

Advanced Planning & Support 2008 Tax Update

INCOME TAXES

ESTATE & GIFT TAXES

2007

2008

FOR DEATHS/GIFTS OCCURRING IN 2008

If Taxable Income Is:

If Taxable Income Is:

If Taxable Estate Is:

Over But Not > The Tax Is: Of The Amount >

Over But Not > The Tax Is: Of The Amount >

Over But Not > The Tax Is: Of The Amount >

MARRIED FILING JOINT:

| | | | |
|---------|----------|--------------|---------|
| \$0 | \$15,650 | \$0 + 10% | \$0 |
| 15,650 | 63,700 | 1,565 + 15% | 15,650 |
| 63,700 | 128,500 | 8,773 + 25% | 63,700 |
| 128,500 | 195,850 | 24,973 + 28% | 128,500 |
| 195,850 | 349,700 | 43,831 + 33% | 195,850 |
| 349,700 | — | 94,601 + 35% | 349,700 |

MARRIED FILING JOINT:

| | | | |
|---------|----------|--------------|---------|
| \$0 | \$16,050 | \$0 + 10% | \$0 |
| 16,050 | 65,100 | 1,605 + 15% | 16,050 |
| 65,100 | 131,450 | 8,963 + 25% | 65,100 |
| 131,450 | 200,300 | 25,550 + 28% | 131,450 |
| 200,300 | 357,700 | 44,828 + 33% | 200,300 |
| 357,700 | — | 96,770 + 35% | 357,700 |

SINGLE:

| | | | |
|---------|---------|---------------|---------|
| \$0 | \$7,825 | \$0 + 10% | \$0 |
| 7,825 | 31,850 | 783 + 15% | 7,825 |
| 31,850 | 77,100 | 4,386 + 25% | 31,850 |
| 77,100 | 160,850 | 15,699 + 28% | 77,100 |
| 160,850 | 349,700 | 39,149 + 33% | 160,850 |
| 349,700 | — | 101,469 + 35% | 349,700 |

SINGLE:

| | | | |
|---------|---------|---------------|---------|
| \$0 | \$8,025 | \$0 + 10% | \$0 |
| 8,025 | 32,550 | 803 + 15% | 8,025 |
| 32,550 | 78,850 | 4,481 + 25% | 32,550 |
| 78,850 | 164,550 | 16,056 + 28% | 78,850 |
| 164,550 | 357,700 | 40,052 + 33% | 164,550 |
| 357,700 | — | 103,792 + 35% | 357,700 |

ESTATES & TRUSTS:

| | | | |
|--------|---------|-------------|--------|
| \$0 | \$2,150 | \$0 + 15% | \$0 |
| 2,150 | 5,000 | 323 + 25% | 2,150 |
| 5,000 | 7,650 | 1,035 + 28% | 5,000 |
| 7,650 | 10,450 | 1,777 + 33% | 7,650 |
| 10,450 | — | 2,701 + 35% | 10,450 |

ESTATES & TRUSTS:

| | | | |
|--------|---------|-------------|--------|
| \$0 | \$2,200 | \$0 + 15% | \$0 |
| 2,200 | 5,150 | 330 + 25% | 2,200 |
| 5,150 | 7,850 | 1,068 + 28% | 5,150 |
| 7,850 | 10,700 | 1,824 + 33% | 7,850 |
| 10,700 | — | 2,764 + 35% | 10,700 |

CAPITAL GAINS

| CAPITAL GAINS | | TAXPAYER IN: | |
|-----------------------|-----------------|----------------|--|
| (2003-2010) | 10.15% Brackets | Other Brackets | |
| S-T <12 Mos. | Ordinary rate | Ordinary rate | |
| L-T >12 Mos. (5/5/03) | 0% (2008-2010) | 15% | |
| Dividends (2003-2010) | 0% (2008-2010) | 15% | |

ESTATES & TRUSTS:

| | | | |
|--------|---------|-------------|--------|
| \$0 | \$2,200 | \$0 + 15% | \$0 |
| 2,200 | 5,150 | 330 + 25% | 2,200 |
| 5,150 | 7,850 | 1,068 + 28% | 5,150 |
| 7,850 | 10,700 | 1,824 + 33% | 7,850 |
| 10,700 | — | 2,764 + 35% | 10,700 |

