

## Know your tax exemption, deduction options

Written by Jason Alderman

Tuesday, 13 January 2009 00:59

---



About the only upside when the cost of living increases is that every year the IRS readjusts personal tax exemptions, standard deduction amounts and retirement account contribution limits. It's not like winning the lottery, but I'll take all the good news I can get.

Among the changes that might help your tax situation in 2009 are:

**Exemptions and deductions.** The personal federal tax exemption you may claim for yourself and dependents increases \$150 to \$3,650 each in 2009. The standard tax deduction for singles increases to \$5,700 (up \$250 from 2008); for those who are married and filing jointly, it's now \$11,400 (up \$500); and for heads of households, it's \$8,350 (up \$350).

**Defined contribution plan limits.** The maximum annual contribution you can make to a 401(k), 403(b) or 457 plan increases from \$15,500 to \$16,500. Plus, if you're over age 50 you can contribute an additional \$5,500 per year – up \$500 from 2008. Also, the annual limit for combined employee and employer contributions rises from \$46,000 to \$49,000.

Keep in mind that making pretax contributions to these plans reduces your taxable income, which in turn lowers your taxes. To learn more about how 401(k), 403(b) and 457 plans work, go to Visa Inc.'s free personal financial management site, Practical Money Skills for Life ([www.practicalmoneyskills.com/benefits](http://www.practicalmoneyskills.com/benefits)).

**Defined benefit plan limits.** The annual limit on how much you can receive from a defined benefit (traditional pension) plan increases from \$185,000 to \$195,000.

## Know your tax exemption, deduction options

Written by Jason Alderman  
Tuesday, 13 January 2009 00:59

---

Individual Retirement Accounts (IRAs). The maximum amount you can contribute to a regular or Roth IRA remains unchanged from 2008 at \$5,000 (those aged 50 and older can contribute an additional \$1,000).

Retirement saving contribution credit. Low- and moderate-income workers who contribute to an IRA or company-sponsored plan may be eligible for a savers credit of up to \$1,000 (\$2,000 if filing jointly), in addition to any other tax savings. Qualifying income ceiling limits rise to \$55,500 for joint filers, \$41,625 for heads of household, and \$27,750 for singles or married persons filing separately. Consult Form 8880 at [www.irs.gov](http://www.irs.gov) for more information.

SIMPLE plans. The employee contribution limit for these small-employer plans, which resemble 401(k) plans, increases \$1,000 to \$11,500. Those over age 50 can make up to \$2,500 in catch-up contributions.

Simplified Employee Pension (SEP) IRA plans. In these plans, your employer (or you, if you're self-employed) contributes directly to an IRA on your behalf. The annual minimum wage for participation increases to \$550 and the maximum contribution allowed is a percentage of pay (25 percent for companies; 20 percent if self-employed) up to an annual pay limit of \$245,000 – a \$15,000 increase from 2008.

College tax credit. You may be able to claim a Hope credit of up to \$1,800 for qualified education expenses paid for each eligible student during their first two years of post-secondary education for the 2008-2009 school year. And you may be able to deduct up to \$2,500 a year from your taxes for qualified student loan interest.

Social Security wage base. The maximum earnings amount subject to Social Security tax has increased to \$106,800, from \$102,000 in 2008. As in past years, there is no maximum wage amount subject to taxation for Medicare.

Consult a financial advisor for other tax credits or deductions for which you may be eligible. When it comes to paying taxes, the more you know, the more you can save.

## **Know your tax exemption, deduction options**

Written by Jason Alderman

Tuesday, 13 January 2009 00:59

---

Jason Alderman directs Visa's financial education programs. Sign up for his free monthly e-Newsletter at [www.practicalmoneyskills.com/newsletter](http://www.practicalmoneyskills.com/newsletter).