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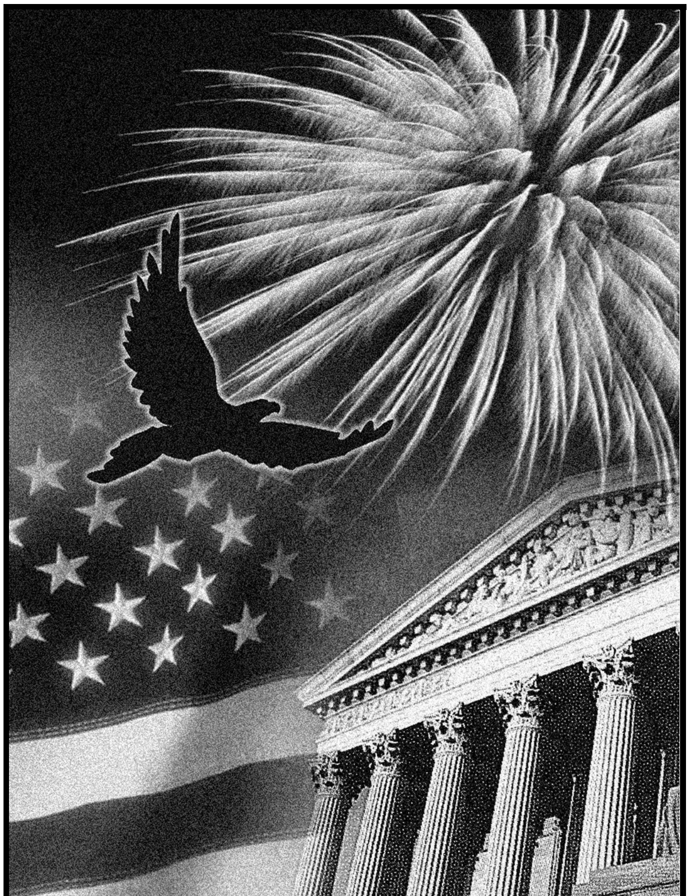
Highlights of 2008 Tax Changes



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Jun 30, 2009

Contents

Introduction

This publication highlights major tax law changes that take effect in 2008, 2009, and later years, except those covered in Publication 4492-A, Information for Taxpayers Affected by the May 4, 2007, Kansas Storms and Tornadoes; and in Publication 4492-B, Information for Affected Taxpayers in the Midwestern Disaster Areas. The chapters are divided into sections based on when the changes take effect.

Tax relief for the Kansas disaster area. Publication 4492-A explains the temporary tax relief provided by the Food, Conservation, and Energy Act of 2008 for taxpayers in Kiowa County, Kansas, and the surrounding areas who were affected by the storms and tornadoes that began on May 4, 2007.

Special tax relief provisions apply for:

- Casualty and theft losses,
- Net operating losses,
- Replacement period for nonrecognition of gain,
- IRAs and other retirement plans,
- Special depreciation allowance,
- Section 179 expense deduction,
- Demolition and clean-up costs, and
- Employee retention credit.

For more information, see Publication 4492-A.

Tax relief for the Midwestern disaster areas. Publication 4492-B explains the major provisions of the Heartland Disaster Tax Relief Act of 2008 that were provided for taxpayers in Midwestern disaster areas. Midwestern disaster areas are those areas for which a major disaster was declared by the President during the period beginning on May 20, 2008, and ending on July 31, 2008, in the states of

Arkansas, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, and Wisconsin, as a result of severe storms, tornadoes, or flooding that occurred on the applicable disaster date.

Some of the special tax relief provisions are:

- Casualty and theft losses,
- Charitable giving incentives,
- Net operating losses,
- Replacement period for nonrecognition of gain,
- IRAs and other retirement plans,
- Education credits,
- Exclusion of certain cancellations of indebtedness,
- Demolition and clean-up costs, and
- Employee retention credit.

For more information, see Publication 4492-B.

CAUTION *The tax information for 2008 and later years is accurate as of June 30, 2009. Subsequent changes to the tax law may occur. For more information, go to www.irs.gov/formspubs.*

Adjusting your withholding or estimated tax payments for 2009. If your tax for 2009 will be more or less than your 2008 tax, you may need to adjust your withholding or estimated tax payments accordingly. If your tax will decrease, you can get the benefit of lower taxes throughout the year. If you will owe more tax, you can avoid a penalty when you file your tax return.

See the following table for forms and publications that will help you adjust your withholding or estimated tax payments. See chapter 7 for information on ordering forms and publications.

To adjust your...	Get Form...	And Publication...
Withholding	**W-4,** Employee's Withholding Allowance Certificate	**919,** How Do I Adjust My Tax Withholding?
Estimated tax payments	**1040-ES,** Estimated Tax for Individuals	**505,** Tax Withholding and Estimated Tax

Photographs of missing children. The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling **1-800-THE-LOST (1-800-843-5678)** if you recognize a child.

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

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Although we cannot respond individually to each email, we do appreciate your feedback and will consider your comments as we revise our tax products.

1. Tax Changes for Individuals

Note. Some of the changes listed in this section apply to both individuals and businesses.

2008 Changes

Recovery Rebate Credit

This credit is figured like last year's economic stimulus payment, except that your 2008 tax information is used to figure this credit. Your 2007 tax information was used to figure your economic stimulus payment. The maximum credit is $600 ($1,200 if married filing jointly) plus $300 for each qualifying child.

You may be able to take this credit only if:

- You did not get an economic stimulus payment, or
- Your economic stimulus payment was less than $600 ($1,200 if married filing jointly for 2007), plus $300 for each qualifying child you had for 2008.

For more information, see the instructions for Form 1040, line 70; Form 1040A, line 42; or Form 1040EZ, line 9.

Federally Declared Disasters

New rules apply to losses of personal use property attributable to federally declared disasters declared in tax years beginning after 2007 and that occurred before 2010. A federally declared disaster is any disaster determined by the President of the United States to warrant assistance by the Federal Government under the Robert T. Stafford Disaster Relief and Emergency Assistance Act. A disaster area is the area determined to warrant such assistance. The new rules discussed here do **not** apply to losses in the Midwestern disaster areas.

The new rules are as follows.

1. The net disaster loss (defined in (3) below) is not subject to the 10% of adjusted gross income (AGI) limit.
2. You can deduct a net disaster loss even if you do not itemize your deductions on Schedule A (Form 1040). You do this by completing Form 4684, Casualties and Thefts, and entering your net disaster loss on line 6 of the *Standard Deduction Worksheet-Line 40* in the Form 1040 Instructions.
3. Your net disaster loss is the excess of—
   a. Your personal casualty losses attributable to a federally declared disaster and occurring in a disaster area, over
   b. Your personal casualty gains.

For more information, see Form 4684.

Special Rules for Individuals Impacted by Hurricanes Katrina, Rita, and Wilma

If you claimed a casualty or theft loss deduction and in a later year you received more reimbursement than you expected, you generally do not recompute the tax for the year in which you claimed the deduction. Instead, you must include the reimbursement in your income for the year in which it was received, but only to the extent the original deduction reduced your tax for the earlier year. ***However,*** an exception applies if you claimed a casualty or theft loss deduction for damage to or destruction of your main home caused by Hurricane Katrina, Rita, or Wilma, and in a later year you received a hurricane relief grant. Under this exception, you can choose to file an amended income tax return (Form 1040X) for the tax year in which you claimed the deduction (and for any tax year to which such deduction was included in a net operating loss carryback or carryforward) and reduce (but not below zero) the amount of the deduction by the amount of the grant. If you choose to file an amended return reducing the prior deduction, any underpayment of tax resulting from the reduced deduction will not be subject to any penalty or interest as long as the additional tax is paid not later than 1 year after the filing of the amended return. If you make this choice, you must file Form 1040X by the later of:

- The due date for filing your tax return for the tax year in which you receive the grant (including extensions), or
- July 30, 2009.

For special filing procedures you must follow and more information, see Publication 547, Casualties, Disasters, and Thefts.

Alternative Minimum Tax (AMT)

The following changes to the AMT went into effect for 2008. For more information, see Form 6251, Alternative Minimum Tax—Individuals, and its instructions.

AMT exemption amount increased. The AMT exemption amount has increased to $46,200 ($69,950 if married filing jointly or qualifying widow(er); $34,975 if married filing separately).

AMT exemption amount for a child. The AMT exemption amount is now limited for certain children under age 24. (Before 2008, the limit applied to children under 18.) The minimum exemption amount for a child has increased to $6,400.

Tax-exempt interest on certain housing bonds exempt from AMT. Tax-exempt interest on the following bonds is not an item of tax preference and therefore is not subject to the AMT if the bonds were issued after July 30, 2008.

- An exempt facility bond for which 95% or more of the net proceeds are to be used to provide qualified residential rental projects.
- A qualified mortgage bond.
- A qualified veterans' mortgage bond.

This treatment also applies to interest on any refunding bond if the bond being refunded (or, in the case of a series of refunded bonds, the original bond) is one of the bonds listed above issued after July 30, 2008.

Special depreciation allowance for qualified disaster assistance property allowed against AMT. No AMT adjustment is required for depreciation of qualified disaster assistance property that is eligible for the special depreciation allowance.

Qualified disaster loss. The 90% limit on the alternative tax net operating loss deduction (ATNOLD) does not apply to the portion of an ATNOLD attributable to qualified disaster losses.

Increase in standard deduction for net disaster loss allowed for AMT. If you claimed the standard deduction for the regular tax and it includes a net disaster loss attributable to a federally declared disaster, that net disaster loss is also allowable as a deduction for the AMT.

Kansas disaster area. The following benefits for the Kansas disaster area apply to the AMT.

- No AMT adjustment is required for depreciation of qualified recovery assistance property that is eligible for the special depreciation allowance.
- The 90% limit on the ATNOLD does not apply to the portion of an ATNOLD attributable to qualified recovery assistance losses.

Midwestern disaster areas. The following benefits for the Midwestern disaster areas apply to the AMT.

- The exemption amount on Form 8914 that is allowable for the regular tax if you provided housing for a person displaced by the Midwestern severe storms, tornadoes, and flooding is also allowable for the AMT.
- The interest on qualified Midwestern disaster area bonds is not a tax preference item. Do not include it on Form 6251, line 12.
- The 90% limit on the ATNOLD does not apply to the portion of an ATNOLD attributable to qualified disaster recovery assistance losses.

Maximum Tax Rate on Qualified Dividends and Net Capital Gain Reduced

For tax years beginning after 2007, the 5% maximum tax rate on qualified dividends and net capital gain (the excess of net long-term capital gain over net short-term capital loss) is reduced to 0%. This reduction applies for both regular tax and AMT. The 15% maximum tax rate on qualified dividends and net capital gain has not changed.

Investment Income of Certain Children

Increase in age of children whose investment income is taxed at parent's rate. The rules regarding the age of a child whose investment income may be taxed at the parent's tax rate have changed for 2008. These rules continue to apply to a child under age 18 at the end of the year but, beginning in 2008, will also apply in certain cases to a child who either:

- Was age 18 at the end of 2008 and did not have earned income that was more than half of the child's support, or
- Was a full-time student over age 18 and under age 24 at the end of 2008 and did not have earned income that was more than half of the child's support.

A student is a child who during any part of 5 calendar months of the year was enrolled as a full-time student at a school, or took a full-time, on-farm training course given by a school or a state, county, or local government agency. A school includes a technical, trade, or mechanical school. It does not include an on-the-job training course, correspondence school, or school offering courses only through the Internet.

Form 8615 is used to figure the child's tax. These rules also apply to parents who elect on Form 8814 to report their child's income on the parents' return.

Increase in investment income amount. The amount of taxable investment income these children can have without it being subject to tax at the parent's rate has increased to $1,800 for 2008.

Standard Mileage Rate

Business-related mileage. For 2008, the standard mileage rate for the cost of operating your car for business use is:

- 50½ cents per mile for the period January 1 through June 30, 2008, and
- 58½ cents per mile for the period July 1 through December 31, 2008.

Car expenses and use of the standard mileage rate are explained in chapter 4 of Publication 463, Travel, Entertainment, Gift, and Car Expenses.

Medical- and move-related mileage. For 2008, the standard mileage rate for the cost of operating your car for medical reasons or as part of a deductible move is:

- 19 cents per mile for the period January 1 through June 30, 2008, and
- 27 cents per mile for the period July 1 through December 31, 2008.

See *Transportation* under *What Medical Expenses Are Includable* in Publication 502, Medical and Dental Expenses, or *Travel by car* under *Deductible Moving Expenses* in Publication 521, Moving Expenses.

Charitable-related mileage. For 2008, the standard mileage rate for the cost of operating your car for charitable purposes remains 14 cents per mile.

Earned Income Credit (EIC) Amounts Increased

The following paragraphs explain the changes to the credit for 2008. For details, see Publication 596, Earned Income Credit (EIC).

Amount of credit increased. The maximum amount of the credit has increased. The most you can get for 2008 is:

- $2,917 if you have one qualifying child,
- $4,824 if you have more than one qualifying child, or
- $438 if you do not have a qualifying child.

Earned income amount increased. The maximum amount of income you can earn and still get the credit has increased for 2008. You may be able to take the credit if:

- You have more than one qualifying child and you earn less than $38,646 ($41,646 if married filing jointly),
- You have one qualifying child and you earn less than $33,995 ($36,995 if married filing jointly), or
- You do not have a qualifying child and you earn less than $12,880 ($15,880 if married filing jointly).

The maximum amount of AGI you can have and still get the credit also has increased. You may be able to take the credit if your AGI is less than the amount in the above list that applies to you.

Investment income amount increased. The maximum amount of investment income you can have and still get the credit has increased to $2,950 for 2008.

Standard Deduction Increased

The standard deduction for people who do not itemize their deductions on Schedule A (Form 1040) is, in most cases, higher for 2008 than it was for 2007. In addition to the annual increase due to inflation adjustments, your 2008 standard deduction is increased by:

- Any state or local real estate taxes you paid that would be deductible on Schedule A if you were itemizing deductions, up to $500 ($1,000 if married filing jointly), and
- Any net disaster loss from a federally declared disaster.

You can figure your 2008 standard deduction by using the 2008 Standard Deduction Worksheet in Publication 501, Exemptions, Standard Deduction, and Filing Information.

Personal Exemption Amount Increased

The amount you can deduct for each exemption has increased to $3,500 for 2008.

You lose part of the benefit of your exemptions if your AGI is above a certain amount. The amount at which the phaseout begins depends on your filing status. For 2008, the phaseout begins at:

- $119,975 for married persons filing separately,
- $159,950 for single individuals,
- $199,950 for heads of households, and
- $239,950 for married persons filing jointly or qualifying widow(er)s.

