

TAX COMPLIANCE & PLANNING TRENDS

Economic Stimulus Package Aims to Spur U.S. Economy

The Economic Stimulus Package Act of 2008 is designed to boost the U.S. economy by providing tax rebates to individuals and tax incentives for businesses.

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. You can't 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 and must have a Social Security number.

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 phaseout, the rebate is reduced by 5% of the amount by which a taxpayer's AGI exceeds the applicable limit. So 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 won't get any 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.

Note that the recovery rebates, while based on your 2007 tax return, are technically an *advance* on your income tax liability for 2008. Thus, when filing their 2008 tax return in 2009, those who didn't receive the maximum possible rebate because their income was too low or too high get 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 investment

To spur additional investment, the act increases the Section 179 limit for initial year expensing to \$250,000 (from \$128,000). The Sec. 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's fiscal year that begins in 2008. As in the past, a business can claim the expensing election currently 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 Sec. 179 expensing. For eligible property, the special depreciation amount is equal to 50% of its adjusted basis. The following types of property are qualified for this special depreciation:

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

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

Temporary loan limit increases for Fannie Mae, Freddie Mac and FHA

In response to the mortgage crisis, the act increases from \$417,000 to \$729,750 the dollar limit on loans that may be issued by the FHA 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.