

# Taxing Times

Tax information for clients and friends of Stambaugh Ness, PC



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## IN THIS ISSUE

1. Kiddie Tax – Could this Hidden Tax affect Your College Student?
2. SSA Announces 2009 Cost of Living Adjustments
3. IRS Announces Cost of Living and Inflation Adjustment Amounts
4. Changes to Estate Tax Exemption
5. Multistate Income Taxes
6. FIN 48 Deferred

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*By Tax Supervisor Kevin Eisenhart, CPA and Tax Specialist Crystal Martin*

### INDIVIDUAL TAX

#### **Kiddie Tax - Could this hidden tax affect your college student?**

Previously, parents in high tax brackets could reduce their tax burden by putting income-producing investments in the names of their children. The income was taxed at the child's lower tax rate. The "Kiddie Tax" was enacted many years ago to effectively tax some of that

#### **CRYSTAL'S OBSERVATION:**

"Possibly moving a child's investments into securities that pay little or no taxable income, such as growth stocks, may be a way to avoid some of the higher kiddie tax."

income at a higher rate. If the child's unearned income is over a certain threshold, the excess is taxed at the parents' higher rate. This child's tax rate, combined with the parents' higher rate on income over the threshold, is known as the "Kiddie Tax". The 2008 income threshold is \$1,800 of unearned income.

Prior to 2006, Kiddie Tax applied only to children under age 14. Because of changes to the tax laws ruling Kiddie Tax, it applied to children under age 19 in 2007. Beginning in 2008, it will also apply to dependent children under age 24 if full-time students.

#### **SSA Announces 2009 Cost of Living Adjustments**

The Social Security Administration (SSA) recently announced 2009 Cost of Living Adjustments:

- Social Security benefit amounts will be increased by 5.8%.
- The taxable wage base amount subject to FICA tax (6.2%) will increase to \$106,800. The wages subject to Medicare tax (1.45%) remains unlimited.
- The Social Security earnings limitation test will increase to \$14,160 per year for Social Security recipients under age 66.



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**CRYSTAL'S OBSERVATION:**

"Even though full retirement age is currently 66, you are still eligible to apply for Medicare at age 65."

**IRS Announces Cost of Living and Inflation Adjustment Amounts**

Retirement plan contribution and annual benefit limits are scheduled to increase to the following amounts for 2009:

<b>Contribution limits:</b>	
401(k), Section 457, & 403(b) plans	16,500
SIMPLE plan	11,500
<b>Annual benefit limits:</b>	
Defined Benefit Plan	195,000
Defined Contribution Plan	49,000

The gift tax exclusion is scheduled to increase to \$13,000 for 2009. The 2009 adjusted tax rates for 2009 are as follows:

<b>Tax Rate</b>	<b>Single</b>	<b>Married Filing Jointly &amp; Surviving Spouse</b>
10%	\$ - - \$ 8,350	\$ - - \$ 16,700
15%	8,351 - 33,950	16,701 - 67,900
25%	33,951 - 82,250	67,901 - 137,050
28%	82,251 - 171,550	137,051 - 208,850
33%	171,551 - 372,950	208,851 - 372,950
35%	Over \$372,950	Over \$372,950

  

<b>Tax Rate</b>	<b>Head of Household</b>	<b>Married Filing Separate</b>
10%	\$ - - \$ 11,950	\$ - - \$ 8,350
15%	11,951 - 45,500	8,351 - 33,950
25%	45,501 - 117,450	33,951 - 68,525
28%	117,451 - 190,200	68,526 - 104,425
33%	190,201 - 372,950	104,426 - 186,475
35%	Over \$372,950	Over \$186,475

Other inflation adjustments include increases to the standard deduction and personal exemption as outlined by the table below:

	<b>Single &amp; Married Filing Separate</b>	<b>Married Filing Jointly &amp; Surviving Spouse</b>
Standard deduction	\$ 5,700	\$ 11,400

	<u>Head of Household</u>	<u>Dependent</u>
Standard deduction	\$ 8,350	\$950 or Earned Income + \$300
Personal exemption amount	- \$3,650	

### CHANGES TO ESTATE TAX EXEMPTION

Currently \$2 Million, the estate tax exemption will rise to \$3.5 million for decedents dying in 2009. The estate tax is scheduled to be repealed in 2010, and to return in 2011 with a smaller \$1 Million exemption.

#### ***CRYSTAL'S OBSERVATION:***

**"This is certainly an area that could become a topic of conversation in Washington as 2010 approaches."**

### CORPORATE TAX

#### **Multistate Income Taxes**

The New Jersey Assembly passed proposed legislation that would eliminate the "throwout" rule for corporation business tax apportionment purposes. The removal ("throwout") of sales assigned to states where the corporation is not subject to tax from the denominator of the sales fraction increases the fraction, which increases the portion of the entire net income of a corporation apportioned to New Jersey.

If the proposed legislation becomes law, these changes would apply to privilege periods beginning on or after July 1, 2010.

#### **FIN 48 Deferred**

At the October 15, 2008 meeting, The Financial Accounting Standards Board (FASB) redeliberated its previous decision on the deferral of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes. As a result of the meeting, the Board decided to defer the effective date of this interpretation for all nonpublic entities until fiscal years beginning after December 15, 2008.

**KEVIN'S OBSERVATION:**

"The deferral of this standard provides some much needed relief for non-public companies. This being said, given the current economic climate and its impact on states' budgets, states will continue to, and to an even greater extent, pursue non-filers. Although nonpublic companies will not have to disclose the impact of their noncompliance on their financial statements until 2009, the time to take action is now.

Many states are setting up a means for taxpayers to voluntarily disclose their noncompliance through a Voluntary Disclosure Agreement (VDA). Additionally, most states will let you go on an anonymous basis. The benefit to this is generally a three-year as opposed to an unlimited look back."



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**For more information about any of these tax topics or other tax concerns, please contact Kevin or Crystal or your own tax professional at 717-757-6999/800-745-8233. You may also email [info@stambaughness.com](mailto:info@stambaughness.com)**