Beginning in 2008, you can lose no more than 1/3 of the dollar amount of your exemptions. In other words, each exemption cannot be reduced to less than $2,333.

If your AGI is more than the amount shown for your filing status, use the *Deduction for Exemptions Worksheet* in the Form 1040 or Form 1040A instructions to figure the amount you can deduct for exemptions.

Exemption for individual displaced by Midwestern disaster. You may be able to claim a $500 exemption if you provided housing to a person displaced by a Midwestern disaster. For more information, see Publication 4492-B.

Tuition and Fees Deduction

Beginning in 2008, the definition of qualified education expenses for the tuition and fees deduction for students attending an eligible educational institution in the Midwestern disaster areas in the states of Arkansas, Illinois, Indiana, Iowa, Missouri, Nebraska, and Wisconsin is expanded. See Table 3-2 near the end of chapter 3 in Publication 970, Tax Benefits for Education, for a list of counties. For more information about the tuition and fees deduction, see chapter 6 in Publication 970.

Income Limits Increased for Student Loan Interest Deduction

For 2008, the amount of the student loan interest deduction is phased out (gradually reduced) if your filing status is married filing jointly and your modified AGI is between $115,000 and $145,000. You cannot take the deduction if your modified AGI is $145,000 or more.

For all other filing statuses, your student loan interest deduction is phased out if modified AGI is between $55,000 and $70,000. You cannot take a deduction if your modified AGI is $70,000 or more. For more information, see chapter 4 in Publication 970.

First-Time Homebuyer Credit

If you are a first-time homebuyer, you may be able to claim a one-time tax credit equal to the lesser of:

- $7,500 ($8,000 if you purchased your home in 2009), but only half of that amount if married filing separately, or
- 10% of the purchase price of your home.

You may be able to claim the credit if:

- You purchased your main home in the United States after April 8, 2008, and before December 1, 2009, and

- You (and your spouse if married) did not own any other main home during the 3-year period ending on the date of purchase.

If you constructed your main home, you are treated as having purchased it on the date you first occupied it.

Who cannot claim the credit. You cannot claim the credit if any of the following apply.

1. Your modified AGI is $95,000 or more ($170,000 or more if married filing jointly).
2. You are, or were, eligible to claim the District of Columbia first-time homebuyer credit for any taxable year. See Form 8859. This rule does not apply for a home purchased in 2009.
3. Your home financing comes from tax-exempt mortgage revenue bonds. This rule does not apply for a home purchased in 2009.
4. You are a nonresident alien.
5. Your home is located outside the United States.
6. You sell the home, or it ceases to be your main home, before the end of 2008.
7. You acquired your home by gift or inheritance.
8. You acquired your home from a related person. A related person includes:
    a. Your spouse, ancestors (parents, grandparents, etc.), or lineal descendants (children, grandchildren, etc.).
    b. A corporation in which you directly or indirectly own more than 50% in value of the outstanding stock of the corporation.
    c. A partnership in which you directly or indirectly own more than 50% of the capital interest or profits interests.

Repayment of credit. The following information is a brief overview concerning the repayment of the first-time homebuyer credit.

Homes purchased in 2008. You generally must repay the credit over a 15-year period in 15 equal installments. The repayment period begins in 2010 and you must include the first installment as additional tax on your 2010 tax return.

If your home ceases to be your main home before the 15-year period is up, you must include all remaining annual installments as additional tax on the return for the tax year that happens. This includes situations where you sell the home, you convert it to business or rental property, or the home is destroyed, condemned, or disposed of under threat of condemnation.

Homes purchased in 2009. You must repay the credit only if the home ceases to be your main home within the 36-month period beginning on the purchase date. This includes situations where you sell the home, you convert it to business or rental property, or the home is destroyed, condemned, or disposed of under threat of condemnation. You repay the credit by including it as additional tax on the return for the year the home ceases to be your main home. If the home continues to be your main home for at least 36 months beginning on the purchase date, you do not have to repay any of the credit.

More information. For exceptions to the repayment rule, more information about the credit, and how to claim the credit, see Form 5405, First-Time Homebuyer Credit.

Hope and Lifetime Learning Credits

Beginning in 2008, the following changes apply to the Hope and lifetime learning (education) credits. For more information, see chapters 2 and 3 in Publication 970.

Income limits for credit reduction increased. For 2008, the amount of your Hope or lifetime learning credit is phased out (gradually reduced) if your modified AGI is between $48,000 and $58,000 ($96,000 and $116,000 if you file a joint return). You cannot claim an education credit if your modified AGI is $58,000 or more ($116,000 or more if you file a joint return).

Hope credit. Beginning in 2008, the amount of the Hope credit (per eligible student) is the sum of:

1. 100% of the first $1,200 ($2,400 if a student in a Midwestern disaster area) of qualified education expenses you paid for the eligible student, and
2. 50% of the next $1,200 ($2,400 if a student in a Midwestern disaster area) of qualified education expenses you paid for that student.

The maximum amount of Hope credit you can claim in 2008 is $1,800 ($3,600 if a student in a Midwestern disaster area) per student.

Students in Midwestern disaster areas. The following rules apply only to students attending an eligible educational institution in the Midwestern disaster areas in the states of Arkansas, Illinois, Indiana, Iowa, Missouri, Nebraska, and Wisconsin. See Table 3-2 near the end of chapter 3 in Publication 970 for a list of counties.

- **Hope credit increased.** The Hope credit for students in Midwestern disaster areas is 100% of the first $2,400 of qualified education expenses and 50% of the next $2,400 of qualified education expenses for a maximum credit of $3,600 per student. See chapter 2 of Publication 970 for more information.
- **Lifetime learning credit increased.** The lifetime learning credit rate for students in Midwestern disaster areas is 40% of qualified expenses paid, with a maximum credit of $4,000 allowed on your return.

See chapter 3 of Publication 970 for more information.

- **Definition of qualified expenses expanded.** The definition of qualified education expenses for the education credits is expanded for students in Midwestern disaster areas. See chapters 2 and 3 of Publication 970 for more information.

Reduction in Earned Income Needed to Claim Additional Child Tax Credit

For 2008, the amount your earned income must exceed to claim the additional child tax credit is reduced to $8,500.

Residential Energy Credits

Nonbusiness energy property credit expired. You cannot claim the nonbusiness energy property credit for property placed in service in 2008.

Residential energy efficient property credit expanded. You can now include costs for qualified small wind energy property and geothermal heat pump property in figuring the residential energy efficient property credit.

Limits Increased for Itemized Deductions

If your AGI is above a certain amount, you may lose part of your itemized deductions. In 2008, this amount is increased to $159,950 ($79,975 if married filing separately). See the instructions for Schedule A (Form 1040), line 29, for more information on figuring the amount you can deduct.

Deduction for Credit or Debit Card Convenience Fees

If you pay your income tax (including estimated tax payments) by credit or debit card, you can deduct the convenience fee you are charged by the card processor to pay using your credit or debit card. The deduction is claimed for the year in which the fee was charged to your card as a miscellaneous itemized deduction on line 23 of Schedule A (Form 1040) (and is subject to the 2% of AGI floor).

Definition of "Qualified Military Benefit" Expanded

A "qualified military benefit" generally means any excludable allowance or other in-kind benefit (other than personal use of a vehicle) received by a member or former member of the uniformed services of the United States or the dependent of such a member because of the member's status or service as a member of such services. The definition of qualified military benefit has been expanded to include payments by a state or a political subdivision thereof to a member or former member of the uniformed services of the United States or to a dependent of such a member if the payments are made only because of the member's service in a combat zone. See Publication 3, Armed Forces' Tax Guide, for more information about qualified military benefits.

Exclusion on Sale of Main Home

Surviving spouse. For sales after 2007, the maximum exclusion on the sale of a main home by an unmarried surviving spouse is $500,000 if the sale occurs no later than 2 years after the date of the other spouse's death. However, this rule applies only if the requirements for joint filers relating to ownership and use were met immediately before the date of such death, and during the 2-year period ending on the date of such death, there was no sale or exchange of a main home by either spouse which qualified for the exclusion.

Employees and volunteers of the Peace Corps. If you or your spouse is an employee, enrolled volunteer, or volunteer leader of the Peace Corps, you may be able to exclude from income a gain from selling your main home, even if you did not live in it for 2 years during the 5-year period ending on the date of sale. Generally, you can elect to have the 5-year test period for ownership and use suspended for up to 10 years during any period you or your spouse serve outside the United States (on qualified official extended duty if an employee). This provision applies to a sale of a main home in tax years beginning after 2007. Similar benefits already apply to members of the uniformed services or Foreign Service or employees of the intelligence community. For more information, see Publication 523, Selling Your Home.

Discharge of Qualified Principal Residence Indebtedness

The Emergency Economic Stabilization Act of 2008 extended the exclusion from gross income for the discharge of qualified principal residence indebtedness by an additional 3 years. The exclusion now applies to debt discharged after 2006 and before 2013. See Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment), and Publication 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonments (for Individuals), for more information.

Like-Kind Exchanges

Beginning with exchanges completed after May 22, 2008, the exchange of stock in a mutual ditch, reservoir, or irrigation company may qualify for the nonrecognition of gain or loss under section 1031.

The nonrecognition of gain or loss on the exchange may apply if, at the time of the exchange:

1. The company is a section 501(c)(12)(A) organization (determined without regard to the percentage of income collected from members for the purpose of meeting losses and expenses), and
2. The shares of stock in the company have been recognized by the highest court in the state in which the company was organized or by an applicable statute of that state as constituting or representing real property or an interest in real property.

Health Savings Accounts (HSAs)

High deductible health plan (HDHP). For HSA purposes, the minimum annual deductible of an HDHP remains at $1,100 ($2,200 for family coverage) and the maximum annual deductible and other out-of-pocket expenses limit increased to $5,600 ($11,200 for family coverage).

Limit on contributions. The maximum HSA contribution increases to $2,900 ($5,800 for family coverage). The maximum contribution for individuals age 55 or older increased to $900.

Health Flexible Spending Arrangements (FSAs)

A special rule allows amounts in a health FSA to be distributed to reservists ordered or called to active duty. This rule applies to distributions after June 17, 2008, if the plan has been amended to allow these distributions. A qualified reservist distribution is allowed if:

1. The individual was, by reason of being a member of a reserve component, ordered or called to active duty for a period in excess of 179 days or for an indefinite period, and
2. The distribution is made during the period beginning on the date of such order or call and ending on the last date that reimbursements could be made for the plan year which includes the date of such order or call.

For more information, see Publication 969, Health Savings Accounts and Other Tax-Favored Health Plans.

Adoption Benefits Increased

For 2008, the maximum adoption credit has increased to $11,650. Also, the maximum exclusion from income for benefits under your employer's adoption assistance program has increased to $11,650. These amounts are phased out if your modified AGI is between $174,730 and $214,730. You cannot claim the credit or exclusion if your modified AGI is $214,730 or more. See Form 8839, Qualified Adoption Expenses, and its instructions for more information.

Income Limits Increased for Reduction of Education Savings Bond Exclusion

For 2008, the amount of your interest exclusion is phased out (gradually reduced) if your filing status is married filing jointly or qualifying widow(er) and your modified AGI is between $100,650 and $130,650. You cannot take the deduction if your modified AGI is $130,650 or more.

For all other filing statuses, your interest exclusion is phased out if your modified AGI is between $67,100 and $82,100. You cannot take a deduction if your modified AGI is $82,100 or more. For more information, see chapter 9 in Publication 970.

Increase in Deductible Limit for Long-Term Care Premiums

For 2008, the maximum amount of qualified long-term care premiums you can include as medical expenses has increased. You can include qualified long-term care premiums, up to the amounts shown below, as medical expenses on Schedule A (Form 1040).

- Age 40 or under – $310.
- Age 41 to 50 – $580.
- Age 51 to 60 – $1,150.
- Age 61 to 70 – $3,080.
- Age 71 or over – $3,850.

Note. The limit is for each person.

Increase in Limit on Long-Term Care and Accelerated Death Benefits Exclusion

The limit on the exclusion for payments made on a *per diem* or other periodic basis under a long-term care insurance contract increases for 2008 to $270 per day. The limit applies to the total of these payments and any accelerated death benefits made on a *per diem* or other periodic basis under a life insurance contract because the insured is chronically ill.

Under this limit, the excludable amount for any period is figured by subtracting any reimbursement received (through insurance or otherwise) for the cost of qualified long-term care services during the period from the larger of the following amounts.

- The cost of qualified long-term care services during the period.

- The dollar amount for the period ($270 per day for any period in 2008).

See section C of Form 8853, Archer MSAs and Long-Term Care Insurance Contracts, and its instructions for more information.

Archer Medical Savings Accounts (MSAs)

Expiration of Archer MSAs. After 2007, you cannot be treated as an eligible individual for Archer MSA purposes unless:

- You were an active participant for any taxable year ending before 2008, or
- You became an active participant for a tax year ending after 2007 by reason of coverage under a high deductible health plan of an Archer MSA participating employer.

Limits increased. For Archer MSA purposes, the minimum annual deductible of a high deductible health plan increased to $1,950 ($3,850 for family coverage). The maximum annual deductible of a high deductible health plan increased to $2,900 ($5,800 for family coverage). The maximum out-of-pocket expenses limit increased to $3,850 ($7,050 for family coverage).

Credit for Prior Year Minimum Tax

The following changes to the credit for prior year minimum tax went into effect for 2008. For more information, see Form 8801, Credit for Prior Year Minimum Tax—Individuals, Estates, and Trusts, and its instructions.

Decrease in credit for abatement of alternative minimum tax (AMT) related to incentive stock options (ISOs). If you owed AMT for 2007 or any prior year due to the AMT adjustment for the exercise of ISOs (Form 6251, line 13, for 2007), the amount of any such tax that you still owed as of October 3, 2008, has been abated. This means that your debt has been forgiven and you no longer owe this tax. However, you must reduce the amount of your credit for prior year minimum tax.

Increase in credit for interest and penalties related to ISO adjustments. If you paid interest and penalties on AMT for 2007 or any prior year due to the AMT adjustment for the exercise of ISOs, the amount of your prior year minimum tax that is eligible for the credit is increased for the first 2 years beginning after 2007 by 50% of the total of any such interest and penalties you paid before October 3, 2008.

Refundable credit for prior year minimum tax. The calculation of the tentative refundable credit (Form 8801, Part IV) has been revised to reflect changes made by the Tax Extenders and Alternative Minimum Tax Relief Act of 2008.

