the applicable basic standard deduction amount and one personal exemption (two if a joint return).
 - Section 179 limits for expensing amounts have increased to \$250,000 and the investment limit is increased to \$800,000.
 - The 50% first year bonus depreciation deduction is available for qualifying property acquired after 12/31/2007 and placed in service before 1/1/2009.

Table of Key Tax Statistics for 2008:

Description	2008
Tax Brackets	
Initial Tax Bracket	10%
Second Bracket	15%
Third Bracket	25%
Fourth Bracket	28%
Fifth Bracket	33%
Top Bracket	35%
Child Tax Credit	\$1,000
IRA Contributions	\$4,000
IRA Catch-ups	\$1,000
SIMPLE Contributions	\$10,000*
Elective Deferrals	\$15,000*
Elective Catch-ups	
SIMPLEs	\$2,500*
401k, 403b and 457 plans	\$5,000*
AMT Exemptions	
Single	\$44,350
Married Filing Jointly	\$66,250

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Description	2008
Estate Tax	
Top Rate	45%
Exception Amount	\$2.0 million
Gift Tax (exception amount)	\$1.0 million
* Subject to inflation	

Lastly, my cell number changed. All of my contact information is below. Please use these numbers going forward to reach me. My home number and address remain the same.

Contact Information:

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Email: john@cpataxprep.net or jpcole@optonline.net

In conclusion, I truly appreciate your patronage and hope this letter finds you and your loved ones in good health and happiness and wish you a happy holiday/new-year. I look forward to working with you in 2009.

Please remember, if you have a final estimated payment due, it must be postmarked by January 15th.

Sincerely,



John P. Cole, CPA

Disclaimer:

The information contained in this memo is of general tax information. It should not be construed as legal advice nor should it be acted upon in your specific situation without further details or professional assistance. It is advised and is the responsibility of the reader to seek proper instruction and / or professional assistance in all matters regarding taxes and the IRS.