

Money

## [What the \\$700 billion bailout does for taxpayers](#)

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By now you're well aware that the federal government recently approved a historic bill aimed to rescue our nation's faltering financial system. But what's gotten far less attention than the billions approved to prop up banks, are significant tax benefits included for individuals.

Buried in the 400+ page plan are more than \$150 billion in individual and business tax breaks, including another [temporary patch for the alternative minimum tax](#), credits for energy-efficient upgrades to your home and extensions for many benefits set to expire, according to CCH, a tax information and software provider. Some of the breaks apply to the upcoming filing season.

"There are nearly 100 changes to the tax code," says Mark Steber, vice president of tax resources at Jackson Hewitt, a tax preparation company. "There is a little bit of something in here for a lot of people. This is a very pro-taxpayer piece of legislation, separate and apart from the financial bailout related changes."

[Here's a rundown on what's new](#), and what has returned, so you can make sure you're not handing Uncle Sam any more than what you have to.

[A quick fix for the AMT](#). Once again, the government has approved a one-year patch to keep many middle-class taxpayers - about 23 million, according to the tax information publisher J.K. Lasser - out of the reach of the alternative minimum tax in 2008. The law ups the exemption amount this year to \$69,950 for joint filers and surviving spouses and \$46,200 for single taxpayers. But Congress will have to act again in 2009 for these middle income folks to dodge the AMT going forward.

[Mortgage debt forgiveness](#). The law brings some good news for homeowners who foreclose, sell for less than they owe or restructure their mortgage with their lender. Traditionally, when a lender forgives any mortgage debt, the cancelled debt is treated as taxable income. So previously if you had lost your home, you would have also faced a big tax bill. Double whammy.

[The new bill extends a soon-to-expire law that temporarily stops homeowners from owing federal taxes on up to \\$2 million of forgiven debt](#). The catch? The debt has to come from purchasing, building or upgrading your primary residence (which includes your original mortgage) - and not from, say, a home equity loan taken out to pay off credit card bills, says Mark Luscombe, a principal analyst at CCH. The new law will extend the break until 2012.

**A break on education.** Individuals paying college or graduate tuition for their children, spouse or themselves in 2008 and 2009 can deduct - even if you do not itemize - up to \$4,000 if your adjusted gross income is \$80,000 or less for singles and \$160,000 for joint filers. The previous deduction expired last year.

You cannot, however, take this deduction and get the existing HOPE or Lifetime Learning credits for the same person. If you qualify for both you are generally better off with one of the existing credits, says Luscombe. But many individuals who earn too much for the credit can take the deduction, since that income cap is higher, he adds. A sales tax deduction. For the last few years individuals had the option to deduct state and local sales tax instead of income tax. "This was especially popular in states like Florida and Texas where they don't have income tax, and even states like Illinois, which has a modest income tax but a fairly high sales tax," says Luscombe. But that deduction expired in 2007. The new law brings it back through 2009. Even residents of high income tax states who make a large purchase such as a boat or car during the year may save more with the sales tax deduction than the income, says Steber.

**Lower property taxes.** Originally only for 2008, but now extended to 2009, homeowners who do not itemize can deduct up to \$500 (\$1,000 for joint filers) of property taxes in addition to the standard deduction. So homeowners who pay little or no mortgage interest, maybe because they have nearly or already repaid their loan, or they bought the home with cash, can likely save, says Steber.

**Tax-free charitable donations.** If you're 70.5 years or older you can withdraw up to \$100,000 from an IRA and donate it to charity, tax-free. You can tap a traditional or Roth IRA, but you will typically save more in taxes if you go with the traditional account since you can withdraw your Roth contributions tax-free anyway, says Luscombe.

**Energy tax credits.** The government is enticing you to make your home's energy footprint smaller next year. In 2009 (they skipped over 2008, says Luscombe) you can qualify for a credit of up to \$500 for qualified improvements to make your home more energy efficient. These include adding insulation, replacing windows or buying an energy-efficient water heater.

You may also be eligible for a credit on any expenditures for solar or wind power for your home. There's a catch: if you previously took the \$500 energy home credit, you're out of luck. It's a one time thing. Disaster aid. If you were affected by Hurricane Ike or this year's floods or tornadoes in the Midwest, you may qualify for relief, including significant benefits like some of those offered to Hurricane Katrina victims, according to J.K. Lasser. For example, you may be able to deduct more of your losses than traditionally allowed, or to tap an IRA without paying the 10% penalty (you still may have to pay taxes) to help fund the clean up.