



Tax Law Enacted to Spur U.S. Economy

The Economic Stimulus Package Act of 2008 contains \$152 billion of tax benefits that are designed to boost the U.S. economy by providing tax rebates to individuals and valuable tax incentives for businesses. It is also intended to assist homeowners who are facing foreclosure as a result of the mortgage crisis.

Recovery Rebates

To encourage spending that stimulates economic recovery, eligible individuals will begin receiving rebate checks sometime soon after the April 15 tax filing deadline. However, no rebate check will be issued until an eligible taxpayer's 2007 tax return has been filed and processed. You can not use the rebate to offset a balance due with your tax return and extending your 2007 tax return will delay the refund.

The amount of the rebate will generally be either \$600 (\$1,200 if filing jointly) or the taxpayer's 2007 income tax liability after credits, whichever is less. But even if that liability is less than \$300 (\$600 if filing jointly), the rebate will be \$300 (\$600 if filing jointly) — as long as the taxpayer has either:

- A tax liability of at least \$1 and gross income greater than the standard deduction plus one personal exemption (two if filing jointly); or
- At least \$3,000 of qualifying gross income (earned income, Social Security and certain veterans' benefits).

In addition, the rebate for taxpayers with dependent children will be increased by \$300 per qualifying child. A qualifying child must not have reached the age of 17 before the end of 2007, have a Social Security number and qualify as the taxpayer's dependent.

However, the rebate begins to phase-out for taxpayers with a 2007 adjusted gross income (AGI) of at least \$75,000 (\$150,000 for a joint return). Under the phase-out, the rebate is reduced by 5% of the amount by which a taxpayer's AGI exceeds the applicable limit. Filers without qualifying children will receive no rebate if their AGI is \$87,000 or more (\$174,000 for joint filers). Remember, AGI is your income *after* certain adjustments, such as retirement plan contributions, but *before* personal exemptions and itemized deductions, such as mortgage interest, state and local taxes, and charitable contributions.

Other factors may also impact taxpayer eligibility. Here are some examples of how the rebates will work:

Example 1

Joe and Tanya file jointly and have a 2007 AGI of \$125,000 and a 2007 net income tax liability of \$10,000. They have two dependent children under age 17. They can expect a recovery rebate of \$1,800.

Example 2

Suppose, instead, that Joe and Tanya's 2007 AGI is \$200,000. The \$1,800 calculated amount is reduced (but not below zero) by 5% of the amount by which their AGI exceeds \$150,000. Thus, once their AGI exceeds \$186,000, they are completely phased-out (5% of \$36,000 is \$1,800) and will not receive a recovery rebate.

Example 3

Tanya's widowed mother is retired and has no income other than her Social Security of \$12,000. She pays no income tax, but because her Social Security income is \$3,000 or more and is therefore considered qualifying income, she is eligible for a recovery rebate of \$300 even though her income tax liability is not at least \$1.

While based on your 2007 tax return, recovery rebates are technically an *advance* on your income tax liability for 2008. Thus, when filing a 2008 tax return in 2009, individuals who did not receive the maximum possible rebate because their income was too low or too high receive a second chance based on the figures on their 2008 return. For example, if a single person had no tax liability in 2007 and therefore received only a \$300 rebate, but he or she has a \$1,000 tax liability on the 2008 tax return, that person would receive an additional \$300 credit on the 2008 return. No one will be required to give back any rebate received.

Incentives for Business Investments

To spur additional business investments, the new law provides businesses with tax incentives totaling \$44.8 billion in tax relief, all of which are accelerated to 2008.

The Economic Stimulus Package Act increases the Section 179 limit for initial year expensing to \$250,000 (from \$128,000). The Section 179 expensing election allows a current deduction for newly acquired assets that otherwise would have to be depreciated over a number of years. Because this tax break is designed to benefit primarily smaller businesses, the expensing election begins to phase-out dollar-for-dollar when total asset acquisitions for the tax year exceed \$800,000 (up from \$510,000 before the act). The new higher limit applies for calendar year 2008 or a business' fiscal year that begins in 2008. As in the past, a business can currently claim the expensing election only to offset its net income, not to reduce net income below zero.

Another depreciation-related provision offers a special allowance for certain property, generally if acquired this year. This is in addition to any such property that qualifies for Section 179 expensing. For eligible property, the special depreciation amount is equal to 50% of its adjusted basis.

The following types of property qualify for this special depreciation:

- Tangible property with a recovery period of 20 years or less;
- Computer software purchased by the business;
- Water utility property; and
- Qualified leasehold improvement property.

Because both the Section 179 limit increases and the 50% depreciation allowance can provide large 2008 deductions, businesses may want to consider making major asset purchases this year.

Temporary Loan Limit Increases for Fannie Mae, Freddie Mac and Federal Housing Administration

In response to the mortgage crisis, The Economic Stimulus Package Act increases the dollar limit on loans, from \$417,000 to \$729,750. This dollar amount may be issued by the Federal Housing Administration and that Fannie Mae and Freddie Mac can purchase. This is designed to reduce predatory lending practices on borrowers seeking loans in excess of the current limits, often referred to as “jumbo mortgages.” The increases are in effect for loans made or approved for origination through the end of 2008, after which the previous loan limits will apply once again.

Please contact your ODMD tax professional to find out exactly how The Economic Stimulus Package Act of 2008 will affect your personal and business taxes in 2008.

Best regards,

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