

**Highlights of 2008 Tax Law Changes: Tax Breaks Renewed, Recovery Rebate Credit, Homeowner Relief**

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AMT exemptions rise; several expiring deductions and credits get a new lease on life; a new standard property tax deduction and a special first-time homebuyer credit are available to some homeowners; and retirement savings incentives expand. These are among the changes taxpayers will find when they fill out their 2008 tax returns. More information about these and other changes, summarized below, can be found on IRS.gov and in various IRS documents, including the Instructions for Form 1040.

### **Economic Stimulus Payments Tax Free**

Economic stimulus payments are not taxable, and they are not reported on 2008 tax returns. However, the stimulus payment does affect whether a taxpayer can claim the Recovery Rebate Credit and how much credit he or she can get. The credit is figured like last year's economic stimulus payment except that the amounts are based on tax year 2008 instead of 2007. A taxpayer may qualify for the [Recovery Rebate Credit](#) if, for example, she did not get an economic-stimulus payment or had a child in 2008. See Fact Sheet 2009-3 for details. In most cases, the IRS can figure the credit. The instructions for Forms 1040, 1040A and 1040EZ have more information.

### **AMT Exemption Increased for One Year**

For tax-year 2008, Congress raised the alternative minimum tax exemption to the following levels:

- \$69,950 for a married couple filing a joint return and qualifying widows and widowers, up from \$66,250 in 2007
- \$34,975 for a married person filing separately, up from \$33,125 and
- \$46,200 for singles and heads of household, up from \$44,350

Under current law, these exemption amounts will drop to \$45,000, \$22,500 and \$33,750, respectively, in 2009. [Form 6251](#) and the [AMT Calculator](#) provide more information.

### **Expiring Tax Breaks Renewed**

Several popular tax breaks that expired at the end of 2007 were renewed for tax-years 2008 and 2009. As a result, eligible taxpayers can claim:

- The deduction for state and local sales taxes on Form 1040 Schedule A, Line 5
- The educator expense deduction on Form 1040, Line 23 or Form 1040A, Line 16
- The tuition and fees deduction on [Form 8917](#) and
- The District of Columbia first-time homebuyer credit on [Form 8859](#)

In addition, the residential energy-efficient property credit is extended through 2016. In general, solar electric, solar water heating and fuel cell property qualify for this credit. Starting in 2008, small wind energy and geothermal heat pump property also qualify. Use [Form 5695](#) to claim the credit.

The non-business energy property credit for insulation, exterior windows, exterior doors, furnaces, water heaters and other energy-saving improvements to a main home is not available in 2008 but will return in 2009.

### **Standard Deduction Increased for Most Taxpayers**

Nearly two out of three taxpayers choose to take the standard deduction rather than itemizing deductions such as mortgage interest and charitable contributions. The basic standard deduction is:

- \$10,900 for married couples filing a joint return and qualifying widows and widowers, a \$200 increase over 2007
- \$5,450 for singles and married individuals filing separate returns, up \$100 and
- \$8,000 for heads of household, up \$150

Higher amounts apply to blind people and senior citizens. The standard deduction is often reduced for a taxpayer who qualifies as someone else's dependent.

New this year, taxpayers can claim an additional standard deduction, based on the state or local real-estate taxes paid in 2008. Taxes paid on foreign or business property do not count. The maximum deduction is \$500, or \$1,000 for joint filers.

Also new for 2008, a taxpayer can increase his standard deduction by the net disaster losses suffered from a federally declared disaster. A worksheet is available in the instructions for Forms 1040 and

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