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RECENT TAX LAW CHANGES FOR 2008 RETURNS

By Victor Sy, CPA

Economic Stimulus Payment. Any economic stimulus payment that you received in 2008 is not taxable for federal income tax purposes, but it reduces your recovery rebate credit (discussed below).

Recovery Rebate Credit — If you did not qualify or receive the maximum amount for the 2008 economic stimulus payment discussed above, you may be entitled to a recovery rebate credit when you file your 2008 tax return. This credit is figured like last year's economic stimulus payment, except that the amounts are based on your 2008 tax return, instead of tax year 2007. Tax Tip: If you received a zero or reduced economic stimulus payment because of the phaseout rules, you may be able to claim a recovery rebate credit on your 2008 return. This is welcome news for taxpayers going through financial hardships from layoff, salary reduction, or other situations. The maximum credit is \$600 (\$1,200 if married filing jointly) plus \$300 for each qualifying child.

Real Estate Tax Deduction — Old law allowed you to deduct real estate only if you itemize personal deductions on Schedule A. New law allows you to take an additional standard deduction for real estate taxes paid if you don't have enough deductions to itemize. The additional deduction amount is equal to real estate taxes paid up to \$500 for single filers (\$1,000 for joint filers). This deduction is available for 2008 and 2009 only. **TIP:** Analyze your situation before taking the deduction. If your itemized deductions exceed the standard deduction, it may be advisable to give up that \$100 of itemized deduction for a \$500 addition to standard deduction, so you don't have to recognize state tax refund as income next year!

First-Time Homebuyers Tax Credit — First-time homebuyers should begin planning now to take advantage of a new tax credit available for a limited time. The credit applies to primary homes purchased between April 9, 2008 and June 30, 2009. The credit is 10% of the purchase price, with a maximum available credit of \$7,500 for either a single taxpayer or a married couple filing jointly. First-time homebuyers are those who have not owned a home in the three years prior to a purchase. Be aware that this is a loan, an interest-free loan that has to be paid back in equal payments over 15 years. It was designed to help taxpayers who do not have enough funds for downpayment.

Tuition and Fees Deduction — You may be able to deduct qualified tuition and enrollment fees up to \$4,000 that you pay for yourself, your spouse, or a dependent. You do not have to itemize to take this deduction. However, you cannot take both this deduction and education credits (Hope & Lifetime Learning Credits) for the same student in the same year.

Educators' Out of Pocket Expense Deduction — The educator expense deduction allows teachers and other educators to deduct the cost of books, supplies, equipment and software used in the classroom. Eligible educators include those who work at least 900 hours during a school year as a teacher, instructor, counselor, principal or aide in a public or private elementary or secondary school. This educator expense deduction up to \$250 is available above the line - whether or not you itemize deductions on Schedule A.

Charitable Contributions Paid in Cash — You must have a bank record, credit card statement, or a written communication from the recipient showing the name of the organization, date, and amount of the contribution.

Beware of Bogus E-mails — The IRS does not send unsolicited e-mails about your taxes. If you get an e-mail that appears to be from the IRS but does not end with “.gov”, it is an attempt to **steal your social security number, driver's license, bank account, and other data**. Don't click on any links in the message. Rather, forward the e-mail to phishing@irs.gov using the instructions at www.irs.gov.