Foreign Earned Income Tax Worksheet revised. The *Foreign Earned Income Tax Worksheet* on page 2 of the Instructions for Form 8801 has been revised to reflect changes made by the Tax Technical Corrections Act of 2007.

Exclusion of Income for Volunteer Firefighters and Emergency Medical Responders

For tax years beginning after 2007 and before 2011, gross income does not include:

- Rebates or reductions of property or income taxes provided by a state or local government for providing services as a member of a qualified emergency response organization (defined below). Any such rebate or reduction reduces the amount of the income tax deduction for such taxes.
- Qualified payments made by a state or local government for providing services as a member of a qualified emergency response organization. The exclusion is limited to $30 multiplied by the number of months the member performs such services. A charitable deduction for expenses paid by the member in connection with performing such services must be reduced by any payment excluded from income.

A qualified volunteer emergency response organization is any volunteer organization organized and operated to provide firefighting or emergency medical services for persons in a state or local jurisdiction and required by written agreement with that state or local jurisdiction to furnish such services.

Exclusion from wages. You can exclude any qualified state or local tax benefit and any qualified reimbursement payment from the employee's wages. The excluded wages are not subject to federal income tax withholding, social security and Medicare taxes, and federal unemployment tax.

Social Security and Medicare Taxes

The maximum amount of wages subject to the social security tax for 2008 is $102,000. There is no limit on the amount of wages subject to the Medicare tax.

Wage Threshold for Household Employees

The social security and Medicare wage threshold for household employees is $1,600 for 2008. This means that if you pay a household employee cash wages of less than

$1,600 in 2008, you do not have to report and pay social security and Medicare taxes on that employee's 2008 wages. For more information, see *Social security and Medicare wages* in Publication 926, Household Employer's Tax Guide.

Special Limitation Period for Retroactively Excluding Military Retirement Pay

If you retire from the armed services based on years of service and are later given a retroactive service-connected disability rating by the VA, your retirement pay for the retroactive period is excluded from income up to the amount of VA disability benefits you would have been entitled to receive. You can claim a refund of any tax paid on the excludable amount (subject to the statute of limitations) by filing an amended return on Form 1040X for each previous year during the retroactive period.

Generally, under the statute of limitations a claim for credit or refund must be filed within 3 years from the time a return was filed or 2 years from the time the tax was paid, whichever period expires later. However, if you receive a retroactive service-connected disability rating determination, the statute of limitations is extended for 1 year beginning on the date of the determination. The extension applies to claims for credit or refund filed after June 17, 2008, and does not apply to any tax year that began more than 5 years before the date of the determination.

Example. You retired in 2003 and receive a pension based on your years of service. On August 6, 2008, you receive a determination of service-connected disability retroactive to 2003. Generally, you could claim a refund for the taxes paid on your pension for 2005, 2006, and 2007. However, under the special limitation period, you can also file a claim for 2004 as long as you file the claim by August 5, 2009. You cannot file a claim for 2003 because that tax year began on January 1, 2003, which is more than 5 years before date of the determination.

Transition rules. If you received a retroactive service-connected disability rating determination after 2000 and before June 18, 2008, you have until June 17, 2009, to file your claims. You cannot make any claims for tax years that began before 2001.

Income Averaging for Farmers and Fishermen

Exxon Valdez litigation. If you received qualified settlement income made up of interest and punitive damages in connection with the civil action *In re Exxon Valdez*, No. 89-095-CV (HRH) (Consolidated) (D. Alaska), you may treat this settlement payment as income from a fishing business for the purpose of income averaging. You are eligible to make this election only if you are a plaintiff in the civil action or you were a beneficiary of the estate of your spouse or a close relative who was such a plaintiff from whom you acquired the right to receive qualified settlement income. See the Instructions for Schedule J (Form 1040).

New rules for averaging farming and fishing income. The four items discussed below are effective for tax years beginning after July 22, 2008. However, you may apply any of these provisions to tax years beginning after 2003 and before July 23, 2008, if those provisions are consistently applied in each tax year. For more information, see Treasury Decision 9417, 2008-37 I.R.B. 693, available at *www.irs.gov/irb/2008-37_IRB/ar07.html*.

Farming and fishing business. If you operate both a farming and fishing business, you combine the income, gains, deductions, and losses from both businesses to figure the amount of income eligible for income averaging.

Lessors of fishing boats. You are treated as being in a fishing business if you lease a boat and your lease payments are based on a share of the catch (or a share of the proceeds from the sale of the catch) from the lessee's use of the boat, but only if this manner of payment is determined under a written lease agreement entered into before the lessee begins significant fishing activities resulting in the catch.

Crew members on fishing boats. Crew members on a commercial fishing vessel are engaged in the fishing business for purposes of income averaging if their compensation is based on a share of the boat's catch or a share of the proceeds from the sale of the catch. The compensation of such a crew member is treated as income from a fishing business, whether or not he or she is treated as an employee for employment tax purposes.

Merchant Marine Capital Construction Fund (CCF) deposits. If you reduced your taxable income on Form 1040, line 43, or Form 1040NR, line 40, by any amount deposited into a CCF account, take into account the CCF reduction in figuring taxable income for income averaging purposes. Also, the CCF reduction is generally treated as a deduction attributable to your fishing business in figuring elected farm income. However, if any taxable income (without regard to the carryback of any net operating or net capital loss) from the operation of agreement vessels in the fisheries of the United States or in the foreign or domestic commerce of the United States is not attributable to your fishing business, that amount does not reduce elected farm income.

Failure To File Income Tax Return Penalty Increased

If you do not file your return by the due date (including extensions) you may have to pay a failure-to-file penalty. For income tax returns required to be filed after 2008, the failure-to-file penalty for returns filed more than 60 days after the due date (including extensions) is increased. In this situation, the minimum penalty is the smaller of $135 or 100% of the unpaid tax.

2009 Changes

Economic Recovery Payment

Any economic recovery payment you receive during 2009 is not taxable. These $250 payments are being made to most people who:

- Receive social security benefits, supplemental security income (SSI), railroad retirement benefits, or veterans disability compensation or pension benefits, and
- Live in a U.S. state, the District of Columbia, Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa, or the Northern Mariana Islands.

If you are married and you and your spouse both meet these requirements, each of you may get a $250 payment.

If you are entitled to a payment, you will get it automatically. You do not need to apply for it.

Making Work Pay and Government Retiree Credits

Two new credits you may be able to take for 2009 are the:

- Making work pay credit, and
- Government retiree credit.

Making work pay credit. You may be able to take this credit if you have earned income from work. Even if your federal income tax withholding is reduced during 2009 because of the credit, you must claim the credit on your return to benefit from it.

You cannot take the credit if:

- Your modified AGI is $95,000 ($190,000 if married filing jointly) or more,
- You are a nonresident alien, or
- You can be claimed as a dependent on someone else's return.

The credit is 6.2% of your earned income but cannot be more than $400 ($800 if married filing jointly). The credit will be reduced if:

- You receive a $250 economic recovery payment (described earlier) during 2009,
- Your modified AGI is more than $75,000 ($150,000 if married filing jointly), or
- You take the government retiree credit discussed next.

Government retiree credit. You can take this credit if you receive a pension or annuity payment in 2009 for service performed for the U.S. Government or any U.S. state or local government (or any instrumentality of one or more of these) and the service was not covered by social security. The credit is $250 ($500 if married filing jointly and both you and your spouse receive a qualifying pension or annuity). However, you cannot take the credit if you receive a $250 economic recovery payment during 2009. If you file a joint return, both you and your spouse receive a qualifying pension or annuity, and both of you receive an economic recovery payment, no government retiree credit is allowed; if only one of you receives an economic recovery payment, the credit is $250.

Social security number. To take either credit, you must include your social security number (if filing a joint return, the number of either you or your spouse) on your return. A social security number does not include an identification number issued by the IRS.

Schedule M. Generally, you will use new Schedule M (Form 1040A or 1040) to figure both the making work pay credit and the government retiree credit. Both credits are refundable, which means they are treated like payments you made and may give you a refund even if you had no tax withheld from your pay or your pension. If you are filing Form 1040EZ, you can take the making work pay credit on that form and do not have to file Schedule M.

More information. If you want to figure now the amount you can expect from these credits, see Worksheet 2-9 in Publication 505.

Hope Credit Expanded

For tax years 2009 and 2010, the following changes have been made to the Hope credit. The modified credit is also referred to as the American opportunity tax credit.

- The maximum amount of the Hope credit increases to $2,500 per student. The credit is phased out (gradually reduced) if your modified AGI is between $80,000 and $90,000 ($160,000 and $180,000 if you file a joint return). ***Exception.*** For 2009, if you claim a Hope credit for a student who attended a school in a Midwestern disaster area, you can choose to figure the amount of the credit using the previous rules. However, you must use the previous rules in figuring the credit for all students for which you claim the credit.
- The Hope credit can now be claimed for the first four years of post-secondary education. Previously the credit could be claimed for only the first two years of post-secondary education.
- Generally, 40% of the Hope credit is now a refundable credit, which means that you can receive up to $1,000 even if you owe no taxes. However, none of the credit is refundable if the taxpayer claiming the

credit is a child (a) who is under age 18 (or a student who is at least age 18 and under age 24 and whose earned income does not exceed one-half of his or her own support), (b) who has at least one living parent, and (c) who does not file a joint return.

- The term “qualified tuition and related expenses” has been expanded to include expenditures for “course materials.” For this purpose, the term “course materials” means books, supplies, and equipment needed for a course of study whether or not the materials are purchased from the educational institution as a condition of enrollment or attendance.

For more information, see chapter 2 of Publication 970.

Unemployment Compensation

For any tax year beginning in 2009, each recipient of unemployment compensation can exclude from gross income up to $2,400 of the amount he or she received during the year.

Alternative Minimum Tax (AMT)

The following changes to the AMT went into effect for 2009.

AMT exemption amount increased. The AMT exemption amount has increased to $46,700 ($70,950 if married filing jointly or qualifying widow(er); $35,475 if married filing separately).

AMT exemption amount for a child increased. The AMT exemption amount for a child whose unearned income is taxed at the parent’s tax rate has increased to $6,700.

Qualified motor vehicle tax allowed against AMT. If you claim the standard deduction for the regular tax and it includes any state or local sales or excise tax on the purchase of a qualified motor vehicle, that tax is also allowed as a deduction for the AMT.

Tax-exempt interest on specified private activity bonds issued in 2009 or 2010 exempt from AMT. Tax-exempt interest on specified private activity bonds issued in 2009 or 2010 is not an item of tax preference and therefore is not subject to the AMT. A refunding bond is treated as issued on the date of the issuance of the refunded bond (or, in the case of a series of refundings, the original bond). However, tax-exempt interest on a specified private activity bond issued in 2009 or 2010 to currently refund a private activity bond issued after 2003 and before 2009 is not an item of tax preference.

Qualified Transportation Fringe Benefits

Beginning January 1, 2009, the monthly exclusion for commuter highway vehicle transportation and transit passes increased to $120 and the monthly exclusion for qualified parking increased to $230. Beginning March 1, 2009, the monthly exclusion for commuter highway vehicle transportation and transit passes increased to $230.

Beginning January 1, 2009, you may be reimbursed for reasonable expenses of qualified bicycle commuting. Reasonable expenses include the purchase of a bicycle and bicycle improvements, repair, and storage. The exclusion for a calendar year is $20 multiplied by the number of qualified bicycle commuting months during that year. A qualified bicycle commuting month is any month you use the bicycle regularly for a substantial portion of the travel between your residence and place of employment and you do not receive any of the other qualified transportation fringe benefits. You are not entitled to this exclusion if the reimbursement for bicycle commuting is made under a compensation reduction agreement.

Definition of Qualifying Child Revised

For 2009, the following changes have been made to the definition of a qualifying child.

- To be your qualifying child, the child must be younger than you.
- A child cannot be your qualifying child if he or she files a joint return, unless the return was filed only as a claim for refund.
- If the parents of a child can claim the child as a qualifying child but no parent so claims the child, no one else can claim the child as a qualifying child unless that person’s AGI is higher than the highest AGI of any parent of the child.
- Your child is a qualifying child for purposes of the child tax credit only if you can and do claim an exemption for him or her.

Increase in Investment Income Amount of Certain Children

The amount of taxable investment income a child can have without it being subject to tax at the parent’s rate has increased to $1,900 for 2009.

Standard Mileage Rate

Business-related mileage. For 2009, the standard mileage rate for the cost of operating your car for business use is 55 cents per mile.

Car expenses and use of the standard mileage rate are explained in chapter 4 of Publication 463.

Medical- and move-related mileage. For 2009, the standard mileage rate for the cost of operating your car for medical reasons or as part of a deductible move is 24 cents per mile. See *Transportation* under *What Medical Expenses Are Includable* in Publication 502 or *Travel by car* under *Deductible Moving Expenses* in Publication 521.

Charitable-related mileage. For 2009, the standard mileage rate for the cost of operating your car for charitable purposes remains 14 cents per mile.

Earned Income Credit (EIC) Amounts Increased

The following paragraphs explain the changes to the credit for 2009.

Amount of credit increased. The maximum amount of the credit has increased. The most you can get for 2009 is:

- $3,043 if you have one qualifying child,
- $5,028 if you have two qualifying children,
- $5,657 if you have three or more qualifying children, or
- $457 if you do not have a qualifying child.

Earned income amount increased. The maximum amount of income you can earn and still get the credit has increased for 2009. You may be able to take the credit if:

- You have three or more qualifying children and you earn less than $43,279 ($48,279 if married filing jointly),
- You have two qualifying children and you earn less than $40,295 ($45,295 if married filing jointly),
- You have one qualifying child and you earn less than $35,463 ($40,463 if married filing jointly), or
- You do not have a qualifying child and you earn less than $13,440 ($18,440 if married filing jointly).

The maximum amount of AGI you can have and still get the credit also has increased. You may be able to take the credit if your AGI is less than the amount in the above list that applies to you.

Investment income amount increased. The maximum amount of investment income you can have and still get the credit has increased to $3,100 for 2009.

Advance payment of the credit. If you get advance payments of the credit from your employer with your pay, the total advance payments you get during 2009 can be as much as $1,826.

Standard Deduction Increased

The standard deduction for people who do not itemize their deductions on Schedule A (Form 1040) is, in most cases, higher for 2009 than it was for 2008. In addition to the annual increase due to inflation adjustments and the increase allowed for the deduction for certain real estate taxes and a net disaster loss, your 2009 standard deduction is increased by any state or local sales tax imposed on the purchase of a qualified motor vehicle in 2009 after February 16. For details, see *Deduction for Sales and Excise Taxes Imposed on Purchase of New Motor Vehicles*, next. To figure your 2009 standard deduction now, see Worksheet 2-3 in Publication 505.