C-CORPORATION: (For all tax years since 1993)

| | | | |
|------------|------------|-----------------|------------|
| 0 | \$50,000 | \$0 + 15% | \$0 |
| 50,000 | 75,000 | 7,500 + 25% | 50,000 |
| 75,000 | 100,000 | 13,750 + 34% | 75,000 |
| 100,000 | 335,000 | 22,250 + 39% | 100,000 |
| 335,000 | 10,000,000 | 113,900 + 34% | 335,000 |
| 10,000,000 | 15,000,000 | 3,400,000 + 35% | 10,000,000 |
| 15,000,000 | 18,333,333 | 5,150,000 + 38% | 15,000,000 |
| 18,333,333 | — | 6,416,667 + 35% | 18,333,333 |

(Professional Corporation: Flat 35%)

PERSONAL EXEMPTIONS**

| | | AGI Threshold/ Upper Limit | |
|---------------------|---------|-------------------------------|--|
| Exemption | | | |
| Married 2007 | \$3,400 | \$234,600/\$357,100 | |
| Filing Jointly 2008 | \$3,500 | \$239,950/\$362,450 | |
| Filing Single 2007 | \$3,400 | \$156,400/\$278,900 | |
| Filing Single 2008 | \$3,500 | \$159,950/\$282,450 | |

Personal exemptions are phased out by 2% for each \$2,500 by which AGI exceeds threshold.

Child Tax Credit

\$1,000 per child; phases out \$50. for each \$1,000 of AGI over \$110,000 (married filing joint) or \$75,000 (single).

KIDDIE TAX:

| | | | |
|---|---------|---------|---------------|
| Unearned income. <18 (<24 and full time student in '08) | | | |
| | 2007 | 2008 | |
| First | \$850 | \$900 | No Tax |
| Next | \$850 | \$900 | 10% Tax |
| Amount over | \$1,700 | \$1,800 | Parents' Rate |

| Standard Deduction | | Additional Age 65 or Older or Blind | |
|---------------------|----------|-------------------------------------|--|
| Annual | | | |
| Married 2007 | \$10,700 | \$1,050 | |
| Filing Jointly 2008 | \$10,900 | \$1,050 | |
| Filing Single 2007 | \$5,350 | \$1,300 | |
| Filing Single 2008 | \$5,450 | \$1,350 | |

Limit or Itemized Deductions

Reduced by 3% of taxpayer's AGI in excess of \$159,590 (\$156,400 in 2007)

**Limit is phased out beginning in 2006. 2008-2009 multiply reduction by 33.3%.

| | | | |
|-----------|-----------|---------------|-----------|
| \$0 | \$10,000 | \$0 + 18% | \$0 |
| 10,000 | 20,000 | 1,800 + 20% | 10,000 |
| 20,000 | 40,000 | 3,800 + 22% | 20,000 |
| 40,000 | 60,000 | 8,200 + 24% | 40,000 |
| 60,000 | 80,000 | 13,000 + 26% | 60,000 |
| 80,000 | 100,000 | 18,200 + 28% | 80,000 |
| 100,000 | 150,000 | 23,800 + 30% | 100,000 |
| 150,000 | 250,000 | 38,800 + 32% | 150,000 |
| 250,000 | 500,000 | 70,800 + 34% | 250,000 |
| 500,000 | 750,000 | 155,800 + 37% | 500,000 |
| 750,000 | 1,000,000 | 248,300 + 39% | 750,000 |
| 1,000,000 | 1,250,000 | 345,800 + 41% | 1,000,000 |
| 1,250,000 | 1,500,000 | 448,300 + 43% | 1,250,000 |
| 1,500,000 | 2,000,000 | 555,800 + 45% | 1,500,000 |
| 2,000,000 | — | 780,800 + 45% | 2,000,000 |

Subtract applicable credit below from calculated tax

| | | |
|-----------|---------------------------------------|-------------|
| 2002-2003 | \$1,000,000 | \$345,800 |
| 2004-2005 | \$1,500,000 | \$555,800 |
| 2006-2008 | \$2,000,000 | \$780,800 |
| 2009 | \$3,500,000 | \$1,455,800 |
| 2010 | Estate tax repealed; gift tax remains | |
| 2011 | \$1,000,000 | \$345,800 |

Annual Gift Tax Exclusions: \$12,000 (\$12,000 in 2007)

Gift Tax: Unified Credit Exemptions: \$1 Million

GSTT Exemption: \$2 Million (\$2 Million in 2007)

