

THE INSIDE TRACK



2009 Tax Update

Here are some key facts and figures you should know during tax season*.

2009 IRA Contribution Limits/Traditional and Roth

Regular \$5,000
 Catch-up¹ \$1,000
 Adjusted gross income (AGI) phase-out range for contributions to Roth IRAs:
 Married filing jointly (MFJ) \$166,000 - \$176,000
 Single \$105,000 - \$120,000
 Roth conversions: Modified adjusted gross income (MAGI) less than \$100,000²; cannot be married filing separately (MFS).
 Contributions to Roth IRAs are not deductible.

IRA Deduction if not covered by Retirement Plan

Filing Status	MAGI	Deduction
Single	Any amount	Full ³
MFJ (neither spouse is covered)	Any amount	Full ³
MFJ (spouse is covered)	\$166,000 or less	Full ³
	\$166,001 - \$176,000	Partial
	\$176,001 or more	No
MFS	Less than \$10,000	Partial
	\$10,000 or more	No

Note: If you file separately and did not live with your spouse at any time during the year, your IRA deduction is determined under the "single" filing status.

IRA Deduction if covered by Retirement Plan

Filing Status	MAGI	Deduction
Single or Head of the Household (HOH)	\$55,000 or less	Full
	\$55,001 - \$65,000	Partial
	\$65,001 or more	No
MFJ or qualifying widow	\$89,000 or less	Full
	\$89,001 - \$109,000	Partial
	\$109,001 or more	No
MFS	Less than \$10,000	Partial
	\$10,001 or more	No

Maximum qualified long term care (LTC) insurance premiums eligible for deduction

Age	40 or less	41-50	51-60	61-70	Over 70
2009	\$320	\$600	\$1,190	\$3,180	\$3,980

LTC insurance premiums may be paid from a Health Savings account (HSA)

Personal Exemptions	Exemption	AGI	
		Threshold	Upper limit
MFJ (MFS is ½)	\$3,650	\$250,200	\$372,700
Single	\$3,650	\$166,800	\$289,300

Standard Deduction

MFJ	\$11,400
Single (also MFS)	\$5,700
HOH	\$8,350

Social Security

- Maximum annual earnings subject to social security taxes: \$106,800
- Maximum social security tax for 2009: \$6,622 (EE); \$13,243 self employed
- Social security tax rate: 12.4% self employed, 6.2% employees
- No ceiling for Medicare tax
- Medicare tax rate: 2.9% self employed, 1.45% employees
- Max Earnings before SS benefits are reduced: under full retirement \$14,160, full retirement age and over – no limit.⁴

Base amount of MAGI causing Social Security benefits to be taxable.

	50% taxable	85% taxable
MJF	\$32,000	\$44,000
Single	\$25,000	\$34,000

¹ Taxpayers age 50 and over are eligible to make catch-up contributions.

² Effective for tax years beginning after December 2009, the income limits for conversions into the Roth IRA are eliminated.

³ Up to the amount of your contribution limit.

⁴ Lose \$1 for every \$2 earnings over \$14,160.

Miscellaneous Tax Provisions

For year 2009 there is a one-year moratorium on required minimum distributions (RMDs) from qualified plans and Traditional IRAs.

2009 Capital Gain Rates

Tax Bracket	Short Term Gains (< 12 mo)	Long Term Gains (> 12 mo)
10% and 15% Tax Brackets	Ordinary Rate	0%
Other Tax Brackets	Ordinary Rate	15%

2009 Special Charitable Contributions for certain IRA Owners:

1. IRA Owner/Donor must directly transfer the money tax-free to an eligible charity.
2. IRA Owner must be age 70 ½ or older.
3. Maximum amount that an IRA Owner may transfer annually is \$100,000.

Making Work Pay credit is a credit against income tax in an amount equal to the lesser of 6.2% of one's earned income or \$400 (\$800 for married joint filers). The credit is retroactive to January 1, 2009 and will be available once again in 2010. The full credit can be used by individuals with a MAGI not exceeding \$75,000 (\$150,000 for joint filers). It is phased out at a rate of 2% above this threshold.

