

## **FEDERAL TAX UPDATE**

On December 23, 2008, President Bush signed into law the *Worker, Retiree and Employer Recovery Act of 2008*. This bill provides for the following:

- Suspends the 2009 *required minimum distribution* requirement for taxpayers over age 70 ½ relative to their IRA, 401(k) or 403(b) accounts. The purpose of this provision is to help taxpayers rebuild their retirement accounts that have been decimated by the recent economic events involving the financial industry.
- Relaxes some of the defined benefit plan funding requirements set to take effect from the *Pension Protection Act of 2006* in order to give employers more time to allow the valuation of current plan assets to recover so that the employer contribution is normalized.

On October 3, 2008, President Bush signed into law the *Emergency Economic Stabilization Act of 2008*. This bill provides for the following:

- Reduces the depreciable period from 39 to 15 years for qualified retail interior improvements placed in service in calendar year 2009 for businesses that sell tangible personal property to the general public (“retailers”). The straight line depreciation method is required.
- Reduces the depreciable period from 39 to 15 years for qualified restaurant buildings and improvements placed in service in calendar year 2009. The straight line method is required.
- Permits a taxpayer over age 70 ½ to make a direct transfer from his or her IRA to a 501c 3 charity of up to \$100,000. The taxpayer avoids the tax at ordinary rates that would be otherwise incurred on the required minimum distribution while meeting the RMD requirements.
- Permits non-itemizers to deduct up to \$1,000 of real estate taxes as a standard deduction for calendar years 2008 and 2009.
- Increases the deposit insurance limits from \$100,000 to \$250,000 per account through December 31, 2009.
- Extends the period for relief from taxation of cancellation of indebtedness to December 31, 2012 for mortgage workouts, foreclosures and deed-in-lieu-of-foreclosure sales.
- Enables taxpayers to deduct the greater of sales tax or state income tax rather than just state income tax for calendar years 2008 and 2009. This is particularly beneficial to taxpayers who reside in states that have no income tax such as Florida, Texas and Tennessee.

Other helpful tax rules to know for 2009 include:

- The maximum 401(k) employee deferral for a taxpayer under age 50 is \$16,500.
- The maximum 401(k) employee deferral for a taxpayer over age 49 is \$22,000.
- The maximum family HAS contribution limit is \$5,950.
- The maximum amount of earnings subject to the FICA portion of social security tax is \$106,800.
- The maximum IRA contribution limit for a taxpayer under age 50 is \$5,000.
- The maximum IRA contribution limit for a taxpayer over age 49 is \$6,000.
- The standard mileage rate for the business use of a vehicle is 55¢.
- The estate tax credit shelter amount is \$3,500,000. (as the law stands now, the estate tax will be repealed on 1.1.10 and return on 1.1.11)
- The gift tax credit shelter amount is \$1,000,000.
- The annual gift tax exclusion amount per donee is \$13,000.

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