

# SOME TAX CHANGES

## DECEMBER 2008

Various tax changes take effect on January 1, 2009; the following are a few important law changes to keep in mind.

If you are 70 ½ or older, you may skip payouts from qualified plans such as IRA's without penalty. Heirs also need not to take withdrawals in 2009 from inherited plans and IRA's.

The maximum 401(k) contribution is increased by \$1,000 to \$16,500. Individuals born before 1960 can put in an extra \$5,500 for a total of \$22,000. These contribution limitations apply to 403(b) and 457 also. The ceiling on SIMPLEs jumps to \$11,500, where individuals 50 years and older can put in \$2,500 extra. Plan contributions can be based on up to \$245,000 of salary for 2009. More individuals can claim the tax credit for retirement plan pay-ins for married filers with adjusted gross incomes (AGI) of up to \$55,500 and singles with AGIs of up to \$27,750. The pay-in limit for defined contribution plans increases to \$49,000 for an increase of \$3,000. The benefit limitation for defined benefit plans has been lifted to \$195,000.

The deduction phase-out for regular IRA's begins at higher levels in 2009. For joint filers in company plans, it starts at \$89,000 of AGI and ends at \$109,000. If only one spouse is covered by a plan, the phase-out zone for deducting a pay-in for the spouse, who is not covered, begins at \$166,000 of AGI and ends at \$176,000. For single filers, the phase-out zone starts at \$53,000 of AGI and runs to \$63,000. The income caps on Roth IRA's rise as well. The Roth pay-in limit phases out for couples with AGI's of \$166,000 to \$176,000. For singles, \$105,000 to \$120,000.

The estate tax exemption jumps to \$3.5 million from \$2 million. Amounts above the exemption will continue to be taxed at 45%. The gift tax exclusion rises to \$13,000 per recipient, but the lifetime exemption remains at \$1 million. The special estate tax valuation for real estate is increasing. Up to \$1 million of farm or business realty can now receive discount valuation. More of the estate tax qualifies for an installment payment plan tax break. If a closely held business or businesses make up more than 35% of an estate, as much as \$598,500 of tax can be deferred and the IRS will charge only 2% interest.

The Social Security wage base rises to \$106,800 in 2009 which is a \$4,800 increase.

Caps on deductible pay-ins to health savings accounts rise to \$5950 for account owners with family coverage and \$3,000 for single coverage. HSA owners born before 1955 can put in an additional \$1,000.

**Reminder:** These are just a small sample of the changes for 2009, for more information please feel free to contact us at anytime.