A one-time **Economic Recovery payment** of \$250 for 2009 only is available for individuals who are on fixed incomes. This would involve recipients of Social Security, disabled veterans and railroad retirees. These payments will reduce any Making Work Pay credit they might be entitled to.

The **First Time Homebuyer Credit** has been increased to \$8,000 and relieves one from repayment after only 36 months of ownership. These new provisions are operative for purchases between January 1, 2009 through November 30, 2009.

The **Earned Income Credit** for 2009 and 2010 has increased from 40 to 45% for those with three or more qualifying children. This is available on the first \$12,570 of earned income. Unemployment compensation has historically been an item of income and now for 2009 up to \$2,400 is excluded from income.

2009 Qualified Plans

Maximum elective deferral to retirement plans, i.e. 401(k), 403(b)	\$16,500
Maximum elective deferral to Roth 401(k) plan (no income phase out)	\$16,500
Catch-up contribution limit for 401(k), 403(b), 457, & Roth 401(k)	\$5,500
Maximum elective deferral to SIMPLE 401(k) plans	\$11,500
Catch-up contribution limit for SIMPLE plans	\$2,500
Maximum elective deferral to 457 Plans of tax exempt employers	\$16,500
Limits on annual additions to SEP Plans	\$49,000
Annual compensation threshold requiring SEP contribution (limited to 25%)	\$550
Limit on annual additions to defined contribution plans	\$49,000
Maximum annual compensation taken into account for contributions	\$245,000
Annual benefit limit under defined benefit plans	\$195,000
Threshold amount for definition of highly compensated employee	\$110,000
Threshold amount for definition of key employee in top-heavy plans	\$160,000

Education Incentives

Coverdell Education Savings Accounts

Contribution Limit: \$2,000 per beneficiary, per year
 AGI Phase outs: MFJ \$190,000 - \$220,000
 Single \$95,000 - \$110,000

Qualified Tuition Programs (Code Section 529 programs).

Distributions which are used to pay for a beneficiary's qualified education expenses are tax-free. Other distributions are included in income and subject to penalty. For 2009 and 2010 beneficiaries can have tax-free distributions to pay for computers, computer technology and even internet services. These have now been included in the definition of qualified education expenses.

Education Incentives (Continued)

American Opportunity Tax Credit (previously the Hope Education Credit). For 2009 and 2010 it is increased to \$2,500 per year from \$1,800 with an AGI phase-out starting at \$80,000/\$160,000 for individuals and joint filers respectively. Forty percent of the credit is refundable. The maximum credit of \$2,500 will be allowed with 100% of the first \$2,000 and 25% on the next \$2,000 of qualifying payments. Any tuition paid during 2008 will still be under the old rules, even if the semester actually began in 2009.

Lifetime Learning Credit¹

Equal to 20% of taxpayers' first \$10,000 of out-of-pocket qualified tuition and related expenses.

Student Loan Interest Deduction

Maximum deduction: \$2,500
 AGI Phase outs: MFJ \$120,000 - \$150,000
 Single \$60,000 - \$75,000

Child Tax Credit

Provides a partially refundable federal income tax credit of up to \$1,000 per child (under 17) to help offset the costs of raising a child. The economic recovery bill temporarily expands the Child Tax Credit by lowering the eligibility level, called the "refundability threshold," to make the credit available to tax filers with at least \$3,000 of earnings. Under prior law, the credit was typically available only to those with earnings of \$8,500 or more in tax year 2008 and \$12,550 in tax year 2009.

Kiddie Tax

Children under age 19 with unearned income of:²

First	\$950	No tax
Next	\$950	10% tax
Amounts over	\$1,900	Parents' tax rate

Health Savings Account

	Regular	Catch-up ³
Single	\$3,000	\$1,000
Family	\$5,950	\$1,000

¹ For students attending eligible institutions in a Midwestern disaster area, the max credit is 40% of \$10,000 up to \$4,000 per return.