Deduction for Sales and Excise Taxes Imposed on Purchase of New Motor Vehicles

In 2009, you can deduct the state or local sales and excise taxes imposed on the purchase of a qualified motor vehicle after February 16, 2009, and before 2010. A qualified motor vehicle includes a passenger automobile, light truck, or motorcycle, the original use of which begins with that purchaser and that has a gross vehicle weight rating of 8,500 pounds or less. A qualified motor vehicle also includes a motor home, the original use of which begins with that purchaser. The amount of tax you are able to deduct is limited to the tax that is imposed on the first $49,500 of the purchase price of the vehicle. The deduction is phased out over a $10,000 range that begins when modified AGI is more than $125,000 ($250,000 if married filing a joint return). No deduction is allowed when modified AGI is equal to or more than $135,000 ($260,000 if married filing a joint return). The new deduction can be used to increase the amount of your standard deduction or you can take it as an itemized deduction (if you are not electing to take the state and local general sales tax deduction).

Increase in Personal Casualty and Theft Loss Limit

Generally, a personal casualty or theft loss must exceed $500 to be allowed for 2009. This is in addition to the 10% of AGI limit that generally applies to the net loss.

Personal Exemption Amount Increased

The amount you can deduct for each exemption has increased to $3,650 for 2009.

You lose part of the benefit of your exemptions if your AGI is above a certain amount. The amount at which the phaseout begins depends on your filing status. For 2009, the phaseout begins at:

- $125,100 for married persons filing separately,

- $166,800 for single individuals,
- $208,500 for heads of households, and
- $250,200 for married persons filing jointly or qualifying widow(er)s.

For 2009, each exemption cannot be reduced to less than $2,433.

See Publication 505 for more information on figuring the amount you can deduct.

New Rules for Children of Divorced or Separated Parents

Revocation of release of claim to an exemption. For tax years beginning after July 2, 2008 (the 2009 calendar year for most taxpayers), new rules apply to allow the custodial parent to revoke a release of claim to exemption that was previously released to the noncustodial parent on Form 8332, Release/Revocation of Release of Claim to Exemption for Child by Custodial Parent, or similar form. The revocation is effective no earlier than the tax year beginning in the calendar year following the calendar year in which the custodial parent provides, or makes reasonable efforts to provide, the noncustodial parent with written notice of the revocation. Therefore, if the custodial parent provides notice of revocation to the noncustodial parent in 2009, the earliest tax year the revocation can be effective is the tax year beginning in 2010. You can use Part III of Form 8332 for this purpose. You must attach a copy of the revocation to your return for each tax year you claim the child as a dependent as a result of the revocation.

Post-1984 decree or agreement. If the divorce decree or separation agreement went into effect after 1984 and before 2009, the noncustodial parent can still attach certain pages from the decree or agreement instead of Form 8332. For any decree or agreement executed after 2008, Form 8332 or similar form must be used.

Income Limits Increased for Student Loan Interest Deduction

For 2009, the amount of the student loan interest deduction is phased out (gradually reduced) if your filing status is married filing jointly and your modified AGI is between $120,000 and $150,000. You cannot take the deduction if your modified AGI is $150,000 or more.

For all other filing statuses, your student loan interest deduction is phased out if your modified AGI is between $60,000 and $75,000. You cannot take a deduction if your modified AGI is $75,000 or more. For more information, see chapter 4 in Publication 970.

Income Limits for Lifetime Learning Credit Increased

For 2009, the amount of your lifetime learning credit is phased out (gradually reduced) if your modified AGI is between $50,000 and $60,000 ($100,000 and $120,000 if you file a joint return). You cannot claim a lifetime learning credit if your modified AGI is $60,000 or more ($120,000 or more if you file a joint return). For more information, see chapter 3 in Publication 970.

Expanded Definition of Qualified Expenses for Qualified Tuition Programs

The definition of qualified higher education expenses for tax-free distributions from a qualified tuition program is expanded to include amounts paid in 2009 or 2010 for the purchase of computer software, any computer or related peripheral equipment, fiber optic cable related to computer use, and Internet access (including related services) that are to be used by the beneficiary and the beneficiary's family during any of the years the beneficiary is enrolled at an eligible educational institution.

For more information, including restrictions on qualifying software, see chapter 8 of Publication 970.

Reduction in Earned Income Needed to Claim Additional Child Tax Credit

For 2009, the amount your earned income must exceed to claim the additional child tax credit is reduced to $3,000.

Residential Energy Credits

Nonbusiness energy property credit. This credit, which expired after 2007, has been reinstated. You may be able to claim a nonbusiness energy property credit of 30% of the cost of certain energy-efficient property or improvements you placed in service in 2009. This property can include high-efficiency heat pumps, air conditioners, and water heaters. It also may include energy-efficient windows, doors, insulation materials, and certain roofs. The credit has been expanded to include certain asphalt roofs and stoves that burn biomass fuel.

Limitation. The total amount of credit you can claim in 2009 and 2010 is limited to $1,500.

Residential energy efficient property credit. Beginning in 2009, there is no limitation on the credit amount for qualified solar electric property costs, qualified solar water heating property costs, qualified small wind energy property costs, and qualified geothermal heat pump property costs. The limitation on the credit amount for qualified fuel cell property costs remains the same.

Limits Increased for Itemized Deductions

If your AGI is above a certain amount, you may lose part of your itemized deductions. In 2009, this amount is increased to $166,800 ($83,400 if married filing separately).

See Publication 505 for more information on figuring the amount you can deduct.

Sale of Main Home

Gain from the sale or exchange of the main home is no longer excludable from income if allocable to periods of nonqualified use.

Generally, nonqualified use means any period after 2008 where neither you nor your spouse (or your former spouse) used the property as a main home (with certain exceptions).

A period of nonqualified use does not include:

1. Any portion of the 5-year period ending on the date of the sale or exchange that is after the last date you (or your spouse) use the property as a main home;
2. Any period (not to exceed an aggregate period of 10 years) during which you or your spouse is serving on qualified official extended duty:
   a. As a member of the uniformed services,
   b. As a member of the Foreign Service of the United States, or
   c. As an employee of the intelligence community; and
3. Any other period of temporary absence (not to exceed an aggregate period of 2 years) due to change of employment, health conditions, or such other unforeseen circumstances as may be specified by the IRS.

To figure the portion of the gain that is allocated to the period of nonqualified use, multiply the gain by the following fraction:

$$\frac{\text{Total nonqualified use during period of ownership after 2008}}{\text{Total period of ownership}}$$

Health Savings Accounts (HSAs)

High Deductible Health Plan (HDHP). For HSA purposes, the minimum annual deductible of an HDHP increases to $1,150 ($2,300 for family coverage) and the maximum annual deductible and other out-of-pocket expenses limit increases to $5,800 ($11,600 for family coverage).

Limit on contributions. The maximum HSA contribution increases to $3,000 ($5,950 for family coverage). The maximum contribution for individuals age 55 or older increases to $1,000.

Adoption Benefits Increased

For 2009, the maximum adoption credit has increased to $12,150. Also, the maximum exclusion from income for benefits under your employer's adoption assistance program has increased to $12,150. These amounts are phased out if your modified AGI is between $182,180 and $222,180. You cannot claim the credit or exclusion if your modified AGI is $222,180 or more.

Income Limits Increased for Reduction of Education Savings Bond Exclusion

For 2009, the amount of your interest exclusion is phased out (gradually reduced) if your filing status is married filing jointly or qualifying widow(er) and your modified AGI is between $104,900 and $134,900. You cannot take the exclusion if your modified AGI is $134,900 or more.

For all other filing statuses, your interest exclusion is phased out if your modified AGI is between $69,950 and $84,950. You cannot take the exclusion if your modified AGI is $84,950 or more. For more information, see chapter 10 in Publication 970.

Increase in Deductible Limit for Long-Term Care Premiums

For 2009, the maximum amount of qualified long-term care premiums you can include as medical expenses has increased. You can include qualified long-term care premiums, up to the amounts shown below, as medical expenses on Schedule A (Form 1040).

- Age 40 or under – $320.
- Age 41 to 50 – $600.
- Age 51 to 60 – $1,190.
- Age 61 to 70 – $3,180.
- Age 71 or over – $3,980.

Note. The limit is for each person.

Increase in Limit on Long-Term Care and Accelerated Death Benefits Exclusion

The limit on the exclusion for payments made on a *per diem* or other periodic basis under a long-term care insurance contract increases for 2009 to $280 per day. The limit applies to the total of these payments and any accelerated death benefits made on a *per diem* or other periodic basis under a life insurance contract because the insured is chronically ill.

Under this limit, the excludable amount for any period is figured by subtracting any reimbursement received (through insurance or otherwise) for the cost of qualified long-term care services during the period from the larger of the following amounts.

- The cost of qualified long-term care services during the period.
- The dollar amount for the period ($280 per day for any period in 2009).

See section C of Form 8853 and its instructions for more information.

Archer Medical Savings Accounts (MSAs) Limits Increased

For Archer MSA purposes for 2009, the minimum annual deductible of a high deductible health plan increases to $2,000 ($4,000 for family coverage). The maximum annual deductible of a high deductible health plan increases to $3,000 ($6,050 for family coverage). The maximum out-of-pocket expenses limit increases to $4,000 ($7,350 for family coverage).

Decreased Estimated Tax Payments for Qualified Individuals With Small Businesses

For 2009, qualified individuals with small businesses may be eligible to make smaller estimated tax payments. If you qualify, your required annual payment for 2009 is the smaller of 90% of the tax shown on your 2008 tax return or 90% of the tax shown on your 2009 tax return. You must check box F in Part II on Form 2210 or box C on Form 2210-F to certify that you qualify.

You are a qualified individual if:

- More than 50% of your gross income was from a business that had an average of fewer than 500 employees in 2008, and
- Your AGI in 2008 was less than $500,000 ($250,000 if you are filing married filing separately for 2009).

Social Security and Medicare Taxes

The maximum amount of wages subject to the social security tax for 2009 is $106,800. There is no limit on the amount of wages subject to the Medicare tax.

Wage Threshold for Household Employees

The social security and Medicare wage threshold for household employees is $1,700 for 2009. This means that if you pay a household employee cash wages of less than $1,700 in 2009, you do not have to report and pay social security and Medicare taxes on that employee's 2009 wages. For more information, see *Social security and Medicare wages* in Publication 926.

Health Coverage Tax Credit

Increase in the amount of the health coverage tax credit (HCTC). For coverage months beginning after April 2009 and before 2011, the credit increases to 80%.

Payment for monthly premiums paid prior to commencement of advance payments. For coverage months beginning after 2008 and before 2011, newly-enrolled monthly participants will be able to receive a retroactive credit on their HCTC account for qualified health insurance payments they paid while enrolling in the monthly HCTC program.

Note. Although these payments will not begin until August 2009, the credits will apply to any coverage month beginning after 2008.

TAA recipients not enrolled in training programs eligible for credit. For coverage months beginning after February 2009 and before 2011, training and waiver requirements have changed for TAA recipients, making it easier for them to be eligible for the HCTC. Certain individuals who are receiving unemployment compensation (whether or not they meet TAA training requirements) and certain individuals who have a break from training, are now eligible for the HCTC.

Other changes. Effective as of February 17, 2009, qualified health insurance is expanded to include coverage under an employee benefit plan funded by a voluntary employees' beneficiary association.

Individuals receiving COBRA premium assistance are not eligible for the credit for any month that assistance is provided.

2.

Tax Changes for Businesses

2008 Changes

Depreciation and Section 179 Deduction

Increased section 179 limits. The maximum section 179 deduction you can elect for qualified section 179 property you placed in service in tax years that begin in 2008 has increased to $250,000 ($285,000 for qualified enterprise zone property and qualified renewal community property). This limit is reduced by the amount by which the cost of section 179 property placed in service in the tax year exceeds $800,000. For qualified section 179 Gulf Opportunity (GO) Zone property, qualified section 179 recovery assistance property, and qualified section 179 disaster assistance property, the maximum deduction is higher than the deduction for most other section 179 property. See chapter 2 of Publication 946, How to Depreciate Property.

Depreciation limits on business vehicles. The total depreciation deduction (including the section 179 deduction) you can take for a passenger automobile (that is not a truck or a van) you use in your business and first placed in service in 2008 is $2,960 ($10,960 for automobiles for which the special depreciation allowances applies). The maximum deduction you can take for a truck or a van you use in your business and first placed in service in 2008 is $3,160 ($11,160 for trucks or vans for which the special depreciation allowance applies). See chapter 5 of Publication 946.

CAUTION *These limits are reduced if the business use of the vehicle is less than 100%.*

Special depreciation allowance for qualified property. You may be able to take an additional first year special depreciation allowance for qualified recovery assistance property, certain qualified property acquired after 2007, qualified reuse and recycling property, qualified cellulosic biofuel plant property, and qualified disaster assistance property placed in service during the tax year. The allowance is an additional deduction of 50% of the property's depreciable basis (after any section 179 expense deduction and before figuring your regular depreciation deduction). For more information, see chapter 3 of Publication 946.

Qualified recovery assistance property. A special depreciation allowance is available for qualified recovery assistance property you acquired after May 4, 2007, and placed in service in the Kansas disaster area.

Certain qualified property acquired after 2007. A special depreciation allowance is available for certain qualified property acquired after 2007 and placed in service before 2010 (before 2011 for certain property with a long production period and certain aircraft).

Qualified reuse and recycling property. A special depreciation allowance is available for qualified reuse and recycling property acquired after August 31, 2008.

Qualified cellulosic biofuel plant property. A special depreciation allowance is available for qualified cellulosic biofuel plant property placed in service after October 3, 2008, and before 2013.

Qualified disaster assistance property. A special depreciation allowance is available for qualified disaster assistance property placed in service in federally declared disaster areas in which the disaster occurred after 2007.

Disqualified Corporate Interest Expense Disallowed Under Section 163(j) and Related Information

For tax years beginning after 2007, corporations will use Form 8926, Disqualified Corporate Interest Expense Disallowed Under Section 163(j) and Related Information, to figure the amount of any corporate interest expense deduction disallowed by section 163(j). A corporation's interest expense may be disallowed if it paid or accrued disqualified interest during the tax year.

