



NEW TAX BENEFITS FOR INDIVIDUALS AND BUSINESSES IN 2008

The Economic Stimulus Act of 2008 (the “Act”) has been passed by Congress and signed into law by President Bush in an attempt to stave off recession. Generally, the Act includes individual tax rebates and investment incentives for businesses in the form of enhanced expensing and depreciation provisions for equipment bought and placed into service during 2008.

Individual Tax Rebate Checks. The Act provides that tax rebate checks will be issued for most Americans. The rebates could amount to \$600 for individuals or \$1,200 for couples. The amount of the rebate will generally be the greater of the following:

- The individual’s net income tax liability, up to a maximum of \$600 (\$1,200 for joint filers); or
- \$300 (\$600 for joint filers) if either: (a) the individual’s qualifying income is at least \$3,000; or (b) the individual’s 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 exemptions (two for joint filers). Qualifying income is any earned income and includes Social Security benefits and veteran disability payments.

There is an additional \$300 credit for each qualifying child for whom the child tax credit could be claimed. The amount of the rebate, however, is phased out at a rate of 5% of adjusted gross income (“AGI”) over \$75,000 (\$150,000 for joint filers). Therefore, the rebate will be eliminated for a single filer with no children when AGI reaches \$87,000 (\$174,000 for joint filers with no children). It is anticipated that the rebate checks will be mailed within two months of filing the appropriate 2007 individual tax return.

Increased Section 179 Expense. Internal Revenue Code (“IRC”) Section 179 allows taxpayers to elect to treat the cost of Section 179 property as an expense deduction for the tax year such property is placed in service, instead of having to capitalize the expense and recover the cost over several years through depreciation. Taxpayers can now expense up to \$250,000 (pre-Act was \$128,000) for qualifying property placed in service during 2008. This amount is reduced by the amount by which the cost of qualifying property exceeds \$800,000 (pre-Act was \$510,000). These limits increase the amount a business will be able to expense for the cost of machinery and equipment purchased in 2008.

Bonus Depreciation. The Act provides for accelerated depreciation by allowing a bonus first-year depreciation deduction of 50% of the adjusted basis of qualified property placed in service during 2008. The remaining adjusted basis is recovered over such property’s depreciable life. Bonus depreciation is only allowed for the following:

- Property to which MACRS applies that has a recovery period of 20 years or less;
- Water utility property;
- Non-custom-made computer software; or
- Qualified leasehold improvement property.

Depreciation for Passenger Automobiles. IRC Section 280F(a) imposes limits on the depreciation deduction that can be claimed on passenger automobiles. For 2008, this amount is indexed to \$3,060 (\$3,260 for trucks and vans). The Act increased the first tax year depreciation limit by \$8,000 (\$11,060 for passenger automobiles and \$11,260 for trucks and vans). The limits are proportionately reduced to the extent that the automobile is used for non-business purposes.

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