

Baystate / Oceanstate Financial Services

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The Economic Stimulus Act of 2008



The Economic Stimulus Act of 2008 was signed into law on February 13, 2008. The Act is intended to stimulate consumer spending in 2008, and features taxpayer rebate checks for more than 130 million individuals, as well as increased small business expense and depreciation limits, and increased loan limits for Fannie Mae, Freddie Mac, and the Federal Housing Administration (FHA).

Rebate checks

The Act includes a refundable recovery rebate credit for 2008. Even though this credit is a 2008 tax credit, starting in May 2008, rebate checks will be issued based on 2007 tax return data. The credit is computed with two components: the basic credit and the qualifying child credit.

Eligible individuals are generally entitled to a basic credit equal to the greater of:

- Net income tax liability (generally, total tax liability less nonrefundable tax credits other than the child credit) up to \$600 (\$1,200 in the case of a joint return)
- \$300 (\$600 in the case of a joint return) if an individual has either (1) a minimum of \$3,000 in earned income, Social Security benefits, and veterans' disability payments; or (2) a net income tax liability of at least \$1, and gross income greater than \$8,950 for single individuals and married individuals filing separate returns; \$17,900 for married individuals filing a joint return; or \$11,500 for individuals filing as head of household

If you're eligible for any portion of the basic credit, you may also be eligible for a credit of \$300 per qualifying child. In general, you're eligible to claim a \$300 credit for each child who:

- Qualifies as your dependent, and
- Is under age 17 (and will not reach age 17 in 2008), and
- Is your son, daughter, stepchild, sibling, stepbrother, step-sister, or a child or grandchild of one of these individuals

Who is eligible?

- *Any individual other than a nonresident alien or a dependent*
- *Estates and trusts do not qualify*
- *Must have a valid taxpayer identification number*

Higher income limitations

The recovery rebate credit is phased out for individuals with higher incomes. Specifically, your total rebate credit (the sum of both the basic credit and any qualifying child credit) is reduced by 5% of the amount by which your adjusted gross income (AGI) exceeds \$75,000 (\$150,000 if you file a joint return with your spouse).

For example, a married couple filing a joint return with two qualifying children is potentially eligible for a total rebate credit of \$1,800 (\$1,200 basic credit and \$300 per qualifying child), assuming their net income tax liability is at least \$1,200. If the combined AGI of the couple is \$160,000, however, they will be entitled to a credit of only \$1,300 (their AGI exceeds \$150,000 by \$10,000; 5% of \$10,000 is \$500; \$1,800 - \$500 = \$1,300). If the combined AGI of the couple was \$186,000, they would be entitled to no rebate credit at all.

Assuming that you're otherwise entitled to the full basic credit, your total rebate credit is limited (or phased out entirely) according to the following AGI ranges:

Table A. — Individuals Who File Married Filing Jointly

Qualifying Children	Phaseout Begins	No Credit After
No Children	\$150,000 AGI	\$174,000 AGI
1 Child	\$150,000 AGI	\$180,000 AGI
2 Children	\$150,000 AGI	\$186,000 AGI
3 Children	\$150,000 AGI	\$192,000 AGI
4 Children	\$150,000 AGI	\$198,000 AGI

Table B. — All Other Individuals

Qualifying Children	Phaseout Begins	No Credit After
No Children	\$75,000 AGI	\$87,000 AGI
1 Child	\$75,000 AGI	\$93,000 AGI
2 Children	\$75,000 AGI	\$99,000 AGI
3 Children	\$75,000 AGI	\$105,000 AGI
4 Children	\$75,000 AGI	\$111,000 AGI

Individuals must file a federal income tax return to receive a rebate check. So if you qualify, you should file a federal income tax return for 2007, even if you're not otherwise required to do so.

Rebate checks: Other considerations

- When you file your 2008 federal income tax return in 2009, you'll reconcile the amount of the credit you're entitled to with any rebate payment you've received. If it turns out that you're actually entitled to a larger credit based on your 2008 tax return, you'll get the difference as a tax credit. But, if it turns out you should have received less than you got as a rebate check, you won't have to pay back the difference.
- The IRS has announced that rebate checks will be mailed out beginning in May, and payments will continue through the spring and summer. Rebate checks will be directly deposited if you select that option on your 2007 federal income tax return.
- If you file your 2007 federal income tax return after April 15 (even if you file a valid extension), you will receive your payment later.
- The Department of the Treasury will not issue checks after December 31, 2008.

The IRS has released an illustrated version of IRS Form 1040A (available on www.irs.gov) that recipients of Social Security benefits, veterans benefits, and Railroad Retirement benefits can refer to for assistance in completing a 2007 Form 1040A for the sole purpose of claiming the rebate credit. These taxpayers are instructed to write "Stimulus Payment" across the top of their tax return.

Other provisions included in the Act

Section 179 expense elections for small businesses

Small businesses may elect under Internal Revenue Code (IRC) Section 179 to expense the cost of qualifying property rather than recover such costs through depreciation deductions. Prior to the Act, the maximum amount that a business could expense for 2008 was \$128,000 of the cost of qualifying property placed in service for the taxable year. The \$128,000 amount was reduced (but not below zero) by the amount by which the cost of qualifying property placed in service during

the taxable year exceeded \$510,000. In general, qualifying property is defined as depreciable tangible personal property that is purchased for use in the active conduct of a trade or business.

The Act increases the \$128,000 and \$510,000 amounts under IRC Section 179 for taxable years beginning in 2008 to \$250,000 and \$800,000, respectively.

Special first-year bonus depreciation

The Act allows an additional first-year "bonus" depreciation deduction for qualifying property in 2008:

- The additional first-year depreciation deduction is equal to 50% of the adjusted basis of qualified property
- The additional first-year depreciation deduction is allowed for both regular tax and alternative minimum tax
- There are no adjustments to the allowable amount of depreciation for purposes of computing a taxpayer's alternative minimum taxable income with respect to property to which the provision applies
- The basis of the property and the depreciation allowances in the year the property is placed in service and later years are appropriately adjusted to reflect the additional first-year depreciation deduction
- A taxpayer may elect out of additional first-year depreciation for any class of property for any taxable year

Increased loan limits

- Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) conforming loan limits are increased from \$417,000 to 125% of the median home price of an area, up to \$729,750. This increase is effective for mortgages originating between June 30, 2007, and January 1, 2009.
- For Federal Housing Administration (FHA) mortgages approved through December 31, 2008, the FHA loan limit also increases to 125% of the median home price of an area, up to \$729,750 for a single family property. Additionally, if market conditions warrant, the Secretary of Housing and Urban Development has the discretion to raise the FHA ceiling for specified areas or sizes of residences up to \$829,750.

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