

## TAX BRACKET AND OTHER KEY 2009 ITEMS

The standard deduction, exemption amount and individual tax rate brackets are adjusted annually for cost-of-living increases. The adjustments are based on the average Consumer Price Index (CPI) for the 12-month period ending the previous August 31. The August, 2008, CPI has been released by the Labor Department. The following are calculated increases to these and other important tax items for 2009 as set forth below.

**Observation:** IRS is required to officially release the 2009 adjustments by December 15, 2008.

- **Standard deductions.** The basic standard deduction for 2009 will be:

*Joint return or surviving spouse*                      \$11,400 (up from \$10,900 in 2008)

*Single (other than head of household  
or surviving spouse)*                      \$5,700 (up from \$5,450 in 2008)

*Head of household*                                      \$8,350 (up from \$8,000 in 2008)

*Married filing separate returns*                      \$5,700 (up from \$5,450 in 2008)

For an individual who can be claimed as a dependent on another's return, the basic standard deduction for 2009 will be \$950 (up from \$900 in 2008), or \$300 (same as in 2008) plus the individual's earned income, whichever is greater. However, the standard deduction may not exceed the regular standard deduction for that individual.

For 2009, the additional standard deduction for married taxpayers 65 or over or blind will be \$1,100 (up from \$1,050 in 2008). For a single taxpayer or head of household who is 65 or over or blind the additional standard deduction for 2009 will be \$1,400 (up from \$1,350 in 2008).

- **Kiddie tax.** The exemption from the kiddie tax for 2009 will be \$1,900 (up from \$1,800 in 2008). A parent will be able to elect to include a child's income on the parent's return for 2009 if the child's income is more than \$950 and less than \$9,500 (up from \$900 and \$9,000 in 2008).
- **AMT exemption for child subject to kiddie tax.** The AMT exemption for 2009 for a child subject to the kiddie tax will be the lesser of (1) \$6,700 (up from \$6,400 in 2008) plus the child's earned income, or (2) \$33,750 (same as in 2008).

**Observation:** In past years, Congress increased the regular (and not inflation adjusted) AMT exemption amounts when they were about to revert

to lower levels. For example, when the exemption for 2007 was set to revert to \$33,750, Congress increased it to \$44,350.

- **Personal exemption amount.** The personal exemption amount for 2009 will rise to \$3,650 (up from \$3,500 in 2008).

**Observation:** The minimum gross income thresholds for filing will also increase for 2009 since they are based on the basic standard deduction, the additional standard deduction and the exemption amounts.

- **Phase-out of personal exemption.** The phase-out of the personal exemption for 2009 will begin at adjusted gross income of:

<i>Joint return or surviving spouse</i>	<i>\$250,200 (up from \$239,950 in 2008)</i>
<i>Head of household</i>	<i>\$208,500 (up from \$199,950 in 2008)</i>
<i>Single (other than surviving spouse or head of household)</i>	<i>\$166,800 (up from \$159,950 in 2008)</i>
<i>Married filing separately</i>	<i>\$125,100 (up from \$119,975 in 2008)</i>

**Observation:** For 2009, a taxpayer will lose only 1/3 of the amount he would otherwise lose under the regular phase-out computation.

- **Tax rate schedules.** The tax rate schedules for 2009 will be as follows:

**MARRIED INDIVIDUALS FILING JOINT RETURNS  
AND SURVIVING SPOUSES**

<u><i>If taxable income is:</i></u>	<u><i>The tax is:</i></u>
<i>Not over \$16,700</i>	<i>10% of taxable income</i>
<i>Over \$16,700 but not over \$67,900</i>	<i>\$1,670.00 plus 15% of the excess over \$16,700</i>
<i>Over \$67,900 but not over \$137,050</i>	<i>\$9,350.00 plus 25% of the excess over \$67,900</i>
<i>Over \$137,050 but not over \$208,850</i>	<i>\$26,637.50 plus 28% of the excess over \$137,050</i>

Over \$208,850 but not over  
\$372,950

\$46,741.50 plus 33% of the excess  
over \$208,850

Over \$372,950

\$100,894.50 plus 35% of the excess  
over \$372,950

**SINGLE INDIVIDUALS  
(OTHER THAN HEADS OF HOUSEHOLDS  
AND SURVIVING SPOUSES)**

If taxable income is:

The tax is:

Not over \$8,350

10% of taxable income

Over \$8,350 but not over  
\$33,950

\$835.00 plus 15% of the excess  
over \$8,350

Over \$33,950 but not over  
\$82,250

\$4,675.00 plus 25% of the excess  
over \$33,950

Over \$82,250 but not over  
\$171,550

\$16,750.00 plus 28% of the excess  
over \$82,250

Over \$171,550 but not over  
\$372,950

\$41,754.00 plus 33% of the excess  
over \$171,550

Over \$372,950

\$108,216.00 plus 35% of the excess  
over \$372,950

**HEADS OF HOUSEHOLDS**

If taxable income is:

The tax is:

Not over \$11,950

10% of taxable income

Over \$11,950 but not over  
\$45,500

\$1,195.00 plus 15% of the excess  
over \$11,950

Over \$45,500 but not over  
\$117,450

\$6,227.50 plus 25% of the excess  
over \$45,500

Over \$117,450 but not over  
\$190,200

\$24,215.00 plus 28% of the excess  
over \$117,450

Over \$190,200 but not over  
\$372,950

\$44,585.00 plus 33% of the excess  
over \$190,200

Over \$372,950  $\$104,892.50$  plus 35% of the excess over \$372,950

### **MARRIEDS FILING SEPARATE RETURNS**

If taxable income is:

The tax is:

Not over \$8,350

10% of taxable income

Over \$8,350 but not over \$33,950

$\$835.00$  plus 15% of the excess over \$8,350

Over \$33,950 but not over \$68,525

$\$4,675.00$  plus 25% of the excess over \$33,950

Over \$68,525 but not over \$104,425

$\$13,318.75$  plus 28% of the excess over \$68,525

Over \$104,425 but not over \$186,475

$\$23,370.75$  plus 33% of the excess over \$104,425

Over \$186,475

$\$50,447.25$  plus 35% of the excess over \$186,475

### **ESTATES AND TRUSTS**

If taxable income is:

The tax is:

Not over \$2,300

15% of taxable income

Over \$2,300 but not over \$5,350

$\$345.00$  plus 25% of the excess over \$2,300

Over \$5,350 but not over \$8,200

$\$1,107.50$  plus 28% of the excess over \$5,350

Over \$8,200 but not over \$11,150

$\$1,905.50$  plus 33% of the excess over \$8,200

Over \$11,150

$\$2,879.00$  plus 35% of the excess over \$11,150

- **Reduction of itemized deductions.** The allowable amount of itemized deductions will be reduced if adjusted gross income in 2009 is more than:

All returns other than married filing separately

$\$166,800$  (up from \$159,950 in 2008)

*Married filing separately*

*\$83,400 (up from \$79,975 in 2008)*

**Observation:** For 2009, a taxpayer will lose only 1/3 of the amount he would otherwise lose under the regular reduction computation.

- **Interest exclusion for higher education.** The interest on U.S. savings bonds redeemed to pay qualified higher education expenses may be tax-free. The exclusion is phased-out for certain higher income individuals. The phase-out level is adjusted annually for cost-of-living increases. The phase-out for 2009 will begin at modified adjusted gross income above \$69,950 (\$104,900 on a joint return). For 2008, the corresponding figures are \$67,100 and \$100,650.
- **Qualified transportation fringe benefits.** For 2009, an employee will be able to exclude up to \$230 (up from \$220 in 2008) a month for qualified parking expenses, and up to \$120 a month (up from \$115 in 2008) of the combined value of transit passes and transportation in a commuter highway vehicle.
- **Refundable child credit.** For 2009, the child credit is refundable to the extent of the greater of:
  1. 15% of earned income above \$12,550 (up from \$12,050 in 2008), or
  2. For taxpayers with three or more qualifying children, the excess of the taxpayer's social security taxes for the tax year over his earned income credit for the year.
- **Earned income tax credit.** In 2009, the maximum amount of earned income on which the earned income tax credit will be computed is \$5,970 for taxpayers with no qualifying children, \$8,950 for taxpayers with one qualifying child, and \$12,570 for taxpayers with two or more qualifying children. These amounts are up from \$5,720, \$8,580, and \$12,060 in 2008.

In 2009, the phase-out of the allowable earned income tax credit will begin at \$10,590 for joint filers with no qualifying children (\$7,470 for others with no qualifying children), and at \$19,540 for joint filers with one or more qualifying children (\$16,420 for others with one or more qualifying children). These amounts are up from \$10,160, \$7,160, \$18,740 and \$15,740 in 2008.

**Observation:** Taxpayers must use IRS tables to determine the amount of their earned income credit. While these tables are based on the inflation adjusted figures set out above, because the credit under the tables is the same for everyone within a \$50 range, there may be slight differences between the credit under the tables and the credit the taxpayer would determine using those inflation adjusted figures.

The amount of disqualified income (generally investment income) a taxpayer

may have before losing the entire earned income tax credit will increase to \$3,100 in 2009, up from \$2,950 in 2008.

- **Education credits.** For 2009, the Hope and Lifetime Learning credits phase out ratably for taxpayers with modified AGI of \$50,000 to \$60,000 (\$100,000 to \$120,000 for joint filers). For 2008, these figures are \$48,000 to \$58,000 (\$96,000 to \$116,000 for joint filers).

For 2009, the Hope credit will be 100% of up to \$1,200 (same as in 2008) of qualified higher education tuition and related expenses plus 50% of the next \$1,200 (same as in 2008) of such expenses.

