



# Financial Adviser

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## Will 2008 Bring Higher Tax Rates for Americans?

As we embark on 2008, effective tax planning will take on even more importance due to the possibility of a change in political climate and higher tax rates for many Americans.

Congress recently passed legislation giving some relief to taxpayers for the increasing burden of the Alternative Minimum Tax (AMT). By doing so, it is estimated that 20 million more taxpayers will be spared from the AMT in 2007. Because of the lateness of this relief, the Internal Revenue Service (IRS) has said that tax forms will be delayed, and many taxpayers will want to wait to file their returns so they do not have to file amended returns later for any AMT fix. Be sure to discuss this with your tax adviser.

### Important Tax Changes

There have been some important developments to be aware of as you plan your tax life for 2008 and beyond:

First, the 15-percent tax rate on net capital gain and qualified dividend income has been extended through 2010, if not changed by a new administration and Congress.

Second, opportunity for parents to shift investment income to their children at lower tax rates has been limited by the expansion of the "kiddie tax" rules. Now, a child earning more than \$1,800 of investment income and under the age of 18 (24 if a full-time student) will have that income taxed at the parents' rate, if not higher.

Third, the tax-free treatment of qualified distributions from Section 529 college savings and prepaid tuition plans is now permanent. These plans become more important because of the increased "kiddie tax."

Other tax planning to consider includes starting with the year of 2010, when a taxpayer with adjusted gross income in excess of \$100,000 will be able to convert regular individual retirement account (IRA) funds to a Roth IRA for the first time. The taxpayer will be able to report the income from the conversion over two years (but only those funds converted

in 2010 qualify for the two-year reporting). Taxpayers with IRAs should seriously consider this new rule.

A taxpayer without an IRA currently could still fund a nondeductible IRA for the years of 2007 (up until April 15, 2008), 2009 and 2010 and then convert to a Roth at the end of 2010. The income earned by the nondeductible IRA would be reported and taxed in the years of 2011 and 2012. Since the taxpayer would have a basis in the non-deductible IRA that is converted, only the IRA earnings from those contributions would be taxed at conversion time. The benefit is that the income earned in the Roth during the taxpayers' lifetime would never be taxed. Talk to your tax adviser about this provision to see if it makes sense for you.

Some of the best tax planning includes paying yourself by funding a retirement plan — 401(k), 403(b) or IRA — to the highest level you can under the limits of the law. The limits of funding for 2008 are as follows:

401(k), 403(b) and SARSEPs.....	\$15,500
Catch-up Contribution (over 50) .....	5,000
Simple Plans .....	\$10,500
Catch-up Contribution .....	2,500
IRA Annual Contribution.....	\$5,000
Catch-up Contribution .....	1,000

Finally, be sure to watch for the possible change in political climate, which could result in higher marginal tax rates and also long-term capital gain rates and higher taxes on qualified dividends. 2008 could be a pivotal year for planning and investment strategy.

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