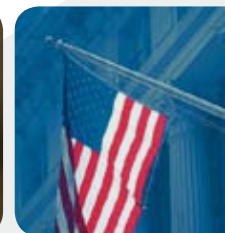


Economic Stimulus Act of 2008 Signed into Law



Overview

On February 13, President Bush signed into law the Economic Stimulus Act of 2008. This bill is designed to jump-start the U.S. economy by boosting consumer spending and business investment. The centerpiece of this \$152 billion package is a program to provide tax rebates to an estimated 130 million Americans. The new law also includes \$44.8 billion in business incentives, as well as help for homeowners facing foreclosure because of the mortgage crisis.

For businesses, the stimulus package will provide a 50% bonus depreciation deduction on new equipment in the year that it is placed in service; it also allows employers to fully expense \$250,000 in both new and used tangible property in the year it is purchased.

Rebates of up to \$600 per individual and \$1,200 per married couple will be available to single taxpayers with adjusted gross income less than \$75,000 and couples filing jointly with adjusted gross income less than \$150,000. The rebates will be phased out for taxpayers above those income thresholds. Those eligible will also receive a \$300 tax credit per child.

Business Incentives

The new law provides two major benefits to businesses in 2008: an increase in the deduction allowed under Code Section 179, as well as bonus depreciation.

The new law nearly doubles the amount of depreciable tangible personal property that may be deducted when it is placed in service. In 2008, a business will be permitted to deduct a maximum of \$250,000 under Section 179, and the threshold for reducing this deduction has been increased as well. As with prior law, this qualifying property must be used at least 50% for business purposes. Since these new limits apply to property purchased and placed

in service in tax years beginning in calendar 2008, taxpayers on a fiscal year will not receive the benefit of the higher expensing limits until their new fiscal year begins.

The new law also allows taxpayers to deduct depreciation equal to 50% of the adjusted basis of qualifying property. Qualifying property includes the following: (1) property eligible for the modified accelerated cost recovery system with a depreciation period of 20 years or less; (2) off-the-shelf computer software; and (3) qualified leasehold property. The taxpayer must be the original user of this property. The property generally must be placed in service during calendar year 2008. The placed in service date is extended one year, through December 31, 2009, for property with a recovery period of 10 years or longer and for transportation property. The new law also raises the limitation on depreciation of "luxury" automobiles; a maximum first-year depreciation amount of \$11,060 may be deducted on automobiles purchased in 2008 for business use. This limit has also been raised to \$11,260 for vans and trucks.

Rebates

The so-called "recovery rebates" are actually refundable credits to be received in advance during 2008, based upon information from the taxpayers' 2007 returns. These rebates are targeted primarily toward low and middle income individuals. For such individuals who actually pay income tax, the maximum rebate available is \$600 (\$1,200 for joint filers). Individuals who do not pay income tax, but have at least \$3,000 in wages or other earned income (including Social Security and VA disability benefits) will receive a \$300 rebate (\$600 for joint filers). In addition to these basic rebates, the new law provides for an additional payment of \$300 per qualifying child.

The rebates begin to phase out at \$75,000 of adjusted gross income (AGI) for individual

filers and at \$150,000 of AGI for married couples filing jointly. Rebates phase out at the rate of 5% of the amount exceeding the applicable AGI threshold. The \$1,200 credit for joint filers, therefore, is completely phased out at \$174,000 of AGI. For taxpayers who qualify for the additional rebates of \$300 per child, the additional child rebate is added to the basic rebate for purposes of calculating the phase-out. This means that a married couple filing jointly with a combined AGI of \$175,000 and two qualified children would receive a total rebate (after phase-out) of \$550.

Individuals who are eligible to be claimed as dependents by another may not receive any rebates for themselves. This means that college-age dependents who have more than \$3,000 in earned income from a summer job cannot become eligible for the \$300 minimum credit, even if their parents forgo claiming them as dependents on their return.

The IRS has indicated that they expect to begin issuing the rebates in May.

Mortgage Assistance

In December, Congress enacted the Mortgage Forgiveness Debt Relief Act. Now Congress has followed up with more new legislation that is designed to provide relief to the depressed real estate sector, as well as a more accessible mortgage market for homeowners, by increasing the maximum mortgage amounts that government agencies may provide. This law raises the maximum principal amount for mortgages issued by the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Housing Administration (FHA).

For more information, contact your Alpern Rosenthal Tax Representative.