- **Expensing.** The amount that may be expensed under Code Sec. 179 in 2009 will be \$133,000 (down from \$250,000 in 2008). For 2009, the expensing limit will be reduced when more than \$530,000 of expensing-eligible property is placed in service (down from \$800,000 in 2008).
- **Adoption credit.** An individual is allowed a credit against income tax (and AMT) for qualified adoption expenses. The total expenses that may be taken as a credit for all tax years with respect to the adoption of a child by the taxpayer will be limited to \$12,150 for 2009 (up from \$11,650 in 2008). For 2009, the credit for the adoption of a special-needs child will be \$12,150 regardless of the extent to which the taxpayer has qualified adoption expenses (up from \$11,650 in 2008).

The credit will begin to phase out at AGI of \$182,180 (up from \$174,730 in 2008). The phaseout will be complete at \$40,000 above the threshold.

- **Adoption exclusion.** Similar inflation adjustments and phaseout rules apply for purposes of the exclusion for employer-provided adoption assistance. The total amount excludable per child (whether or not he has special needs) will be limited to \$12,150 in 2009 (up from \$11,650 in 2008). Note that the exclusion for the adoption of a child with special needs applies regardless of whether the employee has qualified adoption expenses.
- **Student loan interest deduction.** For 2009, the deduction phases out ratably for taxpayers other than joint filers with modified AGI between \$60,000 and \$75,000 (\$120,000 and \$150,000 for joint filers). For 2008, the corresponding figures are \$55,000 and \$70,000 for taxpayers other than joint filers; \$115,000 and \$145,000 for joint filers.
- **MAGI limits for making deductible contributions by active plan participants to traditional IRAs.** In general, an individual who isn't an active participant in certain employer-sponsored retirement plans, and whose spouse isn't an active participant, may make an annual deductible cash contribution to an IRA up to the lesser of: (1) a statutory dollar limit (for 2009, \$5,000, increased to \$6,000 for those age 50 or older), or (2) 100% of the

compensation that's includible in his gross income for that year. If the individual (or his spouse) is an active plan participant, the deduction phases out over a specified dollar range of modified adjusted gross income (MAGI).

For taxpayers filing joint returns, the otherwise allowable deductible contribution will be phased out ratably in 2009 for MAGI between \$89,000 and \$109,000 (up from between \$85,000 and \$105,000 in 2008).

For 2009, for single taxpayers and heads of household, the otherwise allowable deductible contribution will be phased out ratably for MAGI between \$55,000 and \$65,000 (up from between \$53,000 and \$63,000 in 2008). For married taxpayers filing separate returns, the otherwise allowable deductible contribution will continue to be phased out ratably for MAGI between \$0 and \$10,000 (same as for 2008).

For married taxpayers who are not active plan participants but whose spouse is such a participant, the otherwise allowable deductible contribution will be phased out ratably for MAGI between \$166,000 and \$176,000 (up from between \$159,000 and \$169,000 in 2008).

- **MAGI limits for making contributions to Roth IRAs.** Individuals may make nondeductible contributions to a Roth IRA, subject to the overall limit on IRA contributions. The maximum annual contribution that can be made to a Roth IRA is phased out for taxpayers with MAGI over certain levels for the tax year. For taxpayers filing joint returns, the otherwise allowable contributions to a Roth IRA will be phased out ratably in 2009 for MAGI between \$166,000 and \$176,000 (up from between \$159,000 and \$169,000 in 2008). For single taxpayers and heads of household it will be phased out ratably for MAGI between \$105,000 and \$120,000 (up from between \$101,000 and \$116,000 in 2008). For married taxpayers filing separate returns, the otherwise allowable contribution will continue to be phased out ratably for MAGI between \$0 and \$10,000 (same as for 2008).
- **Saver's credit.** For tax years beginning in 2009, an eligible lower-income taxpayer can claim a nonrefundable tax credit for the applicable percentage (50%, 20%, or 10%, depending on filing status and AGI) of up to \$2,000 of his qualified retirement savings contributions, as follows:
  1. Joint filers: \$0 to \$33,000, 50%; \$33,000 to \$36,000, 20%; and \$36,000 to \$55,500, 10% (no credit if AGI is above \$55,500).
  2. Heads of households: \$0 to \$24,750, 50%; \$24,750 to \$27,000, 20%; and \$27,000 to \$41,625, 10% (no credit if AGI is above \$41,625).
  3. All other filers: \$0 to \$16,500, 50%; \$16,500 to \$18,000, 20%; and \$18,000 to \$27,750, 10% (no credit if AGI is above \$27,750).

By way of comparison, for tax years beginning in 2008, an eligible lower-income taxpayer can claim a non-refundable tax credit for the applicable percentage (50%, 20%, or 10%, depending on filing status and AGI) of up to \$2,000 of his qualified retirement savings contributions, as follows:

1. Joint filers: \$0 to \$32,000, 50%; \$32,000 to \$34,500, 20%; and \$34,500 to \$53,000, 10% (no credit if AGI is above \$53,000).
2. Heads of households: \$0 to \$24,000, 50%; \$24,000 to \$25,875, 20%; and \$25,875 to \$39,750, 10% (no credit if AGI is above \$39,750).
3. All other filers: \$0 to \$16,000, 50%; \$16,000 to \$17,250, 20%; and \$17,250 to \$26,500, 10% (no credit if AGI is above \$26,500).

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