

What's New for 2008

This section summarizes important tax changes that took effect in 2008. Most of these changes are discussed in more detail throughout this publication.

Changes are also discussed in Publication 553, Highlights of 2008 Tax Changes, and at www.irs.gov, click on More Forms and Publications, and then on What's Hot in forms and publications.

Economic stimulus payment. Any economic stimulus payment you received is not taxable but reduces your recovery rebate credit.

Recovery rebate credit. If you did not receive the full economic stimulus payment, you may be able to claim the recovery rebate credit. See [chapter 37](#).

Withdrawal of economic stimulus payment from certain accounts. If your economic stimulus payment was directly deposited to a tax-favored account and you withdraw the payment by the due date (including extensions) of your 2008 tax return, the amount withdrawn will not be taxed and no additional tax or penalty will apply.

First-time homebuyer credit. If you bought your main home after April 8, 2008, and are a first-time homebuyer, you may be able to claim this credit. See [chapter 37](#).

Additional standard deduction for real estate taxes. If you do not itemize your deductions, you can claim an additional standard deduction for real estate taxes you paid. See [chapter 20](#).

Additional standard deduction for net disaster loss. If you do not itemize your deductions, you can claim an additional standard deduction for any net disaster loss from a federally declared disaster. See [chapter 20](#).

Combat pay election. The election to include nontaxable combat pay in earned income for figuring the earned income credit has been made permanent.

Standard mileage rates. For 2008, the standard mileage rate for the cost of operating your car for business use is 50.5 cents per mile (58.5 cents per mile after June 30, 2008). See [chapter 26](#).

For 2008, the standard mileage rate for the cost of operating your

car for medical reasons is 19 cents per mile (27 cents per mile after June 30, 2008). See [chapter 21](#).

For 2008, the standard mileage rate for the cost of operating your car for determining moving expenses is 19 cents per mile (27 cents per mile after June 30, 2008). See Publication 521, Moving Expenses.

Alternative minimum tax (AMT) exemption amount increased. The AMT exemption amount is increased to \$46,200 (\$69,950 if married filing jointly or a qualifying widow(er); \$34,975 if married filing separately).

Retirement savings plans. The following paragraphs highlight changes that affect individual retirement arrangements (IRAs) and pension plans.

IRA deduction increased. You and your spouse, if filing jointly, each may be able to deduct an IRA contribution of up to \$5,000 (\$6,000 if age 50 or older at the end of 2008).

Traditional IRA income limits. You may be able to take an IRA deduction if you were covered by a retirement plan and your modified adjusted gross income is less than \$63,000 (\$105,000, if you are married filing jointly or a qualifying widow(er)). See [chapter 17](#).

Roth IRA income limit. You may be able to make a Roth IRA contribution if your modified adjusted gross income is less than \$116,000 (\$169,000, if you are married filing jointly or a qualifying widow(er)).

Rollovers to Roth IRAs. You can roll over distributions from a qualified retirement plan into a Roth IRA. The rollover is not tax-free. See Publication 590, Individual Retirement Arrangements (IRAs).

Retirement savings contributions credit. The adjusted gross income limit for claiming this credit is increased to \$26,500 (\$39,750 if head of household; \$53,000 if married filing jointly). See [chapter 37](#).

Child's investment income. You must use Form 8615, Tax on Certain Children Who Have Investment Income of More Than \$1,800, to figure the tax on a child that:

1. Was under age 18 at the end of 2008,
2. 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

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

See [chapter 31](#).

The election to report a child's investment income on a parent's return (see [chapter 31](#)) and the special rule for when a child must file Form 6251, Alternative Minimum Tax—Individuals, also now apply to the children listed above.

Capital gains tax rate reduced. The 5% capital gain tax rate is reduced to zero.

Tax relief for Kansas disaster area. Temporary tax relief was enacted as a result of the May 4, 2007, storms and tornadoes affecting the Kansas disaster area. See Publication 4492-A, Information for Taxpayers Affected by the May 4, 2007, Kansas Storms and Tornadoes, for more details.

Tax relief for Midwestern disaster areas. Temporary tax relief was enacted as a result of the severe storms, tornadoes, and flooding affecting the Midwestern disaster areas. See Publication 4492-B, Information for Affected Taxpayers in the Midwestern Disaster Areas, for more details.

Certain amounts increased. Some tax items that are indexed for inflation increased for 2008.

Earned income credit (EIC). The maximum amount of income you can earn and still get EIC increased. The amount depends on your filing status and number of children. The maximum amount of investment income you can have and still be eligible for the credit increased to \$2,950. See [chapter 36](#).

Standard deduction. The standard deduction for taxpayers who do not itemize deductions on Schedule A (Form 1040) has increased. The amount depends on your filing status. See [chapter 20](#).

Exemption amount. You are allowed a \$3,500 deduction for each exemption to which you are entitled. However, your exemption amount could be phased out if you have high income. See [chapter 3](#).

Limit on itemized deductions. Some of your itemized deductions may be limited if your adjusted

gross income is more than \$159,950 (\$79,975 if you are married filing separately). See [chapter 29](#).

Tax benefits for adoption. The adoption credit and the maximum exclusion from income of benefits under an employer's adoption assistance program are increased to \$11,650. See [Adoption Credit](#) in chapter 37.

Hope or lifetime learning credit income limits increased. The amount of income you can have and still receive a Hope or lifetime learning credit has increased. See [chapter 35](#).

Social security and Medicare taxes. The maximum wages subject to social security tax (6.2%) increased to \$102,000. All wages are subject to Medicare tax (1.45%).

Extended tax provisions. The following tax provisions that were scheduled to expire at the end of 2007 have been extended.

- The deduction for educator expenses in figuring adjusted gross income.
- The deduction for qualified tuition and fees.
- The exclusion from income of qualified charitable distributions.
- The District of Columbia first-time homebuyer credit.
- The itemized deduction for state and local general sales taxes.

Credit for nonbusiness energy property. The credit for nonbusiness energy property has expired and does not apply for 2008.

Mailing your return. If you are filing a paper return, you may be mailing your return to a different address because the IRS has changed the filing location for several areas. If you received an envelope with your tax package, please use it. Otherwise, see [Where To File](#) near the end of this publication for a list of IRS addresses.