SOCIAL SECURITY

Base Amount of Mod. AGI Causing Social Security Benefits to be Taxable:

| | | 50% Taxable | 85% Taxable |
|------------------------|--|-------------|-------------|
| Married Filing Jointly | | \$32,000 | \$44,000 |
| Filing Single | | \$25,000 | \$34,000 |

Maximum Earnings Before Social Security Benefits are Reduced: Assumes full retirement age is 65

| | | 2007 | 2008 |
|------------------------------------|--|----------|----------|
| Under Age (Lose \$1 for every \$2) | | \$12,960 | \$13,560 |
| Age 65 and over | | No limit | No limit |

Maximum Compensation Subject to FICA Taxes:

| | | 2007 | 2008 |
|-------------------------|--|----------|-----------|
| Social Security maximum | | \$97,500 | \$102,000 |
| Medicare maximum | | No limit | No limit |

Social Security Tax Rate: 12.4% Self-employed, 6.2% Employees
Medicare Tax Rate: 2.9% Self-employed 1.45% Employees

LONG-TERM CARE INSURANCE

Maximum Qualified LTC Premiums Eligible for Deduction:

| Age | 40 or Less | 41-50 | 51-60 | 61-70 | Over 70 |
|------|------------|-------|---------|---------|---------|
| 2007 | \$290 | \$550 | \$1,100 | \$2,950 | \$3,680 |
| 2008 | \$310 | \$580 | \$1,150 | \$3,080 | \$3,850 |

Qualified LTC contract per diem limit (\$260 in 2007): \$270

FOR MORE INFORMATION CONTACT:



Jeff Moers
800.303.7310

Please note that Allstate and its licensed representatives do not provide legal or tax advice. Consult an attorney or tax advisor.

FOR BROKER/DEALER USE ONLY—not to be distributed or shown to the public in oral, electronic or written form as sales material. ALFS, Inc. serves as the principal underwriter of certain SEC registered contracts for Allstate Life Insurance Company and certain of its subsidiaries and affiliates.

©2008 Allstate Insurance Company 12/08 Compliments of Advanced Planning & Support—Your Advanced Marketing Resource

Advanced Planning & Support 2008 Tax Update

ROTH IRAS

AGI Phase-Out Range for Contributions to Roth IRAs:

Married Filing Jointly: \$159,000–\$169,000 **Single:** \$101,000–\$116,000

Roth IRA conversion rules:

Before 2010: Modified AGI < \$100,000 Can't be "Married Filing Separately"

2010* and later: Unlimited Modified AGI Any tax filing status

*2010 only, conversion can spread income over 2011 and 2012

TRADITIONAL IRA DEDUCTIBILITY RULES

| Filing Status | Covered by Employer's Retirement Plan? | Modified AGI | | Deductibility |
|---|--|---|---|---|
| | | 2007 | 2008 | |
| Single | No | Any amount | Any amount | Full deduction |
| | Yes | \$51,999 or less \$52,000–\$61,999 \$62,000 or more | \$52,999 or less \$53,000–\$62,999 \$63,000 or more | Full deduction Partial deduction No deduction |
| Married Filing Jointly | Neither Spouse Covered | Any amount | Any amount | Full deduction |
| | Both Spouses Covered | \$82,999 or less | \$84,999 or less | Full deduction |
| | | \$83,000–\$102,999 | \$85,000–\$104,999 | Partial deduction |
| | | \$103,000 or more | \$105,000 or more | No deduction |
| One Spouse Covered – For Covered Spouse | \$82,999 or less | \$84,999 or less | Full deduction | |
| | \$83,000–\$102,999 | \$85,000–\$104,999 | Partial deduction | |
| | \$103,000 or more | \$105,000 or more | No deduction | |
| One Spouse Covered – For Non-Covered Spouse | \$155,999 or less | \$158,999 or less | Full deduction | |
| | \$156,000–\$165,999 | \$159,000–\$168,999 | Partial deduction | |
| | \$166,000 or more | \$169,000 or more | No deduction | |

CATCH-UP CONTRIBUTION LIMITS FOR OTHER QUALIFIED PLAN TYPES

| | 2004 | 2005 | 2006 | 2007 | 2008 |
|------------------------------------|---------|---------|---------|---------|---------|
| 401(k), 403(b), SARSEP & 457 Plans | \$3,000 | \$4,000 | \$5,000 | \$5,000 | \$5,000 |
| SIMPLE IRA & SIMPLE 401(k) Plans | \$1,500 | \$2,000 | \$2,500 | \$2,500 | \$2,500 |

