PKF PERSPECTIVES

SOME TAX CHANGES for the NEW YEAR 2009 and OTHER INFORMATION

Keeping Pace with Inflation

Personal exemptions and standard deductions will rise in 2009 to keep up with inflation. Some of them are:

Each personal and dependency exemption up $150 from 2008	**$ 3,650**
New standard deduction:	
Married filing jointly up $500 from 2008	**$11,400**
Single and married filing separately up $250 from 2008	**$ 5,700**
Head of household up $350 from 2008	**$ 8,350**
Annual gift exclusion up $1,000 from 2008	**$13,000**

The "kiddie" tax, which can apply to children up to the age of 24, will be effective at $950 of 2009 income.

Social Security Tax

In January 2009, Social Security beneficiaries will begin to receive a Cost of Living Adjustment (COLA) increasing their benefits by 5.8%. The 2009 maximum amount of earnings subject to Social Security tax will rise from $102,000 to $106,800, an increase of about 4.7%.

FICA Refund Ineligibility

In a recent IRS information letter, it was noted that a retired recipient of Social Security benefits is not entitled to a FICA refund on wages earned for part-time work. The law does not exempt wages received during retirement from FICA taxes even though Social Security benefits will not increase as a result of such income. Wages paid to a retiree receiving Social Security benefits are subject to FICA, absent qualifications for another exemption.

Retirement Plan Limits

You can save for retirement up to the maximum dollar limit. Maximum contributions in 2009 vary by the type of retirement plan:

Traditional or Roth IRA [1] same as 2008	**$5,000** ($6,000 if age 50 or older)
SEP IRA [2] up $3,000 from 2008	**$49,000**
SIMPLE IRA up $1,000 from 2008	**$11,500** ($14,000 if age 50 or older)
401(k) Plan up $1,000 from 2008	**$16,500** ($22,000 if age 50 or older)
403(b) Plan up $1,000 from 2008	**$16,500** ($22,000 if age 50 or older)
457 Plan up $1,000 from 2008	**$16,500** ($22,000 if age 50 or older)
Defined Contribution Pension up $3,000 from 2008	**$49,000**
Defined Benefit Pension up $10,000 from 2008	**$195,000**

[1] If you fund both a traditional and Roth IRA, your total contribution cannot exceed $5,000 combined (or $6,000 if age 50 or older).

[2] SEP IRA contributions are calculated on an IRS worksheet. Your maximum contribution may be less than $49,000.

"Nanny" Tax

Cash remuneration paid in 2009 by an employer for domestic services in the employer's private home is not subject to FICA wages if the amount paid during the year is less than $1,700 (increased from $1,600 for 2008).

FIN 48 Delayed for Nonpublic Companies

The Financial Accounting Standards Board (FASB) granted all **nonpublic** entities a one-year deferral on implementing FIN 48 until fiscal years beginning after December 15, 2008. FIN 48 prescribes how companies should account for uncertain tax positions in their financial statements prepared under generally accepted accounting principles (GAAP).

Disregarded Entities

Effective with wages paid in 2009, disregarded entities which are subject to employment taxes will need an EIN (Employer Identification Number) and will be required to file their own employment taxes and tax reports. Heretofore, a disregarded entity had the option to satisfy its employment tax obligations under the owner's name and tax ID number. A disregarded entity continues to be disregarded for other federal tax purposes. *(Simply put: a "disregarded entity" is a single member eligible entity, such as a limited liability company, which for federal tax purposes is considered to be an undivided part of the person or entity who owns it.)*

Restriction of Homesale Exclusion

For at least two of the five years before sale, a taxpayer may currently exclude from income the gain on the sale of a home owned and used as a principal residence. Up to $250,000 of the gain may be excluded if single or married filing separately or up to $500,000 may be excluded if married filing jointly.

The new law (known as the "Housing Assistance Tax Act of 2008") states that the exemption rule does not apply to the extent gain from the sale of a principal residence is allocated to periods of non-qualified use. Generally, non-qualified use is any period during which the property is not used as the principal residence of the taxpayer or spouse.

Rescue Bill

According to Commerce Clearing House, the Emergency Economic Stabilization Act of 2008 (the "EESA") will result in over **290** changes in the Internal Revenue Code - some permanent, some temporary.

Executive Compensation: TARP Measures

The EESA's Troubled Asset Relief Program ("TARP") limits the deductibility of compensation to $500,000 for CEOs, CFOs and other executives of entities participating in TARP auctions. Further, companies participating in TARP auctions must agree to limit "golden parachute" payments to standards that will be set by the Treasury Department. Amounts in excess of these limits will be subject to excise tax.

Statistical Data

Based on IRS statistical tables, the website of the National Taxpayers Union states that for the tax year 2006 those taxpayers with adjusted gross incomes in the top 50% paid 97.01% of Federal personal income tax.

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