Disqualified interest is:

- Interest paid or accrued (directly or indirectly) to a related person not subject to U.S. income tax on the interest,
- Interest paid or accrued on indebtedness held by an unrelated person if there is a disqualified guarantee of the indebtedness and the interest is not subject to a U.S. gross basis income tax (a tax figured on the gross amount of an item of income without reduction for any allowed deduction), or
- Interest paid or accrued (directly or indirectly) to a taxable real estate investment trust (as defined in section 856(l)) by a subsidiary of the trust.

Also, any disqualified interest disallowed as a deduction by section 163(j) in a tax year is carried forward and treated as disqualified interest paid or accrued in the next tax year.

However, if at least one of the following statements is true, disqualified interest paid or accrued in the current tax year will not be disallowed by section 163(j).

- The corporation's debt to equity ratio at the end of the tax year does not exceed 1.5 to 1.
- The corporation does not have any excess interest expense for the tax year.

For more information, see the Instructions for Form 8926.

Business Start-up and Organizational Costs

A separate election statement is no longer required to elect to deduct up to $5,000 of business start-up and organizational costs paid or incurred after September 8, 2008. This amount is reduced (but not below zero) by the amount by which your costs exceed $50,000. Any costs not deducted must be amortized ratably over a 180-month period.

You can also apply the same treatment to business start-up costs and organizational costs paid or incurred after October 22, 2004, and before September 9, 2008, provided the period of limitations on assessment of tax has not expired for the year of the election. For more information, see chapter 8 of Publication 535, Business Expenses.

Meal Expenses When Subject to "Hours of Service" Limits

In general, you can deduct only 50% of your business-related meal expenses. However, for 2008 and later years, you can deduct 80% of meal expenses while traveling away from your tax home for business purposes if the meals take place during or incident to any period subject to the Department of Transportation's "hours of service" limits. Business meal expenses are covered in chapter 1 of Publication 463. Reimbursements for employee meal expenses are covered in chapter 11 of Publication 535.

Self-Employment Tax

Maximum amount subject to tax. The maximum amount of net earnings subject to the social security part of the self-employment tax for tax years beginning in 2008 is $102,000. All net earnings of at least $400 are subject to the Medicare part of the tax.

Conservation Reserve Program (CRP) payments. CRP payments you receive after 2007 are excluded from net earnings from self-employment when figuring your self-employment tax if you are receiving social security benefits for retirement or disability. Qualifying individuals will deduct CRP payments on line 1b of the 2008 Schedule SE (Form 1040).

Optional methods to figure net earnings. For tax years beginning in 2008, the dollar thresholds for using the optional methods to figure net earnings from self-employment have increased. You may use the farm optional method to figure your net earnings from farm self-employment if your gross farm income was $6,300 or less or your net farm profits were less than $4,548. The nonfarm optional method may be used to figure your net earnings from nonfarm self-employment if your net nonfarm profits were less than $4,548 and also less than 72.189% of your gross nonfarm income.

In 2008, the maximum social security coverage under the optional methods has increased to four credits, the equivalent of $4,200 of net earnings from self-employment. In future years, the thresholds will be indexed to maintain that level of coverage.

Election to Accelerate Certain Credits in Lieu of the Special Depreciation Allowance

Generally, corporations and a certain automotive partnership can elect to accelerate pre-2006 unused research credits or minimum tax credits in lieu of claiming the special depreciation allowance for certain eligible qualified property acquired after March 31, 2008, and placed in service before January 1, 2010 (before January 1, 2011, for long production period property and noncommercial aircraft). For more information, see chapter 3 of Publication 946. Also, see Form 3800, General Business Credit; Form 8827, Credit for Prior Year Minimum Tax—Corporations; and related instructions.

Alcohol and Cellulosic Biofuel Fuels Credit

For credits claimed on returns filed after May 14, 2008, you cannot claim the alcohol and cellulosic biofuel fuels credit for alcohol produced outside the United States for use as a fuel outside the United States. For this purpose, the term "United States" includes any U.S. possession.

For more information, see Form 6478, Alcohol and Cellulosic Biofuel Fuels Credit.

Biodiesel and Renewable Diesel Fuels Credit

The following changes apply to the biodiesel and renewable diesel fuels credit.

- For credits claimed on returns filed after May 14, 2008, biodiesel and renewable diesel do not include fuel produced outside the United States for use as a fuel outside the Untied States. For this purpose, the term "United States" includes any U.S. possession.
- For fuel produced, and sold or used, after October 3, 2008, renewable diesel does not include any fuel

derived from co-processing biomass with feedstock that is not biomass.

For more information, see Form 8864, Biodiesel and Renewable Diesel Fuels Credit.

Low-Income Housing Credit

The low-income housing credit attributable to buildings placed in service after 2007 is allowed against both the regular tax and the AMT. For more information about this credit, see Form 8586, Low-Income Housing Credit.

Agricultural Chemicals Security Credit

The Food, Conservation, and Energy Act of 2008 added the agricultural chemicals security credit as part of the general business credit. Use Form 8931, Agricultural Chemicals Security Credit, to claim the credit for qualified agricultural chemicals security costs. Only qualified agricultural chemicals security costs paid or incurred after May 22, 2008, and before 2013 can be used to figure the credit. The credit is only available to eligible agricultural businesses. The credit is 30% of the qualified agricultural chemicals security costs paid or incurred during the tax year.

Facility limit. The amount of the credit for any facility for a tax year cannot be more than $100,000 minus the total of the credits figured for the facility for the 5 prior tax years.

Annual limit. The amount of the credit figured for any tax year cannot be more than $2 million.

Eligible agricultural business. An eligible agricultural business is any person in either of the following trades or businesses.

- Selling agricultural products, including specified agricultural chemicals, at retail to farmers and ranchers.
- Manufacturing, formulating, distributing, or aerially applying specified agricultural chemicals.

Specified agricultural chemical. A specified agricultural chemical is either of the following.

1. Fertilizer commonly used in agricultural operations that is listed under any of the following.
   a. Section 302(a)(2) of the Emergency Planning and Community Right-to-Know Act of 1986.
   b. Section 101 of part 172 of title 49, Code of Federal Regulations.
   c. Part 126, 127, or 154 of title 33, Code of Federal Regulations.
2. Any pesticide (as defined in section 2(u) of the Federal Insecticide, Fungicide, and Rodenticide Act), including all active and inert ingredients, that is customarily used on crops grown for food, feed, or fiber.

Qualified agricultural chemicals security costs. Qualified agricultural chemicals security costs are any of the following costs paid or incurred by an eligible agricultural business during the tax year to protect specified agricultural chemicals.

- Employee security training and background checks.
- Limitation and prevention of access to controls of specified agricultural chemicals stored at the facility.
- Tagging, locking tank valves, and chemical additives to prevent theft of specified agricultural chemicals or to make the chemicals unfit for illegal use.
- Perimeter protection of specified agricultural chemicals.
- Installation of security lighting, cameras, recording equipment, and intrusion detection sensors.
- Implementation of measures to increase computer or computer network security.
- Conducting a security vulnerability assessment.
- Implementing a site security plan.
- Other measures for protection of specified agricultural chemicals to be identified in future regulations.

For more information, see section 45O.

Carbon Dioxide Sequestration Credit

Carbon dioxide captured after October 3, 2008, from an industrial source may be eligible for a credit. A credit of $20 per metric ton is allowed for qualified carbon dioxide that is captured at a qualified facility and disposed of in secure geological storage or $10 per metric ton to qualified carbon dioxide that is captured at a qualified facility and used as a tertiary injectant in a qualified enhanced oil or natural gas recovery project. Only carbon dioxide captured and disposed of or used within the United States or a U.S. possession is taken into account when figuring the credit. For more information, see Form 8933, Carbon Dioxide Sequestration Credit.

Social Security and Medicare Taxes

The maximum amount of wages subject to the social security tax for 2008 is $102,000. There is no limit on the amount of wages subject to the Medicare tax.

Maximum Automobile Value for Using the Cents-Per-Mile Valuation Rule

For 2008, an employer providing a passenger automobile for the first time for the personal use by an employee may determine the value of the personal use by using the vehicle cents-per-mile value rule if the vehicle's fair market value on the date it is first made available to the employee does not exceed $15,000 for a passenger automobile other than a truck or van, or $15,900 for a truck or van. For more information, see *Cents-Per-Mile Rule* on page 20 of the 2008 Publication 15-B, Employer's Tax Guide to Fringe Benefits.

Fringe Benefit Parking Exclusion and Commuter Transportation Benefit

You can generally exclude a limited amount of the value of qualified parking and commuter highway vehicle transportation and transit passes you provide to an employee from the employee's wages. For 2008, the monthly exclusion for qualified parking increases to $220 and the monthly exclusion for commuter highway vehicle transportation and transit passes increases to $115. See *Qualified Transportation Benefits* on page 17 of the 2008 Publication 15-B.

Health Savings Accounts (HSAs)

Eligibility. For 2008, a qualifying high deductible health plan (HDHP) must have a deductible of at least $1,100 for self-only coverage or $2,200 for family coverage and must limit annual out-of-pocket expenses of the beneficiary to $5,600 for self-only coverage and $11,200 for family coverage.

Employer contributions. Up to specified dollar limits, cash contributions to the health savings account (HSA) of a qualified individual (determined monthly) are exempt from federal income tax withholding, social security tax, Medicare tax, and FUTA tax. For 2008, you can contribute up to the following amounts to a qualified individual's HSA.

- $2,900 for self-only coverage or $5,800 for family coverage.
- $3,800 for self-only coverage or $6,700 for family coverage for a qualified individual who is age 55 or older at any time during the year. The $6,700 limit is increased by $900 for two married individuals who are age 55 or older at any time during the year provided each spouse has a separate HSA.

Employers are allowed to make larger HSA contributions for a nonhighly compensated employee than for a highly compensated employee.

For more information, see *Health Savings Accounts* on page 12 of the 2008 Publication 15-B.

Nonqualified Deferred Compensation Plans

Generally, all amounts deferred under a nonqualified deferred compensation plan for the tax year and all preceding tax years are included in your employees' wages in the current year, unless the plan meets certain requirements. These requirements were stated in Notice 2005-1. However, portions of that notice were obsoleted and replaced by final regulations that were effective for tax years beginning after 2007. For more information, see Treasury Decision 9321, 2007-19 I.R.B. 1123, available at *www.irs.gov/irb/2007-19_IRB/ar02.html*.

Capital Gain Tax Rate Reduction for Corporations With Qualified Timber Gain

For tax years ending after May 22, 2008, and beginning before May 23, 2009, if a corporation has both a net capital gain and a qualified timber gain, a maximum 15% capital gains tax rate may apply for part of the tax year. The reduced tax rate applies for both regular tax and alternative minimum tax purposes. See the Instructions for Schedule D (Form 1120) and the Instructions for Form 4626, Part II, for details.

5-Year Carryback of 2008 Net Operating Losses (NOLs) for Eligible Small Businesses (ESBs)

For 2008, you can choose a 3, 4, or 5-year carryback period for the part of your 2008 NOL that is an ESB loss. An ESB is a small business as defined in section 172(b)(1)(F)(iii), except that an ESB's 3-year average annual gross receipts can be up to $15 million (instead of $5 million). An ESB loss is the smaller of:

1. The amount that would be the 2008 NOL if only income, gains, losses, and deductions attributable to ESBs were taken into account, or
2. The 2008 NOL.

For more information, see the Instructions for Form 1139 (corporations) or the Instructions for Form 1045 (individuals, estates, and trusts).

Depletion

The temporary suspension of the taxable income limitation on percentage depletion from the marginal production of oil and natural gas is not available for tax years beginning after 2007 and before 2009. It is, however, available for tax years beginning after 2008 and before 2010.

Penalty for Late Filing of a Partnership Return

For partnership returns for tax years beginning in 2008 that are required to be filed after 2008, the late filing penalty is increased to $90 for each month or part of a month (up to 12 months) the return is late (or does not contain the required information) multiplied by the total number of persons who were partners in the partnership during any part of the partnership's tax year. No penalty will be imposed if the partnership shows that the late filing was due to reasonable cause.

Penalty for Late Filing of an S Corporation Return

If no tax is due, the late filing penalty for returns required to be filed after 2008 increased to $89 for each month or part of a month (up to 12 months) the return is late or does not include the required information, multiplied by the total number of persons who were shareholders in the corporation during any part of the corporation's tax year. The penalty change discussed in the preceding sentence also applies if tax is due. In addition, the minimum additional late filing penalty for returns required to be filed after 2008 that are more than 60 days late increased to $135 or the balance of the tax due on the return, whichever is smaller. For more information, see the Instructions for Form 1120S.

2009 Changes

COBRA Premium Assistance Credit

The American Recovery and Reinvestment Act of 2009 allows a credit against certain employment taxes for providing COBRA premium assistance to assistance eligible individuals. An assistance eligible individual is any qualified beneficiary if at any time during the period beginning on September 1, 2008, and ending on December 31, 2009, the beneficiary is eligible for COBRA continuation coverage, the beneficiary elects coverage, and the qualifying event that allows the beneficiary to get coverage is the involuntary termination of the covered employee's employment during this period. For periods of COBRA continuation coverage beginning after February 16, 2009, a group health plan must treat an assistance eligible individual as having paid the required COBRA continuation coverage premium if the individual elects COBRA continuation coverage and pays 35% of the amount of the premium.

The 65% of the amount of the premium not paid by the assistance eligible individual is reimbursed to the employer or other entity maintaining the group health plan. The maximum period for which the reimbursement can be provided for any beneficiary is 9 months. The reimbursement is made through a credit against employment tax liabilities. The credit is taken on line 12a of Form 941, line 11a of Form 944, or line 13a of Form 943 once the 35% of the premium is paid by or on behalf of the assistance eligible individual. The credit is treated as a deposit made on the first day of the return period (quarter or year).

Anyone claiming the credit for COBRA assistance payments must maintain the appropriate information to support their claim.

For more information, see Publication 15 (Circular E), Employer's Tax Guide.

New Forms to Adjust Employment Tax Returns

Adjusted employer's quarterly federal tax return or claim for refund. Beginning with errors discovered after 2008, employers must use Form 941-X, Adjusted Employer's QUARTERLY Federal Tax Return or Claim for Refund, to adjust errors discovered on previously filed Forms 941 and 941-SS. Form 941c, which was previously used to adjust errors on Forms 941 and 941-SS and was attached to a currently-filed Form 941 or Form 941-SS, can no longer be used. You are required to file Form 941-X separately from Form 941 or Form 941-SS.

Adjusted employer's annual federal tax return for agricultural employees or claim for refund. Beginning with errors discovered after 2008, employers must use Form 943-X, Adjusted Employer's Annual Federal Tax Return for Agricultural Employees or Claim for Refund, to adjust errors discovered on previously filed Form 943. Form 941c, which was previously used to adjust errors on Form 943 and was attached to a currently-filed Form 943, can no longer be used. You are required to file Form 943-X separately from Form 943.

