In 2008, you can invest as much as $5,000 in an IRA or combination of IRAs. For 2009 and subsequent years, this limit will be adjusted annually for inflation. Investors age 50 or older may make additional catch-up contributions limited to $1,000. Furthermore, in 2010, the income limit of $100,000 on conversions to Roth IRAs will be eliminated, allowing taxpayers at all income levels to contribute to a Roth IRA, either directly or through conversion.

If you have a 401(k), 403(b), or 457 plan, you may be able to defer as much as $15,500 of your salary in 2008. Participants in a Savings Incentive Match Plan for Employees (SIMPLE) may contribute up to $10,500. Catch-ups for 401(k), 403(b) and 457 plans are limited to $5,000, while the catch-up maximum for SIMPLEs is $2,500. All of these ceiling amounts will be subject to annual inflation adjustments.

Another key provision in the Pension Act guaranteed that the Roth 401(k) is here to stay. Introduced in 2006, the Roth 401(k) can be added as an option to traditional 401(k) plans. Contributions are made with after-tax dollars, earnings grow tax free, and distributions are tax free, provided the owner has reached age 59½ and has owned the account for at least five years.

Business Incentives

One of the most valuable tax incentives for business owners has been extended several times in recent years: increased expensing limits under Section 179. This deduction quadrupled under tax reform in 2003 and has been extended through 2009.

Thanks to the most recent update through the Economic Stimulus Act of 2008, small businesses can write off up to $250,000 of their investments in qualifying equipment, which includes off-the-shelf computer software. Up to $25,000 for the purchase of an SUV or truck weighing between 6,000 and 14,000 pounds may qualify. Deductions are reduced dollar for dollar when purchases exceed $800,000. If purchases exceed $1,050,000, the remainder must be depreciated.

Another incentive for business owners considered domestic manufacturers is the Section 199 deduction. Qualified manufacturing activities include certain types of film and video, computer software, and energy production, as well as certain agricultural processing, construction, engineering, and architectural activities. Through 2009, qualified manufacturers may deduct 6% of the lesser of their qualified production activities income (QPAI) or their taxable income.

A Look Ahead

The extension of key tax relief provisions comes as good news for most Americans, but it is not too soon to start planning ahead for the possibility that these, and other tax breaks currently in effect, may not be around indefinitely.

For specific guidance regarding your situation, consult your tax professional.

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Tax Relief Planning *Now*

Take Advantage of Today's Tax Breaks

historic tax reform has delivered significant tax breaks for families, businesses, and investors over the past several years. Much of the latest reform builds on two historic tax cut bills passed in 2001 and 2003 that initially lowered federal income and estate tax rates, as well as provided valuable investment, retirement, and business incentives. Some of the most popular provisions will expire over the next several years, unless Congress takes further legislative action.

Major tax acts passed in 2006 delivered important changes and extended some key savings provisions for 2008 and the years ahead. The Tax Increase Prevention and Reconciliation Act (TIPRA) extended lower rates for long-term capital gains and dividends, while the Pension Protection Act (PPA) made a variety of enhanced retirement savings opportunities permanent.

Reacting to mounting concerns that the U.S. economy is sliding into recession, House and Senate leaders in early 2008 approved by large bipartisan majorities a $152 billion fiscal stimulus package, the Economic Stimulus Act of 2008. This legislation offers one-time tax rebates to most Americans and enhances tax breaks for small businesses for 2008 only.

These brief windows of opportunity make early tax planning and regular reviews essential. To help you prepare, let's look at the impact some of the recent reform may have on your tax strategies in 2008.

Lower Income Tax Rates

The far-reaching tax breaks of recent years have offered relief for just about every taxpayer. With a series of measures, lawmakers have temporarily lowered income tax rates, enhanced the child tax credit, and provided marriage penalty relief through 2010. Marginal income tax rates—currently ranging from 10% to 35%—will remain the same for several years. Unless Congress enacts further legislation, the top four rates will rise and the 10% bracket will be eliminated in 2011.

For 2008, the marginal rates and corresponding adjusted gross income (AGI) brackets are as follows:

2008 Rates	AGI Single Filers	AGI Joint Filers
10%	Over $0	Over $0
15%	Over $8,025	Over $16,050
25%	Over $32,550	Over $65,100
28%	Over $78,850	Over $131,450
33%	Over $164,550	Over $200,300
35%	Over $357,700	Over $357,700

Legislation passed in 2001 boosted the child tax credit to $1,000, and this higher amount will be available to parents through 2010. The credit phases out for single taxpayers with modified AGIs exceeding $75,000 and for joint filers with modified AGIs exceeding $110,000.

Estate Tax Highs and Lows

Congress continues to debate the fate of the estate tax. As a result of tax reform enacted in 2001, every taxpayer may exclude a certain amount of property from estate taxes, and in 2008, that amount is $2 million. Furthermore, there are no limits on the amount that can pass to a spouse free of estate tax. The amount you can transfer tax free at death to nonspousal beneficiaries will increase to $3.5 million in 2009, and in 2010, the federal estate tax will be repealed for exactly one year.

Unless Congress takes further legislative action, the estate tax will return at levels in effect prior to reform enacted in 2001. The following chart outlines the scheduled changes.

Year	Exemption Amount	Top Rate
2008	$2 million	45%
2009	$3.5 million	45%
2010	estate tax repealed	—
2011	$1 million	55%

Tax Breaks for Investors

For a few more years, investors can take advantage of lower long-term capital gains rates and favorable dividend taxation. While these favorable breaks were originally set to expire in 2008, lawmakers ensured lower rates through 2010 with the passage of TIPRA in 2006.

Tax reform passed in 2003 lowered the long-term capital gains rate for taxpayers in the top four brackets to 15%, down from 20%. In addition, starting in 2008, those in the bottom two brackets pay zero tax on long-term gains.

In 2008, investors in the top four brackets also pay 15% on qualified dividends, while taxpayers in the lower brackets pay zero tax. Prior to the 2003 reform, investors who received dividend income were required to pay taxes at their marginal rates, which today run as high as 35%.

For planning purposes, it is important to note that no changes have been made to the rules for short-term capital gains rates, which continue to be taxed at the taxpayer's marginal rate.

The "Kiddie Tax" Grows Up Fast

While Congress has passed many favorable tax breaks to individuals in recent years, the "kiddie tax" has been expanded, subjecting some parents of children with investment income to a sudden tax increase. In 2008, the kiddie tax kicks in when investment income exceeds $1,700 for children under age 19 (or age 24 for full-time students). They do not pay tax on the first $850 of investment income, and they pay tax at their own rate on the next $850. Any unearned income above $1,700 is taxed at the parent's rate.

Education Incentives

On the upside for parents with college-bound kids, Congress delivered an important change for taxpayers facing higher-education expenses. With the Pension Protection Act, Congress made tax-free distributions from 529 plans a permanent benefit. This tax break had been set to expire in 2010.

Retirement Opportunities

Tax reform enacted in 2001 enhanced a broad range of retirement savings opportunities, and the Pension Protection Act of 2006 made many of them permanent, including higher contribution amounts for Individual Retirement Accounts (IRAs), higher salary deferral limits for defined contribution plans, and "catch-up" contributions to IRAs and qualified plans for those age 50 and older.