

FEDERAL TAX UPDATE

On October 3, 2008, President Bush signed the *Emergency Economic Stabilization Act of 2008* into law. In addition to giving the federal government the authority to purchase and insure troubled assets that have negatively affected the financial system both at home and abroad, it also amended the *Internal Revenue Code of 1986* to provide incentives for individuals and businesses. Here are a few of the highlights that may be of interest to you.

The bill -

- Increases the deposit insurance limits from \$100,000 to \$250,000 per account until December 31, 2009 for credit union and bank customers.
- Extends the period for relief from taxation of cancellation of indebtedness from the end of 2009 to the end of 2012 in cases in which lenders cancel or reduce loan balances through mortgage workouts, foreclosures and deed-in-lieu-of-foreclosure sales.
- Extends the period for deductibility of the greater of state sales tax or state income tax for tax years 2008 and 2009. This is particularly beneficial to itemizers who reside in states that have no income tax such as Florida, Texas and Tennessee.
- Extends the period for deductibility of up to \$4,000 of tuition for higher education for joint filers with adjusted gross income under \$130,001 and individual filers with adjusted gross income under \$65,001 and up to \$2,000 for joint filers with adjusted gross income over \$130,000 but less than \$160,001 and individual filers with adjusted gross income over \$65,000 but less than \$80,001.
- Extends the period for non-itemizers to deduct up to \$1,000 of real estate taxes as a standard deduction to tax years 2008 and 2009.
- Increases the alternative minimum tax (AMT) exemption to \$69,950 for joint filers and \$46,200 for individual filers for tax year 2008. This patch is designed to insulate middle income taxpayers from the reach of the AMT.
- Provides relief to taxpayers who recognized AMT income by exercising incentive stock options (ISO's) in which the stock subsequently lost value.
- Extends the charitable planning technique that permits an IRA holder who is at least age 70 ½ to make a direct transfer from his IRA to the charity of up to \$100,000 for tax year 2008 and 2009. This is especially helpful for non-itemizers. In addition to avoiding tax on an IRA distribution, it also reduces the taxpayer's required minimum distribution for subsequent years.
- Makes qualified restaurant buildings and improvements placed in service in tax year 2009 eligible for 15 year straight line depreciation rather than 39 year depreciation.
- Makes qualified retail interior improvements for businesses that sell tangible personal property to the general public placed in service in tax year 2009 eligible for 15 year straight line depreciation rather than 39 year depreciation.
- Requires securities broker-dealers to report the tax basis of securities sold beginning in tax year 2011.

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All initial consultations to discuss tax or accounting needs are complimentary.