Adjusted employer's annual federal tax return or claim for refund. Beginning with errors discovered after 2008, employers must use Form 944-X, Adjusted Employer's ANNUAL Federal Tax Return or Claim for Refund, to adjust errors discovered on previously filed Forms 944 and 944-SS. Form 941c, which was previously used to adjust errors on Forms 944 and 944-SS and was attached to a currently-filed Form 944 or Form 944-SS, can no longer be used. You are required to file Form 944-X separately from Form 944 or Form 944-SS.

Adjusted annual return of withheld federal income tax or claim for refund. Beginning with errors discovered after 2008, employers must use Form 945-X, Adjusted Annual Return of Withheld Federal Income Tax or Claim for Refund, to adjust errors discovered on previously filed Form 945. Form 941c, which was previously used to adjust errors on Form 945 and was attached to a currently-filed Form 945, can no longer be used. You are required to file Form 945-X separately from Form 945.

Changes to Investment Credit

Generally, the energy credit from the following properties was scheduled to expire after 2008 but has been extended through 2016.

- Qualified fuel cell property.
- Qualified microturbine property.
- Solar energy property.

For tax years beginning after October 3, 2008, the energy credit can offset the alternative minimum tax.

For periods after February 17, 2009, the investment credit includes the qualifying advanced energy project credit.

For periods after 2008, the $4,000 limit on the energy credit for qualified small wind energy is repealed.

You may elect to treat qualified property placed in service as part of a qualified investment credit facility after 2008 as energy property for purposes of the energy credit instead of taking the renewable electricity production credit.

For more information on the investment credit, see the Instructions for Form 3468, Investment Credit.

Depreciation Limits for Trucks or Vans

The maximum deduction you can take for a truck or van you use in your business and first placed in service in 2009 is $3,060 ($11,060 for trucks or vans for which the special depreciation allowance applies).

CAUTION *These limits are reduced if the business use of the vehicle is less than 100%.*

Self-Employment Tax

Maximum amount subject to tax. The maximum amount of net earnings subject to the social security part of the self-employment tax for tax years beginning in 2009 is $106,800. All net earnings of at least $400 are subject to the Medicare part of the tax.

Optional methods to figure net earnings. For tax years beginning in 2009, the dollar thresholds for using the optional methods to figure net earnings from self-employment have increased. You may use the farm optional method to figure your net earnings from farm self-employment if your gross farm income was $6,540 or less or your net farm profits were less than $4,721. The nonfarm optional method may be used to figure your net earnings from nonfarm self-employment if your net nonfarm profits were less than $4,721 and also less than 72.189% of your gross nonfarm income.

In 2009, the maximum social security coverage under the optional methods is four credits, the equivalent of $4,360 of net earnings from self-employment.

Alcohol and Cellulosic Biofuel Fuels Credit

The following changes apply to the alcohol and cellulosic biofuel fuels credit.

- For ethanol sold or used after 2008, the credit rate is lowered.
- For fuel produced, and sold or used, after 2008, the credit is expanded to include the cellulosic biofuel producer credit.
- For fuel sold or used after 2008, the percentage of denaturants included in the volume of alcohol used to figure the credit is lowered.

For more information, see Form 6478.

Biodiesel and Renewable Diesel Fuels Credit

The following changes apply to the biodiesel and renewable diesel fuels credit.

1. For fuel produced after 2008, biodiesel and renewable diesel do not include any liquid eligible for the alcohol and cellulosic biofuel fuels credit.
2. For fuel produced, and sold or used, after 2008:
   a. The credit rate for the biodiesel and biodiesel mixture credits increased to $1.00 per gallon.
   b. Camelina is added to the list of virgin oils from which agri-biodiesel is derived.
   c. The definition of renewable diesel changed.
3. Biodiesel produced, sold, or used after September 30, 2009, must meet the new ASTM D6751 cold soak filtration test. The original April 1, 2009, deadline was extended by Notice 2009-34. You can find Notice 2009-34, 2009-17 I.R.B. 876, available at *www.irs.gov/irb/2009-17_IRB/ar07.html*.

For more information, see Form 8864.

Credit for Employer Differential Wage Payments

Eligible small business employers may be able to claim a credit for differential wage payments made to qualified employees after 2008 and before 2010. The credit is 20% of the first $20,000 of qualified differential wage payments made to each qualified employee. For more information, see Form 8932, Credit for Employer Differential Wage Payments.

Carbon Dioxide Sequestration Credit

A credit of $20 per metric ton is allowed for qualified carbon dioxide that is captured at a qualified facility and disposed of in secure geological storage and, if captured after February 17, 2009, not used as a tertiary injectant in a qualified enhanced oil or natural gas recovery project.

A credit of $10 per metric ton to qualified carbon dioxide that is captured at a qualified facility and used as a tertiary injectant in a qualified enhanced oil or natural gas recovery project and, if captured after February 17, 2009, disposed of in secure geological storage. For more information, see Form 8933.

Vehicle Credits

Alternative motor vehicle credit. For tax years beginning after 2008, the personal use part of the alternative motor vehicle credit is allowed against the AMT.

New plug-in conversion credit. A new plug-in conversion credit of 10% of the cost of converting any motor vehicle (new or used) to a qualified plug-in electric drive motor vehicle. The maximum credit is $4,000 per vehicle. This credit is claimed on Form 8910, Alternative Motor Vehicle Credit, and applies to property placed in service after February 17, 2009.

New plug-in electric vehicle credit. A new credit of 10% of the cost of a new plug-in electric vehicle can be claimed on Form 8834. The maximum credit is $2,500 per vehicle.

A qualified plug-in electric vehicle must meet the following requirements.

1. The original use of the vehicle began with you;
2. Was purchased for your use and not for resale;
3. Is made by a manufacturer;
4. Is manufactured primarily for use on public streets, roads, and highways;
5. Has a gross vehicle weight rating of less than 14,000; and
6. Is propelled to a significant extent by an electric motor which draws electricity from a battery which:
   a. Has a capacity of not less than 4 kilowatt hours (2.5 kilowatt hours in the case of a vehicle with 2 or 3 wheels), and
   b. Is capable of being recharged from an external source of electricity.

Generally, no credit is allowed if the vehicle is used predominantly outside the United States.

This credit applies to vehicles acquired after February 17, 2009.

New plug-in electric drive motor vehicle credit. A new plug-in electric drive motor vehicle credit can be claimed on new Form 8936, Qualified Plug-in Electric Drive Motor Vehicle Credit. You may be able to claim this credit if you place in service a plug-in electric drive motor vehicle for business or personal use in tax years beginning after 2008. The amount of the credit varies depending on the battery capacity and weight limitations and ranges from $2,500 to $15,000.

A new qualified plug-in electric drive motor vehicle is a motor vehicle that:

1. The original use of the vehicle starts with you,
2. Is purchased for your use or lease and not for resale,
3. Is made by a manufacturer,
4. Is treated as a motor vehicle for purposes of title II of the Clean Air Act,
5. Has a gross vehicle weight rating of less than 14,000 pounds, and
6. Is propelled to a significant extent by an electric motor which draws electricity from a battery which:
   a. Has a capacity of not less that 4 kilowatt hours, and
   b. Is capable of being recharged from an external source of electricity.

Generally, no credit is allowed if the vehicle is used predominately outside the United States.

For more information, see section 30D and Notice 2009-54. You can find Notice 2009-54, 2009-26 I.R.B. 1124, available at *www.irs.gov/irb/2009-26_IRB/ar07.html*.

Increase in alternative fuel vehicle refueling property credit. For vehicles placed in service after 2008 and before 2011, the alternative fuel vehicle refueling property credit (claimed on Form 8911) is increased. For property that relates to hydrogen, the maximum credit per location is increased to $200,000. For all other property, the credit percentage is increased to 50% and the maximum credit per location is increased to $50,000 ($2,000 for nondepreciable property).

Work Opportunity Credit

Two new targeted groups have been added to the work opportunity credit.

- Unemployed veterans.
- Disconnected youth.

Generally, an unemployed veteran is one who has been discharged or released from active duty in the Armed

Forces at any time during the 5-year period ending on the hiring date and who receives unemployment compensation for not less than 4 weeks during the 1-year period ending on the hiring date.

A disconnected youth is one who is certified as:

- Being at least age 16 but not age 25 or older on the hiring date;
- Not attending any high school, technical school, or post-secondary school during the 6-month period ending on the hiring date;
- Not being regularly employed during that 6-month period; and
- Not being readily employable due to a lack of having a sufficient number of basic skills.

This applies to employees who begin work after 2008 and before 2011.

Use the Form 5884, Work Opportunity Credit, to claim the credit.

Social Security and Medicare Taxes

The maximum amount of wages subject to the social security tax for 2009 is $106,800. There is no limit on the amount of wages subject to the Medicare tax.

Maximum Automobile Value for Using the Cents-Per-Mile Valuation Rule

For 2009, an employer providing a passenger automobile for the personal use of an employee may determine the value of the personal use by using the vehicle cents-per-mile value rule if the vehicle's fair market value on the date it is first made available to the employee does not exceed $15,000 for a passenger automobile other than a truck or van, or $15,200 for a truck or van. For more information, see *Cents-Per-Mile Rule* on page 23 of the 2009 Publication 15-B.

Qualified Transportation Fringe Benefits

After 2008, qualified transportation fringe benefits include any qualified bicycle commuting reimbursement.

Qualified bicycle commuting reimbursement. For any calendar year, the exclusion for qualified bicycle commuting reimbursement includes any employer reimbursement during the 15-month period beginning with the first day of the calendar year for reasonable expenses incurred by the employee during the calendar year.

Reasonable expenses include the purchase of a bicycle and bicycle improvements, repair, and storage. These are considered reasonable expenses as long as the bicycle is regularly used for travel between the employee's residence and place of employment.

Exclusion from wages. Generally, the value of transportation benefits that you provide to an employee during 2009 are excluded from the employee's wages up to the following limits.

1. For combined commuter highway vehicle transportation and transit passes:
   a. $120 per month for the months of January and February 2009, and
   b. $230 per month for any month beginning after February 2009.
2. $230 per month for qualified parking.
3. For a calendar year, $20 multiplied by the number of qualified bicycle commuting months during that year for qualified bicycle commuting reimbursement.

Qualified bicycle commuting month. For any employee, a qualified bicycle commuting month is any month the employee regularly uses the bicycle for a substantial portion of the travel between the employee's residence and place of employment and does not receive transportation in a commuter highway vehicle, any transit pass, or qualified parking benefits.

Generally, qualified transportation fringe benefits are excluded from an employee's wages even if you provide them under a compensation reduction agreement. However, qualified bicycle commuting reimbursements do not qualify for this exclusion if made under a compensation reduction agreement. For more information, see *Qualified Transportation Benefits* on page 19 of the 2009 Publication 15-B.

Health Savings Accounts (HSAs)

Eligibility. For 2009, a qualifying high deductible health plan (HDHP) must have a deductible of at least $1,150 for self-only coverage or $2,300 for family coverage and must limit annual out-of-pocket expenses of the beneficiary to $5,800 for self-only coverage and $11,600 for family coverage.

Employer contributions. Up to specified dollar limits, cash contributions to the HSA of a qualified individual (determined monthly) are exempt from federal income tax withholding, social security tax, Medicare tax, and FUTA tax. For 2009, you can contribute up to the following amounts to a qualified individual's HSA.

- $3,000 for self-only coverage or $5,950 for family coverage.
- $4,000 for self-only coverage or $6,950 for family coverage for a qualified individual who is age 55 or older at any time during the year. The $6,950 limit is increased by $1,000 for two married individuals who are age 55 or older at any time during the year provided and each spouse has a separate HSA.

Employers are allowed to make larger HSA contributions for a nonhighly compensated employee than for a highly compensated employee.

For more information, see *Health Savings Accounts* on page 13 of the 2009 Publication 15-B.

Build America Bonds

A build America bond is a bond issued after February 17, 2009, and before 2011 that qualifies as a tax-exempt bond that is not a private activity bond, and for which an election is made by the issuer.

A tax credit of 35% of interest payable on build America bonds is available to the bondholder, unless the issuer elects to receive a direct payment in lieu of the credit to the bondholder. The amount of credit is taxable as interest income to the bondholder. The unused credit is not refundable, but can be carried forward to succeeding tax years. Use Form 8912, Credit to Holders of Tax Credit Bonds, to claim the credit.

Cancellation of Debt

Certain businesses can make an irrevocable election to delay recognition income from the cancellation of business debt arising from the reacquisition of certain types of business debt repurchased in 2009 or 2010. If you make this election, you cannot exclude, for the taxable year of the election or any subsequent taxable year, the income from the cancellation of such indebtedness based on a title 11 bankruptcy case, insolvency, qualified farm indebtedness, or qualified real property business indebtedness.

Income is deferred until the 5th year after the reacquisition (4th year for reacquisitions in 2010), then the income is included ratably over the following 5 years.

The debtor must include an election statement with the tax return in the year the debt is reacquired. The statement must clearly identify the debt instrument and the amount of income deferred.

If elected, certain exclusions for cancellation of debt income would not apply to the income from the discharge of such debt for the year of the election or any later year.

For more details, including how to make the election, see section 108(i).

S Corporation Built-in Gains Tax

For tax years beginning in 2009 or 2010, no tax is imposed on the net recognized built-in gain of an S corporation after the 7th tax year in the recognition period. For more information, see section 1374.

Partial Exclusion Increased for Gain From Certain Small Business Stock

Exclusion of gain from the sale of qualifying small business stock is increased to 75% for stock acquired after February 17, 2009, and before 2011.

For more information, see section 1202(a)(3).

3. IRAs and Other Retirement Plans

2008 Changes

Traditional IRA Contribution and Deduction Limit

The contribution limit to your traditional IRA for 2008 will be increased to the smaller of the following amounts:

- $5,000, or
- Your taxable compensation for the year.

If you were age 50 or older before 2009, the most that can be contributed to your traditional IRA for 2008 will be the smaller of the following amounts:

- $6,000, or
- Your taxable compensation for the year.

Modified AGI Limit for Traditional IRA Contributions Increased

For 2008, if you are covered by a retirement plan at work, your deduction for contributions to a traditional IRA is reduced (phased out) if your modified AGI is:

- More than $85,000 but less than $105,000 for a married couple filing a joint return or a qualifying widow(er),
- More than $53,000 but less than $63,000 for a single individual or head of household, or
- Less than $10,000 for a married individual filing a separate return.

