

Clothier & Head Tax Insight

Tax Law Enacted to Spur U.S. Economy

By now, you have probably heard about the recently-passed economic stimulus package (the Economic Stimulus Act of 2008), the centerpiece of which is the government's issuance of rebate checks to most Americans. In brief, the measure will bring tax rebates of \$600 for individuals and \$1,200 for couples to most taxpayers and \$300 checks to low-income people. Here are the key details of the rebate provisions in the stimulus package.

Amount of rebate

Eligible individuals will receive a rebate for 2008 equal to the greater of:

1. The taxpayer's net income tax liability, up to a maximum of \$600 (\$1,200 for a joint return); or
2. \$300 (\$600 for a joint return) if either:
 - a. the taxpayer's *qualifying income* is at least \$3,000; or
 - b. his/her net income tax liability is at least \$1 and gross income is greater than the sum of the applicable basic standard deduction amount and one personal exemption (two personal exemptions for a joint return).

Note: Qualifying income is earned income generally, social security benefits, and veterans' disability payments (including payments to survivors of disabled veterans).

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 phase-out, 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.*

The amount of the rebate is not includible in gross income and does not otherwise reduce the amount of withholding. The rebates will be subject to offsets for items like past-due child support and debts owed to the federal government. Other factors may also impact taxpayer eligibility.

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.

Continued on Back

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Most taxpayers will receive the credit in the form of a check issued by the Treasury. The amount of that check will be computed on the basis of tax returns filed for 2007 (instead of 2008). Treasury will make every effort to issue payments as rapidly as possible to taxpayers who filed their 2007 tax returns on time. Taxpayers who file late or on extension will receive their payments later. No rebate checks will be issued after Dec. 31, 2008.

Incentives for business investment

The Economic Stimulus Act of 2008 is intended to jump-start our economy, in part through tax incentives aimed at encouraging businesses to increase their investments in new equipment by the end of 2008. Under the Act, small businesses will be able to write off up to \$250,000 of qualifying expenses in 2008. Additionally, businesses will be able to deduct an additional 50% of the cost of certain investments in 2008. Here are the details.

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, and
- 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.

Note: A qualified leasehold improvement is generally any improvement to an interior part of a building that is non-residential real property that does not enlarge the building. The following requirements must be met to be a qualified leasehold improvement:

- *The improvement is made under or according to a lease by the lessee (or any sublessee) or the lessor of that part of the building.*
- *That part of the building is to be occupied exclusively by the lessee (or any sublessee).*
- *The improvement is placed in service more than 3 years after the date the building was first placed in service by any person.*

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.

Please feel free to contact us at 206.622.1326 to find out exactly how the Economic Stimulus Package Act of 2008 will affect your personal and business taxes in 2008.

Any tax advice in this communication is not intended to be a "covered opinion" as described under IRS Circular 230. It is therefore not intended to be used, and cannot be used, by a client or any other person or entity for the purpose of avoiding penalties that may be imposed on any taxpayer.