



TAX ALERT

FEBRUARY 22, 2008

THE ECONOMIC STIMULUS PACKAGE ACT OF 2008

President Bush has signed into law the Economic Stimulus Package Act of 2008. This Act is designed to boost our economy by giving tax rebates to low and middle income taxpayers and tax incentives to businesses. It also gives some foreclosure assistance.

Rebates For Individuals

The rebates are limited to a maximum of \$600 (\$1,200 for joint returns) plus \$300 for each qualifying child under age 17. The rebates are not taxable to the recipients. The rebates begin to phase out at \$75,000 of adjusted gross income (AGI) for individual taxpayers and \$150,000 AGI for married couples filing jointly. The rebates are lost altogether if an individual has an AGI of \$87,000 or \$174,000 for joint filers.

Some people who are not required to file tax returns because their income is too low, should file in order to receive a rebate. For example, if your only income is from social security, you should file a tax return to receive your rebate.

You cannot receive your rebate until you file your 2007 tax return. The rebates will begin arriving in May at the rate of seven million checks per week. The rate increases to eleven million checks per week in June.

Business Incentives

The Act provides businesses with two tax incentives that add up to \$44.8 billion

accelerated all in 2008 or their fiscal year which begins in 2008. The incentives are enhanced Sec. 179 expensing limitations and bonus depreciation for certain assets purchased and placed in service this year.

Enhanced Sec. 179 Expensing Limitations

The Sec. 179 expensing election allows businesses to deduct the cost of certain acquisitions in the year acquired instead of having to depreciate them over a number of years. The assets that qualify for this election include:

- Most machinery, equipment and other tangible personal property,
- Computer software and,

The Act increases the present annual limitation of \$128,000 to \$250,000. If the total acquisitions of a business exceed \$800,000 in 2008, the \$250,000 limit gets reduced dollar for dollar to the extent of the excess.

Example:

A business purchases one million in assets in 2008. Its limitation gets reduced to \$50,000 computed as follows:

Assets purchased in 2008	\$ 1,000,000
Maximum permitted	800,000
Excess purchases	<u>\$ 200,000</u>
Maximum Sec. 179 expensing limitation	\$ 250,000
Less - excess purchases	<u>200,000</u>
Reduced Sec. 179 limitation	<u>\$ 50,000</u>

As in the past, a business can use the expensing election to the extent of its net income - it can't create a loss.

Bonus Depreciation

Generally, property which qualifies for the enhanced Sec. 179 expensing election also qualifies for Bonus Depreciation. In addition, qualified non-residential leasehold improvements are eligible for bonus depreciation. The deduction under this provision in 2008 is 50% of the basis after expensing the maximum permitted by the enhanced expensing limitation of Sec. 179. The interplay of these provisions is illustrated in the following example.

Example:

Acme Inc. purchases qualifying assets in 2008 having a \$500,000 cost. Its deductions in 2008 total \$400,000, computed as follows:

Expensing limitation of Sec. 179	\$ 250,000
Bonus depreciation (\$500,000 - \$250,000) X .50	125,000
Normal depreciation (\$500,000 - \$250,000 - \$125,000) X .20	25,000
	\$ 400,000

The luxury automobile depreciation limit has been increased by \$8,000 for the year of purchase. Therefore, the maximum first year depreciation has been increased from \$3,060 to \$11,060.

Foreclosure Assistance

The Act increases the maximum amount of principal for mortgages issued by Fannie May and Freddie Mac to \$729,750 from the former limit of \$417,000.

The Act is complex and we have attempted to present the most important provisions in a simplified form. Please contact us if you have a specific question or problem.

MANDATORY ILLINOIS WITHHOLDING ON PARTNERSHIP, S-CORP AND TRUST DISTRIBUTIONS TO NON-RESIDENTS

Beginning this year every partnership (other than a publicly traded partnership), S-Corp and trust must withhold and remit to Illinois a percentage of each non-resident partner's, shareholder's or beneficiary's share of his annual income regardless of whether any distributions were made during the year. The rate is 3% for non-resident individuals and 4.8% for non-resident corporations and pass through entities.

This change in the law does not apply to income earned by non-residents included on composite tax returns because tax was previously required to be remitted to the state. Any amount withheld under this provision shall be treated by the non-resident as a payment of his estimated tax liability.

PREVIEW OF COMING ATTRACTIONS

	Capital Gains and Dividends	Highest Personal Tax Rate	Highest Corporate Tax Rate
Present Law	15% maximum for each	35%	35%
Clinton	Capital gains - 20% maximum Dividends - 39.6% maximum	39.6%	Undecided
Obama	24% maximum for each	39.6%	Undecided
Huckabee	Eliminate all federal taxes in favor of a flat 23% sales tax which would be refunded to low and middle income taxpayers	23%	None
McCain	15% maximum for each	35%	25%

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