If you either live with your spouse or file a joint return, and your spouse is covered by a retirement plan at work, but you are not, your deduction is phased out if your AGI is more than $159,000 but less than $169,000. If your AGI is $169,000 or more, you cannot take a deduction for contributions to a traditional IRA.

Modified AGI Limit for Retirement Savings Contributions Credit Increased

For 2008, you may be able to claim the retirement savings contributions credit if your modified AGI is not more than:

- $53,000 if your filing status is married filing jointly,
- $39,750 if your filing status is head of household, or
- $26,500 if your filing status is single, married filing separately, or qualifying widow(er).

Roth Contribution Limit

If contributions on your behalf are made only to Roth IRAs, your contribution limit for 2008 will generally be the lesser of:

- $5,000, or
- Your taxable compensation for the year.

If you were age 50 or older before 2009 and contributions on your behalf were made only to Roth IRAs, your contribution limit for 2008 will generally be the lesser of:

- $6,000, or
- Your taxable compensation for the year.

However, if your modified AGI is above a certain amount, your contribution limit may be reduced.

Modified AGI Limit for Roth IRA Contributions Increased

For 2008, your Roth IRA contribution limit is reduced (phased out) in the following situations.

- Your filing status is married filing jointly or qualifying widow(er) and your modified AGI is at least $159,000. You cannot make a Roth IRA contribution if your modified AGI is $169,000 or more.
- Your filing status is single, head of household, or married filing separately and you did not live with your spouse at any time in 2008 and your modified AGI is at least $101,000. You cannot make a Roth IRA contribution if your modified AGI is $116,000 or more.
- Your filing status is married filing separately, you lived with your spouse at any time during the year, and your modified AGI is more than -0-. You cannot make a Roth IRA contribution if your modified AGI is $10,000 or more.

Qualified Plans

The following changes apply to qualified plans. For more information, see Publication 560, Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans).

Limits on contributions and benefits. For 2008, the maximum annual benefit for a participant under a defined benefit plan has increased to the smaller of:

- $185,000, or
- 100% of the participant's average compensation for his or her highest 3 consecutive calendar years.

For 2008, a defined contribution plan's maximum annual contributions and other additions (excluding earnings) to the account of a participant has increased to the smaller of:

- $46,000, or
- 100% of the compensation actually paid to the participant.

Compensation limit. For 2008, the maximum compensation used for figuring contributions and benefits has increased to $230,000.

Simplified Employee Pensions (SEPs)

The following changes apply to SEPs. For more information, see Publication 560.

Deduction limit increased. The maximum deduction for contributions to a SEP remains unchanged at 25% of the compensation paid or accrued during the year to your eligible employees participating in the plan. However, for 2008, the maximum combined deduction for a participant's elective deferrals and other SEP contributions has increased to $46,000.

Contribution limit increased. For 2008, the annual limit on the amount of employer contributions to a SEP has increased to the smaller of:

- $46,000, or
- 25% of an eligible employee's compensation.

Compensation limit. For 2008, the maximum amount of an employee's compensation you can consider when figuring SEP contributions (including elective deferrals) and the deduction for contributions has increased to $230,000.

403(b) Plans

For 2008, the limit on annual additions has increased to $46,000. For more information, see Publication 571, Tax-Sheltered Annuity Plans (403(b) Plans).

Rollover of Exxon Valdez Settlement Income

If you are a qualified taxpayer and you received qualified settlement income in connection with the Exxon Valdez litigation, you can contribute all or part of the amount received to an eligible retirement plan. This includes a traditional IRA, a Roth IRA, and a qualified retirement plan. The amount contributed cannot exceed $100,000 (reduced by the amount of qualified settlement income contributed to an eligible retirement plan in prior tax years) or the amount of qualified settlement income received during the tax year. Contributions for the year can be made until the due date for filing your return, not including extensions.

For more information on contributing qualified settlement income to a traditional or Roth IRA, see chapters 1 and 2 of Publication 590, Individual Retirement Arrangements (IRAs). For qualified retirement plans, see Publication 575, Pension and Annuity Income.

Rollover of Airline Payments

If you are a qualified airline employee, you may contribute, to a Roth IRA, any portion of an airline payment you receive from a commercial airline carrier involved in certain bankruptcy proceedings. The contribution must be made within 180 days from the date you received the payment, or before June 23, 2009, whichever is later. The contribution will be treated as a qualified rollover contribution and the modified AGI limits that generally apply to Roth IRA rollovers do not apply to airline payments.

For more information and for definitions of qualified airline employees and airline payments, see *Rollover of Airline Payments* in chapter 2 of Publication 590. Also, see Form 8935, Airline Payments Report. This form will be sent to you within 90 days following an airline payment, or by March 23, 2009, whichever is later. The form will indicate the amount of the airline payment that is eligible to be rolled over to a Roth IRA.

Rollovers From Other Retirement Plans to Roth IRAs

Prior to 2008, you could only rollover (convert) amounts from either a traditional, SEP, or SIMPLE IRA into a Roth IRA. After 2007, you can rollover amounts from the following plans into a Roth IRA.

- A qualified pension, profit-sharing or stock bonus plan (including a 401(k) plan);
- An annuity plan;
- A tax-sheltered annuity plan (section 403(b) plan);
- A deferred compensation plan of a state or local government (section 457 plan); or
- An IRA.

Any amount rolled over is subject to the same rules for converting a traditional IRA into a Roth IRA. See *Converting From Any Traditional IRA Into a Roth IRA* in chapter 1 of Publication 590. Also, the rollover contribution must meet the rollover requirements that apply to the specific type of retirement plan.

Military Death Gratuities and Servicemembers' Group Life Insurance (SGLI) Payments

If you received a military death gratuity or SGLI payment, you may contribute all or part of the amount received to your Roth IRA or to a Coverdell education savings account (ESA). The contribution is treated as a rollover, except that this type of rollover does not count when figuring the annual limit on the number of rollovers allowed.

The amount you can contribute to a Roth IRA or Coverdell ESA under this provision cannot exceed the total amount of such payments that you received because of the death of a person reduced by any part of the amount so received that you have already contributed to a Roth IRA or Coverdell ESA.

Generally, the rollover must be completed before the end of the 1-year period beginning on the date that you received the payment. However, if you received the military death gratuity because of a death due to an injury occurring after October 6, 2001, and before June 17, 2008, you have until June 17, 2009, to make the contribution to your Roth IRA or Coverdell ESA.

The amount contributed is treated as part of your basis (cost) in the Roth IRA or Coverdell ESA.

Qualified Reservist Distributions

Eligibility to receive qualified reservist distributions has been extended to individuals ordered or called to active duty after 2007. The additional 10% tax on early distributions does not apply to these distributions. In addition, a qualified reservist distribution can be contributed to an IRA within the 2-year period following the active duty period. The dollar limits otherwise applicable to IRA contributions do not apply to any such contribution. For more information on qualified reservist distributions and qualified reservist repayments, see Publication 590.

Tax-Free Withdrawal of Economic Stimulus Payments

You may choose to withdraw an economic stimulus payment that was directly deposited to your traditional or Roth IRA in 2008. If you choose to withdraw any or all of the payment, that portion of the payment is treated as neither contributed nor distributed from your IRA. The amount withdrawn is not included in your income and is not subject to additional tax or penalty. The withdrawal must be made by the due date for filing your 2008 tax return, including extensions. For most people, that would be April 15, 2009.

For more information on reporting these withdrawals, see the instructions for your tax return. Also see chapters 1 and 2 of Publication 590.

2009 Changes

Temporary Waiver of Required Minimum Distributions (RMDs) for 2009

For 2009, you are not required to take an RMD from your IRA or most defined contribution retirement plans. This waiver applies to plan participants as well as to beneficiaries. The waiver also applies to you if you turn 70½ in 2009 and delay your 2009 RMD until April 1, 2010. The waiver does not apply to RMDs for 2008, even if you turned 70½ in 2008 and choose to take the 2008 RMD by April 1, 2009.

For more information on the waiver of RMDs from IRAs, see Publication 590. For more information on the waiver of RMDs from employer-provided qualified retirement plans, see Publication 575.

Modified AGI Limit for Traditional IRA Contributions Increased

For 2009, if you are covered by a retirement plan at work, your deduction for contributions to a traditional IRA is reduced (phased out) if your modified AGI is:

- More than $89,000 but less than $109,000 for a married couple filing a joint return or a qualifying widow(er),
- More than $55,000 but less than $65,000 for a single individual or head of household, or
- Less than $10,000 for a married individual filing a separate return.

If you either live with your spouse or file a joint return, and your spouse is covered by a retirement plan at work, but you are not, your deduction is phased out if your modified AGI is more than $166,000 but less than $176,000. If your modified AGI is $176,000 or more, you cannot take a deduction for contributions to a traditional IRA.

Modified AGI Limit for Retirement Savings Contributions Credit Increased

For 2009, you may be able to claim the retirement savings contributions credit if your modified AGI is not more than:

- $55,500 if your filing status is married filing jointly,
- $41,625 if your filing status is head of household, or
- $27,750 if your filing status is single, married filing separately, or qualifying widow(er).

Modified AGI Limit for Roth IRA Contributions Increased

For 2009, your Roth IRA contribution limit is reduced (phased out) in the following situations.

- Your filing status is married filing jointly or qualifying widow(er) and your modified AGI is at least $166,000. You cannot make a Roth IRA contribution if your modified AGI is $176,000 or more.
- Your filing status is single, head of household, or married filing separately and you did not live with your spouse at any time in 2009 and your modified AGI is at least $105,000. You cannot make a Roth IRA contribution if your modified AGI is $120,000 or more.
- Your filing status is married filing separately, you lived with your spouse at any time during the year, and your modified AGI is more than -0-. You cannot make a Roth IRA contribution if your modified AGI is $10,000 or more.

Qualified Plans

The following changes apply to qualified plans. For more information, see Publication 560.

Limits on contributions and benefits. For 2009, the maximum annual benefit for a participant under a defined benefit plan has increased to the smaller of:

- $195,000, or
- 100% of the participant's average compensation for his or her highest 3 consecutive calendar years.

For 2009, a defined contribution plan's maximum annual contributions and other additions (excluding earnings) to the account of a participant has increased to the smaller of:

- $49,000, or
- 100% of the compensation actually paid to the participant.

Compensation limit. For 2009, the maximum compensation used for figuring contributions and benefits has increased to $245,000.

Simplified Employee Pensions (SEPs)

The following changes apply to SEPs. For more information, see Publication 560.

Deduction limit increased. The maximum deduction for contributions to a SEP remains unchanged at 25% of the compensation paid or accrued during the year to your eligible employees participating in the plan. However, for 2009, the maximum combined deduction for a participant's elective deferrals and other SEP contributions has increased to $49,000.

Contribution limit increased. For 2009, the annual limit on the amount of employer contributions to a SEP has increased to the smaller of:

- $49,000, or
- 25% of an eligible employee's compensation.

Compensation limit. For 2009, the maximum amount of an employee's compensation you can consider when figuring SEP contributions (including elective deferrals) and the deduction for contributions has increased to $245,000.

SIMPLE Plans

For 2009, the limit on salary reduction contributions (excluding catch-up contributions) to a SIMPLE plan has increased to $11,500. For more information, see Publication 560.

403(b) Plans

The following changes apply to 403(b) plans. For more information, see Publication 571.

Limit on elective deferrals. For 2009, the limit on elective deferrals (excluding catch-up contributions) has increased to $16,500.

Limit on annual additions. For 2009, the limit on annual additions has increased to $49,000.

4.

Estate and Gift Taxes

2008 Changes

Annual Exclusion for Gifts to Non-U.S. Citizen Spouses Increased

For calendar year 2008, the annual exclusion for gifts made to spouses who are not U.S. citizens will increase to $128,000.

2009 Changes

Annual Exclusion for Gifts Increased

The annual exclusion for gifts of present interests made to a donee during the calendar year has increased to $13,000.

The annual exclusion for gifts made to spouses who are not U.S. citizens will increase to $133,000.

Estate Tax Applicable Exclusion Amount Increased

An estate tax return for a U.S. citizen or resident needs to be filed only if the gross estate exceeds $3.5 million for decedents dying during 2009.

5.

Excise Taxes

Changes Effective for the First Quarter of 2008

Air Transportation Taxes

For amounts paid during 2008, the tax on use of international air travel facilities will be $15.40 per person for flights that begin or end in the United States, or $7.70 per person for domestic segments that begin or end in Alaska or Hawaii (applies only to departures). For amounts paid for each domestic segment of taxable transportation of persons by air, the domestic segment tax is $3.50 per segment for transportation that begins in 2008.

Arrow Shafts

The tax on arrow shafts (IRS No. 106) is $.43 per arrow shaft.

Dyed Diesel Fuel Used in Trains

The train operator is no longer liable for the leaking underground storage tank (LUST) tax on dyed diesel fuel used in trains. IRS No. 71 has been removed from Form 720, Quarterly Federal Excise Tax Return. The position holder of the dyed diesel fuel generally is liable for the LUST tax under IRS No. 105.

Inland Waterways Fuel Use Tax

Generally, the inland waterways fuel use tax is $.20 (IRS No. 64). However, the LUST tax (IRS No. 125) must be paid on any liquid fuel used on inland waterways that is not subject to LUST tax under section 4041(d) or 4081. For example, gallons of Bunker C fuel oil must be reported under both IRS Nos. 64 and 125.

Disregarded Entities and Qualified Subchapter S Subsidiaries (QSubs)

After 2007, qualified subchapter S subsidiaries (QSubs) and eligible single-owner disregarded entities are treated as separate entities for certain excise tax and related reporting purposes. QSubs and eligible single-owner disregarded entities must pay and report excise taxes (other than IRS Nos. 31, 51, and 117), register for excise tax activities, and claim any refunds, credits, and payments under the entity's EIN. These actions cannot take place under the owner's taxpayer identification number (TIN). Some QSubs and disregarded entities may already have an EIN. However, if you are unsure, please call the IRS Business and Specialty Tax Line at 1-800-829-4933. Generally, QSubs and eligible single-owner disregarded entities will continue to be treated as disregarded entities for other federal tax purposes. Thus, taxpayers filing Form 4136, Credit for Federal Tax Paid on Fuels, with Form 1040 can use the owner's TIN. For more information on these new regulations, see Treasury Decision 9356. You can find Treasury Decision 9356, 2007-39 I.R.B. 675, available at *www.irs.gov/irb/2007-39_IRB/ar04.html*.

