



Economic Stimulus Act of 2008

Our friends at Northwest CPA Group, PLLC have recently provided us with a summary of changes adopted by Congress under what is known as the Economic Stimulus Act of 2008. Some of these opportunities are particularly important and of interest to small businesses, in particular the enhanced Code Section 179 expensing and bonus depreciation. With their permission, we are providing you with a copy of this summary. *Please see summary beginning on the next page.*

We hope you find this information helpful. If you have questions, please contact either our office, or one of the accountants at Northwest CPA Group, PLLC.

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RE: 2008 Economic Stimulus Legislation

To help jump-start the economy, Congress recently passed the *Economic Stimulus Act of 2008*. More than 100 million Americans will receive **rebate** checks this year, along with child payments for qualifying children. Businesses can take advantage of two tax breaks: **enhanced Code Sec. 179 expensing** and **bonus depreciation**. Finally, Congress also extended some help to the troubled housing sector.

Rebates. The rebates are technically a refundable credit against tax. If you filed a 2007 income tax return, the Internal Revenue Service (IRS) figures the rebate for you and will send it by mail or direct deposit without you having to take any further action. If you did not file a 2007 return, but still qualify for a rebate because of your earned income level, combat pay, or receipt of Social Security benefits, the IRS has promised to announce how you will get on the rebate list.

The rebates themselves are calculated as the **greater of (1) net income tax liability, not to exceed \$600 (\$1,200 for married couples filing jointly), or (2) \$300 (\$600 for joint filers) if the individual has either (a) at least \$3,000 of any combination of earned income, Social Security benefits and certain veteran' benefits (including survivors of disabled veterans), or (b) net income tax liability of at least \$1 and gross income greater than the sum of the applicable basic standard deduction amount and one personal exemption (two if a joint return).**

What does this mean? For most individuals with earned income of less than \$75,000 and who pay federal income tax, it means they will receive a \$600 rebate. Most married couples filing jointly with earned income of less than \$150,000 and who pay federal income tax will receive \$1,200. **However, the rebates start to phase out when a single person's income exceeds \$75,000 (\$150,000 for married couples filing jointly). The \$600 credit for individuals, phases out completely at \$87,000 adjusted gross income (AGI), and the \$1,200 credit for married couples filing jointly phases out completely at \$174,000 AGI.**

Lower income individuals and people living on Social Security or VA benefits will receive minimum rebates of \$300. While the IRS does the math, we advise that you double check the size of the check when it arrives or is deposited.

Filers on extension. Because the rebates are based on your 2007 return, if you file your return after April 15, 2008, your rebate will be delayed. For example, individuals on extension this year who do not file their 2007 return until the extended October 15, 2008, deadline will not receive their checks until year end. No checks will be sent after December 31, 2008.

After 2008, those who missed out on the rebate or received only a partial rebate get a second shot at qualifying with 2008 data when they file their 2008 return in 2009. This group includes those who did not receive a full \$600/\$1,200 check either because their 2007 income was either too low or too high, or

they did not receive a full \$300 child credit because their income was too high or a child was born or adopted in 2008. They get another chance to claim the difference based on their 2008 tax return filed in 2009. If a taxpayer would have received a smaller rebate check if based on 2008 return information rather than his or her 2007 return, however, the taxpayer is not required to give back the difference.

Although determined based on the 2007 tax year, the rebate technically remains a credit against 2008 tax, payable in the form of an advance payment. Consequently, a taxpayer filing a 2007 return in 2008 cannot claim the rebate as an offset to his or her 2007 tax liability reported on that return in lieu of waiting to receive a check. Neither can the taxpayer choose instead to count the rebate as part of an estimated tax installment for either 2007 or 2008.

Child payments. Besides the rebates, taxpayers with children may be eligible for \$300 payments per child. A qualifying child must not have attained the age of 17 as of the close of the calendar year in which the taxpayer's tax year begins. The qualifying child must be the taxpayer's qualifying child for purposes of the dependency exemption. Finally, the child must be a son, daughter, stepson, stepdaughter, or descendant of such child, or a brother, sister, stepbrother, stepsister, or a descendant of such relative.

Just like the rebates, the child payments phase out for higher income taxpayers. However, there is no cap on the number of child payments that qualifying taxpayers may receive. For example, a married couple with four qualifying children will receive four \$300 payments.

Business incentives. The new law nearly doubles the amount of deductible Code Sec. 179 expensing for 2008 and also provides for bonus depreciation.

Small business expensing. Before the new law, a business could expense up to \$128,000 of the cost of qualifying property in 2008. If the cost of qualified property placed in service during the year is more than \$510,000, the ceiling for that business is reduced by the amount over the applicable limit. **Under the new law, a business can expense up to \$250,000 of the cost of qualifying property and the old \$510,000 ceiling jumps to \$800,000.** If you are thinking about making a purchase for your business, give us a call. We can help you maximize your tax savings under the new law.

The new law makes no changes to the general rules for the types of property that are eligible for expensing. **Generally, the property must be tangible personal property, which is actively used in the taxpayer's business and for which a depreciation deduction would be allowed. The property must be used more than 50 percent for business and must be newly purchased property.** The existing exception for computer software applies to the enhanced expensing amounts under the new law.

Bonus depreciation. The other incentive is bonus depreciation. The new law provides qualifying taxpayers 50 percent first-year bonus depreciation of the adjusted basis of qualifying property.

To be eligible to claim bonus depreciation, property must be (1) eligible for the modified accelerated cost recovery system (MACRS) with a depreciation period of 20 years or less; (2) water utility property; (3) computer software (off-the-shelf); or (4) qualified leasehold property. The property generally must be purchased and placed in service during 2008. Original use of the property must begin with the taxpayer and must occur after December 31, 2007, and before January 1, 2009. There are exceptions for certain transportation property.

Congress also increased limitations on "luxury" auto depreciation to accommodate a modified version of the 50 percent bonus depreciation available to other "MACRS" property. Ordinarily, the first-year limit on depreciation for passenger automobiles cannot exceed \$3,060. The new law raises the cap by \$8,000 if

bonus depreciation is claimed for a qualifying vehicle. Thus, for passenger autos, the cap on 50 percent bonus depreciation is set at \$11,060; for trucks and vans, \$11,260.

Foreclosure help. The new law raises the maximum amounts of principal for mortgages issued by the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac).

As always, if you have any questions about the new law, do not hesitate to contact us at (509) 735-1300. We are ready to help you maximize your tax savings.

Sincerely,

NORTHWEST CPA GROUP PLLC