EDUCATION INCENTIVES

Coverdell Education Savings Accounts (Education IRAs) – Contribution Limit \$2,000

Modified AGI Phase-Out Range for Contributions to Coverdell Education Savings Accounts:

Married Filing Jointly: \$190,000–\$220,000 **Single:** \$95,000–\$110,000

QUALIFIED TUITION PROGRAMS – SECTION 529 PLANS

Distributions for qualified higher education expense are income tax free

HOPE AND LIFETIME LEARNING CREDITS

Hope Credit – Up to \$1,650 per student, for first two years of higher education tuition paid

Lifetime Learning Credit – Up to 20% of tuition paid (max. \$10,000); calc'd per taxpayer

| Modified AGI Phase-Outs: | 2007 | 2008 |
|--------------------------------|------------------|------------------|
| Married Filing Jointly: | \$94,000–114,000 | \$96,000–116,000 |
| Others: | \$47,000–57,000 | \$48,000–58,000 |

EXCLUSION OF U.S. SAVINGS BOND INCOME

| Modified AGI Phase-Outs: | 2007 | 2008 |
|--------------------------------|------------------|-------------------|
| Married Filing Jointly: | \$98,400–128,400 | \$100,650–130,650 |
| Others: | \$65,600–80,600 | \$67,100–82,100 |

STUDENT LOAN INTEREST DEDUCTION – Maximum Deduction \$2,500

| Modified AGI Phase-Outs: | 2007 | 2008 |
|--------------------------------|---------------------|---------------------|
| Married Filing Jointly: | \$110,000–\$140,000 | \$115,000–\$145,000 |
| Single: | \$55,000–\$70,000 | \$55,000–\$70,000 |
| Deductibility Period: | No time limit | No time limit |

IRAs

Contribution Limits – Traditional and Roth

| | 2005 | 2006-2007 | 2008 |
|-----------|---------|-----------|---------|
| Regular | \$4,000 | \$4,000 | \$5,000 |
| Catch-Up* | \$500 | \$1,000 | \$1,000 |

*Only taxpayers age 50 and over are eligible

UNIFORM LIFETIME TABLE

For calculating Required Minimum Distributions from Qualified Plans and Traditional IRAs

| Current Age | Distribution Period | Current Age | Distribution Period |
|-------------|---------------------|-------------|---------------------|
| 70 | 27.4 | 86 | 14.1 |
| 71 | 26.5 | 87 | 13.4 |
| 72 | 25.6 | 88 | 12.7 |
| 73 | 24.7 | 89 | 12.0 |
| 74 | 23.8 | 90 | 11.4 |
| 75 | 22.9 | 91 | 10.8 |
| 76 | 22.0 | 92 | 10.2 |
| 77 | 21.2 | 93 | 9.6 |
| 78 | 20.3 | 94 | 9.1 |
| 79 | 19.5 | 95 | 8.6 |
| 80 | 18.7 | 96 | 8.1 |
| 81 | 17.9 | 97 | 7.6 |
| 82 | 17.1 | 98 | 7.1 |
| 83 | 16.3 | 99 | 6.7 |
| 84 | 15.5 | 100 | 6.3 |
| 85 | 14.8 | 101 | 5.9 |

SAVER'S TAX CREDIT – Contributions to Employer Plans & IRAs

Maximum Credit \$2,000 - AGI limits below

| Married File Jointly | Single | Credit |
|----------------------|-------------------|---------------------|
| \$0–\$32,000 | \$0–\$16,000 | 50% of contribution |
| \$32,001–\$34,500 | \$16,001–\$17,250 | 20% of contribution |
| \$34,501–\$53,000 | \$17,251–\$26,500 | 10% of contribution |
| Over \$53,000 | Over \$26,500 | Not Available |

HEALTH SAVINGS ACCOUNTS – HSAs

An "eligible individual" is defined as

- (1) one covered by a high deductible health plan (HDHP), (an annual deductible of \$1,100 for single coverage and \$2,200 for family coverage where the maximum out pocket cannot exceed \$5,600 for single coverage and \$11,200 for family coverage),
- (2) is not covered by any other health insurance except for some permitted coverages,
- (3) is not eligible for and enrolled in Medicare, and
- (4) cannot be claimed as a dependent on someone else's income tax return.

Contribution Limits - Lesser of annual deductible or:

| | 2007 | 2008 |
|---------------|---------|---------|
| Single | \$2,850 | \$2,900 |
| Family | \$5,650 | \$5,800 |