² Under age 24 if a full-time student whose earned income does not exceed half of his or her own support for the year.

³ For taxpayers age 55 and over.

2009 Rate Schedules

Single filing

(Tax Rate)

10% on income between \$0 and \$8,350
 15% on the income between \$8,350 and \$33,950;
 plus \$835.00
 25% on the income between \$33,950 and \$82,250;
 plus \$4,675.00
 28% on the income between \$82,250 and \$171,550;
 plus \$16,750.00
 33% on the income between \$171,550 and \$372,950;
 plus \$41,754.00
 35% on the income over \$372,950; plus \$108,216.00

Married filing jointly or qualifying widow(er) filing status

10% on income between \$0 and \$16,700
 15% on the income between \$16,700 and \$67,900;
 plus \$1,670.00
 25% on the income between \$67,900 and \$137,050;
 plus \$9,350.00
 28% on the income between \$137,050 and \$208,850;
 plus \$26,637.50
 33% on the income between \$208,850 and \$372,950;
 plus \$46,741.50
 35% on the income over \$372,950; plus \$100,894.50

Married filing separately filing status

10% on income between \$0 and \$8,350
 15% on the income between \$8,350 and \$33,950;
 plus \$835.00
 25% on the income between \$33,950 and \$68,525;
 plus \$4,675.00
 28% on the income between \$68,525 and \$104,425;
 plus \$13,318.75
 33% on the income between \$104,425 and \$186,475;
 plus \$23,370.75
 35% on the income over \$186,475; plus \$50,447.25

Head of household filing status

10% on income between \$0 and \$11,950
 15% on the income between \$11,950 and \$45,500;
 plus \$1,195.00
 25% on the income between \$45,500 and \$117,450;
 plus \$6,227.50
 28% on the income between \$117,450 and \$190,200;
 plus \$24,215.00
 33% on the income between \$190,200 and \$372,950;
 plus \$44,585.00
 35% on the income over \$372,950; plus \$104,892.50

Death/Gifts occurring in 2009**(subtract applicable credit from calculated tax)**

Taxable Estate	Tax
Not over \$10,000	18%
Over \$10,000 but not over \$20,000	\$1,800 + 20% of the amount over \$10,000
Over \$20,000 but not over \$40,000	\$3,800 + 22% of the amount over \$20,000
Over \$40,000 but not over \$60,000	\$8,200 + 24% of the amount over \$40,000
Over \$60,000 but not over \$80,000	\$13,000 + 26% of the amount over \$60,000
Over \$80,000 but not over \$100,000	\$18,200 + 28% of the amount over \$80,000
Over \$100,000 but not over \$150,000	\$23,800 + 30% of the amount over \$100,000
Over \$150,000 but not over \$250,000	\$38,800 + 32% of the amount over \$150,000
Over \$250,000 but not over \$500,000	\$70,800 + 34% of the amount over \$250,000
Over \$500,000 but not over \$750,000	\$155,800 + 37% of the amount over \$500,000
Over \$750,000 but not over \$1,000,000	\$248,300 + 39% of the amount over \$750,000
Over \$1,000,000 but not over \$1,250,000	\$345,800 + 41% of the amount over \$1,000,000
Over \$1,250,000 but not over \$1,500,000	\$448,300 + 43% of the amount over \$1,250,000
Over \$1,500,000	\$558,800 + 45% of the amount over \$1,500,000

Subtract the applicable credit below from calculated tax

2009	Exclusion Amount	Applicable Credit
Estate gift	\$3,500,000	\$1,455,800
Gift tax	\$1,000,000	\$345,800

Annual gift tax exclusion: \$13,000 (individual), \$26,000 (married)

GST exemption: \$3,500,000

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*Sources: IRC: IRS and Social Security Adm. update 2008, and American Recovery and Reinvestment Act of 2009.