

## Money and You: Tax time - know about these changes (and don't forget about these deductions)

by *Carrie\_Schwab\_Pomerantz*

Most of the tax talk so far this year has focused on the American Recovery and Reinvestment Act of 2009 (aka the Stimulus Bill). So it's easy to have overlooked some of the changes that affect your 2008 return due on April 15. This column gives you a quick review of some potential money savers. And while I'm at it, I'll also remind you of a few commonly overlooked deductions and give you a heads-up about some of the tax changes in store for 2009.

â€” The standard deduction went up. If you are like most people and take the standard deduction (instead of itemizing), you'll be happy to learn it went up for 2008, to \$10,900 for those married filing jointly (and up to \$5,450 for single filers). If you're not sure whether you should itemize, just do the calculations both ways; choose whichever method gives you the bigger deduction.

â€” You might be eligible for a tax credit if you're a recent first-time home buyer. If you bought your first home after April 8, 2008 (but by year-end 2008), you could be eligible for the "First-Time Homebuyer Credit" of \$7,500 (or 10 percent of the home purchase price, whichever is smaller). This valuable tax credit applies to your 2008 tax return, but you have to pay the money back as an interest-free loan over a generous 15 years. The credit is subject to income requirements, so check with your tax preparer or the IRS to ensure you're eligible. (Note that this tax credit gets even better for first-time buyers in 2009, which I'll mention at the end of this column.)

â€” You can contribute more to your IRA. Good news for IRA investors: For 2008, your maximum deductible IRA contribution is up 25 percent from 2007, from \$4,000 to \$5,000. If you're 50 or older, you can sock away up to \$6,000. Now I realize it might be difficult to put that money into the stock market in this climate, but the opportunity to invest in your future and get a tax deduction (especially if you don't have a company-sponsored retirement plan) is just too valuable to pass up. If you really have no stomach for investing right now, just park the contribution in cash or a CD until you're ready to step back into the equities markets.

â€” You can fear the AMT less. The Alternative Minimum Tax has been snaring more and more middle-income Americans, but Congress raised the AMT income-exemption figures for 2008 to \$46,200 for single taxpayers and \$69,950 for married couples filing jointly (and these figures will increase for 2009).

â€” Get your share of the recovery rebate credit. Last year, millions of Americans received stimulus checks from the government. If you didn't get one or didn't get the full amount (\$600 for individuals; \$1,200 for married people filing jointly), but your circumstances have changed (say, for example, your income declined or you had an additional child), you may be eligible to receive a stimulus as part of your 2008 return. Check with the IRS or your tax preparer for details.

There are plenty of other changes, too, and the IRS website ([www.irs.gov](http://www.irs.gov)) has posted a web page with all the details.

Uncle Sam should definitely get his fair share when it comes to taxes, but there's no reason to overpay him. So while you're thinking about your 2008 taxes, don't overlook some of these common deductions for people who itemize:

• Non-cash donations: Did you take a pile of clothing or household items to Goodwill, the Salvation Army or some other nonprofit institution? As long as they're in "good used condition or better," you can itemize the value of the donation. Just be sure to get a receipt and assign a reasonable resale value.

• Refinancing costs: If you were able to refinance your mortgage at a lower rate, you can usually deduct any points (amortized over the cost of the loan) from your income taxes.

• Sales tax deduction: Typically, you can deduct state and local income taxes or state and local sales taxes. For most taxpayers, the state income tax deduction will be higher, but if you live in a state with no income tax, the sales tax deduction can be valuable (it was extended for the 2008 tax year by Congress). You can add up the taxes you paid (did you save all those receipts?) or use an estimator.

• Health insurance premiums: If you're self-employed and not eligible for another employer-sponsored plan, your health insurance premiums are 100 percent deductible.

As you finish up your taxes for 2008, it's worth looking out for changes for 2009 already on the book (though others are sure to follow), including the following:

• First-time home buyer tax credit: I mentioned this above, but it's even better for first-time buyers purchasing a home between Jan. 1 and Dec. 1, 2009: The tax credit rises to \$8,000 (or 10 percent of the purchase price, whichever's smaller) and • the really good news • you do not have to repay the credit as long as you stay in your house for 36 months after the purchase date. Again, make sure you qualify, but if you do, this is a great tax break.

• The AMT exemption level rises again, to \$70,950 for married taxpayers filing jointly and \$46,700 for single taxpayers.

• Tax credit for car purchases: The stimulus package includes an above-the-line deduction (a reduction of

adjusted gross income) for state and local taxes paid on the purchase of a new car. Limitations apply, so be sure to check with the IRS for details.

Finally, be aware that nearly every tax law has limitations or provisions that mean it may not apply to you (consult the IRS website or your tax preparer or both before making any major decisions based on their tax consequences). Preparing your taxes is almost never fun, but it's a very pleasant feeling when you find some way to reduce the amount you owe. Good luck.

Carrie Schwab Pomerantz is Chief Strategist, Consumer Education, Charles Schwab & Co., Inc., Member SIPC. You can e-mail Carrie at [askcarrie@schwab.com](mailto:askcarrie@schwab.com).

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