Changes Effective for the Fourth Quarter of 2008

Arrow Shafts

After October 3, 2008, the tax does not apply to any shaft made of all natural wood with no laminations or artificial means of enhancing the spine of such shaft (whether sold separately or incorporated as part of a finished or unfinished product) and used in the manufacture of any arrow that after its assembly meets both of the following conditions.

- It measures 5/16 of an inch or less in diameter.
- It is not suitable for use with a taxable bow.

Alternative Fuel Credit and Alternative Fuel Mixture Credit

You may be eligible to claim the alternative fuel credit and alternative fuel mixture credit for compressed gas derived from biomass and liquefied gas derived from biomass sold or used after October 3, 2008.

Alternative Fuel Used in Aviation

You can claim the alternative fuel credit for alternative fuel sold after October 3, 2008, for use as a fuel in aviation.

Credits for Fuel Limited to Fuels with Connection to the United States

After May 14, 2008, the alcohol fuel credit, alcohol fuel mixture credit, biodiesel credit, biodiesel mixture credit, alternative fuel credit, and alternative fuel mixture credit may not be claimed for alcohol, biodiesel, and alternative fuel that is produced outside the United States for use as a fuel outside the United States. The United States includes any possession of the United States.

Liquefied Gas Derived From Biomass

Liquefied gas derived from biomass sold or used after October 3, 2008, is taxable at $.184 per gallon. You are liable for tax on liquefied gas derived from biomass that is delivered into the fuel supply tank of a motor vehicle or motorboat and on certain bulk sales. Report this tax under IRS No. 79.

You can make a claim for nontaxable use of liquefied gas derived from biomass on Schedule C (Form 720) or Schedule 1 (Form 8849) at $.183 per gallon.

Renewable Diesel

After October 3, 2008, renewable diesel does not include any fuel derived from co-processing biomass (as defined in section 45K(c)(3)) with a feedstock that is not biomass.

Retail Tax

You can exclude the cost of certain idling reduction devices and insulation sold or installed after October 3, 2008, from the sales price of the taxable vehicle.

Changes Effective for the First Quarter of 2009

Alcohol Fuel Mixture Credit

The claim rate for alcohol fuel mixtures containing ethanol is $.45 per gallon.

Air Transportation Taxes

For amounts paid during 2009, the tax on use of international air travel facilities will be $16.10 per person for flights that begin or end in the United States, or $8.00 per person for domestic segments that begin or end in Alaska or Hawaii (applies only to departures). For amounts paid for each domestic segment of taxable transportation of persons by air, the domestic segment tax is $3.60 per segment for transportation that begins in 2009.

Arrow Shafts

The tax on arrow shafts (IRS No. 106) is $.45 per arrow shaft.

Biodiesel Mixture Credit

The claim rate for biodiesel mixtures is $1.00 per gallon.

Oil Spill Liability Tax

The oil spill liability tax (IRS Nos. 18 and 21) is $.08 per barrel.

Renewable Diesel Requirements

Renewable diesel used to produce a renewable diesel mixture must be derived from biomass, meet ASTM D975, D396, or other equivalent standard approved by the IRS, and meet EPA's registration requirements for fuels and fuel additives under section 211 of the Clean Air Act. Renewable diesel also includes fuel derived from biomass that meets a Department of Defense specification for military jet fuel or an ASTM specification for aviation turbine fuel. For a renewable diesel mixture used in aviation, kerosene is treated as diesel fuel.

Qualified Methanol and Ethanol Produced From Coal

The tax on qualified methanol and ethanol produced from coal (IRS No. 79) is $.184 per gallon.

Changes Effective for the Fourth Quarter of 2009

Carbon Capture Requirement

A credit for liquid fuel derived from coal (including peat) through the Fischer-Tropsch process can be claimed only if the fuel is derived from coal produced at a gasification facility that separates and sequesters not less than the following percentage of the facility's total carbon dioxide emissions.

- 50% for fuel produced after September 30, 2009, and before December 31, 2009.
- 75% for fuel produced after 2009.

6.

Foreign Issues

2008 Changes

Foreign Earned Income and Housing Exclusions

Exclusion amount. For 2008, the maximum foreign earned income exclusion has increased to $87,600.

Housing expenses—base amount. The base housing amount has increased to $38.30 per day, or $14,016 for an entire calendar year.

Exemption for Certain Distributions From Mutual Funds Extended

The exemption from 30% tax on certain interest-related dividends and short-term capital gain dividends received from a mutual fund or other regulated investment company has been extended 2 years. It now applies to dividends for tax years of the company beginning before 2010. See *Dividend Income* in chapter 3 of Publication 519, U.S. Tax Guide for Aliens.

New Rules for Former U.S. Citizens and Former Long-Term Residents

If you expatriated after June 16, 2008, new expatriation rules apply to you if any of the following statements apply.

- Your average annual net income tax for the 5 years ending before the date of expatriation or termination of residency is more than $139,000 (if you expatriated or terminated residency before 2009).
- Your net worth is $2 million or more on the date of your expatriation or termination of residency.
- You fail to certify on Form 8854 that you have complied with all U.S. federal tax obligations for the 5 years preceding the date of your expatriation or termination of residency.

Note. If you expatriated before June 17, 2008, the expatriation rules in effect at that time continue to apply.

See chapter 4 in Publication 519 for more information.

Withholding on Foreign Partners

A foreign partner can provide to a partnership a certification to reduce or eliminate the partnership's withholding tax obligation under section 1446 on the partner's allocable share of effectively connected taxable income from the partnership. Any certificate (including any updated certificates and status reports) submitted, or required to be submitted, after July 28, 2008, must comply with Regulations section 1.1446-6.

The foreign partner must use Form 8804-C, Certificate of Partner-Level Items to Reduce Section 1446 Withholding. The partner gives the form to the partnership. For more information, including when the partnership has to file the form with the IRS, see the Instructions for Form 8804-C.

U.S. Real Property Interests

For dispositions of U.S. real property interests after July 30, 2008, transferors can give a nonforeign certification to a qualified substitute. Qualified substitutes are explained in Publication 515, Withholding of Tax on Nonresident Aliens and Foreign Entities, under *U.S. Real Property Interest*.

Generally, the treatment of a regulated investment company (RIC) as a qualified investment entity (QIE) was scheduled to expire at the end of 2007. The provision has been extended through 2009. The special rules that apply to distributions from a QIE attributable to the gain from the sale or exchange of a U.S. real property interest will continue to apply to any distribution from a RIC. See *Qualified investment entities* under *U.S. Real Property Interest* in Publication 515.

2009 Changes

Foreign Earned Income and Housing Exclusions

Exclusion amount. For 2009, the maximum foreign earned income exclusion has increased to $91,400.

Housing expenses—base amount. For 2009, the base housing amount has increased to $40.07 per day, or $14,624 for the entire calendar year.

New Treaties and Protocol

The United States has exchanged instruments of ratification for new income tax treaties with Bulgaria and Iceland and a new protocol to the income tax treaty with Canada. The effective dates are as follows:

Bulgaria. The provisions for withholding tax at source are effective for amounts paid or credited after 2008. For other taxes, the treaty is effective for tax periods beginning after 2008.

Canada. The provisions for withholding tax at source are generally effective for amounts paid or credited after January 31, 2009. For other taxes, the protocol is generally effective for tax periods beginning after 2008.

Iceland. The provisions for withholding tax at source are effective for amounts derived after 2008. For other taxes, the new treaty is effective for tax years beginning after 2008. An individual who was otherwise entitled to benefits under Article 21 (Teachers) of the former treaty can continue to apply those provisions. A person entitled to benefits under the former treaty can elect to have that treaty apply in its entirety for a twelve-month period following the date the new treaty would otherwise apply.

7.

How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

Contacting your Taxpayer Advocate. The Taxpayer Advocate Service (TAS) is an independent organization within the IRS whose employees assist taxpayers who are experiencing economic harm, who are seeking help in resolving tax problems that have not been resolved through normal channels, or who believe that an IRS system or procedure is not working as it should.

You can contact the TAS by calling the TAS toll-free case intake line at 1-877-777-4778 or TTY/TDD 1-800-829-4059 to see if you are eligible for assistance. You can also call or write your local taxpayer advocate, whose phone number and address are listed in your local telephone directory and in Publication 1546, Taxpayer Advocate Service—Your Voice at the IRS. You can file Form 911, Request for Taxpayer Advocate Service Assistance (And Application for Taxpayer Assistance Order), or ask an IRS employee to complete it on your behalf. For more information, go to www.irs.gov/advocate.

Low Income Taxpayer Clinics (LITCs). LITCs are independent organizations that provide low income taxpayers with representation in federal tax controversies with the IRS for free or for a nominal charge. The clinics also provide tax education and outreach for taxpayers who speak English as a second language. Publication 4134, Low Income Taxpayer Clinic List, provides information on clinics in your area. It is available at www.irs.gov or your local IRS office.

Free tax services. To find out what services are available, get Publication 910, IRS Guide to Free Tax Services. It contains lists of free tax information sources, including publications, services, and free tax education and assistance programs. It also has an index of over 100 TeleTax topics (recorded tax information) you can listen to on your telephone.

Accessible versions of IRS published products are available on request in a variety of alternative formats for people with disabilities.

Internet. You can access the IRS website at www.irs.gov 24 hours a day, 7 days a week to:

- *E-file* your return. Find out about commercial tax preparation and *e-file* services available free to eligible taxpayers.
- Check the status of your 2008 refund. Go to www.irs.gov and click on *Where's My Refund*. Wait at least 72 hours after the IRS acknowledges receipt of your e-filed return, or 3 to 4 weeks after mailing a paper return. If you filed Form 8379 with your return, wait 14 weeks (11 weeks if you filed electronically). Have your 2008 tax return available so you can provide your social security number, your filing status, and the exact whole dollar amount of your refund.
- Download forms, instructions, and publications.
- Order IRS products online.
- Research your tax questions online.
- Search publications online by topic or keyword.
- View Internal Revenue Bulletins (IRBs) published in the last few years.
- Figure your withholding allowances using the withholding calculator online at www.irs.gov/individuals.
- Determine if Form 6251 must be filed by using our Alternative Minimum Tax (AMT) Assistant.
- Sign up to receive local and national tax news by email.
- Get information on starting and operating a small business.

Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call 1-800-829-3676 to order current-year forms, instructions, and publications, and prior-year forms and instructions. You should receive your order within 10 days.
- *Asking tax questions.* Call the IRS with your tax questions at 1-800-829-1040.
- *Solving problems.* You can get face-to-face help solving tax problems every business day in IRS Taxpayer Assistance Centers. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. Call your local Taxpayer Assistance Center for an appointment. To find the number, go to www.irs.gov/localcontacts or look in the phone book under *United States Government, Internal Revenue Service*.
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call 1-800-829-4059 to ask tax questions or to order forms and publications.
- *TeleTax topics.* Call 1-800-829-4477 to listen to pre-recorded messages covering various tax topics.

- *Refund information.* To check the status of your 2008 refund, call 1-800-829-1954 during business hours or 1-800-829-4477 (automated refund information 24 hours a day, 7 days a week). Wait at least 72 hours after the IRS acknowledges receipt of your e-filed return, or 3 to 4 weeks after mailing a paper return. If you filed Form 8379 with your return, wait 14 weeks (11 weeks if you filed electronically). Have your 2008 tax return available so you can provide your social security number, your filing status, and the exact whole dollar amount of your refund. Refunds are sent out weekly on Fridays. If you check the status of your refund and are not given the date it will be issued, please wait until the next week before checking back.
- *Other refund information.* To check the status of a prior year refund or amended return refund, call 1-800-829-1954.

Evaluating the quality of our telephone services. To ensure IRS representatives give accurate, courteous, and professional answers, we use several methods to evaluate the quality of our telephone services. One method is for a second IRS representative to listen in on or record random telephone calls. Another is to ask some callers to complete a short survey at the end of the call.

Walk-in. Many products and services are available on a walk-in basis.

- *Products.* You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county government offices, credit unions, and office supply stores have a collection of products available to print from a CD or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.
- *Services.* You can walk in to your local Taxpayer Assistance Center every business day for personal, face-to-face tax help. An employee can explain IRS letters, request adjustments to your tax account, or help you set up a payment plan. If you need to resolve a tax problem, have questions about how the tax law applies to your individual tax return, or you are more comfortable talking with someone in person, visit your local Taxpayer Assistance Center where you can spread out your records and talk with an IRS representative face-to-face. No appointment is necessary—just walk in. If you prefer, you can call your local Center and leave a message requesting an appointment to resolve a tax account issue. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience. If you have an ongoing, complex tax account problem or a special need, such as a disability, an appointment can be requested. All other issues will be handled without an appointment. To find the number of your local office, go to www.irs.gov/localcontacts or look in the phone book under *United States Government, Internal Revenue Service*.

Mail. You can send your order for forms, instructions, and publications to the address below. You should receive a response within 10 days after your request is received.

Internal Revenue Service
National Distribution Center
1201 N. Mitsubishi Motorway
Bloomington, IL 61705-6613

DVD for tax products. You can order Publication 1796, IRS Tax Products DVD, and obtain:

- Current-year forms, instructions, and publications.
- Prior-year forms, instructions, and publications.
- Tax Map: an electronic research tool and finding aid.
- Tax law frequently asked questions.
- Tax Topics from the IRS telephone response system.
- Internal Revenue Code—Title 26 of the U.S. Code.
- Fill-in, print, and save features for most tax forms.
- Internal Revenue Bulletins.
- Toll-free and email technical support.
- Two releases during the year.
  – The first release will ship the beginning of January 2009.
  – The final release will ship the beginning of March 2009.

Purchase the DVD from National Technical Information Service (NTIS) at www.irs.gov/cdorders for $30 (no handling fee) or call 1-877-233-6767 toll free to buy the DVD for $30 (plus a $6 handling fee).

Small Business Resource Guide 2009. This online guide is a must for every small business owner or any taxpayer about to start a business. This year's guide includes:

- Helpful information, such as how to prepare a business plan, find financing for your business, and much more.

- All the business tax forms, instructions, and publications needed to successfully manage a business.
- Tax law changes for 2009.
- Tax Map: an electronic research tool and finding aid.
- Web links to various government agencies, business associations, and IRS organizations.
- “Rate the Product” survey—your opportunity to suggest changes for future editions.
- A site map of the guide to help you navigate the pages with ease.
- An interactive “Teens in Biz” module that gives practical tips for teens about starting their own business, creating a business plan, and filing taxes.

The information is updated during the year. Visit *www.irs.gov* and enter keyword “SBRG” in the upper right-hand corner for more information.

Index

To help us develop a more useful index, please let us know if you have ideas for index entries. See "Comments and Suggestions" in the "Introduction" for the ways you can reach us.

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