

CONGRESS PASSES ECONOMIC STIMULUS ACT OF 2008

On Feb. 7, both the Senate and House of Representatives passed H.R. 5140, the "Economic Stimulus Act of 2008" (Stimulus Act). The measure is thus cleared for the President's signature. Following is a summary of the Stimulus Act's tax provisions:

Rebate. An eligible individual will receive a basic credit equal to the greater of: (1) his net income tax liability up to a maximum of \$600 (\$1,200 for a joint return); or (2) \$300 (\$600 for a joint return) if either (a) the taxpayer's qualifying income is at least \$3,000; or (b) his 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 exemption (two personal exemptions for a joint return). Qualifying income is earned income generally, veterans' disability payments (including payments to survivors of disabled veterans), and social security benefits. There will be an additional \$300 per-child credit amount. The amount of the rebate (both the basic and the child's amount) phases out at a rate of 5% of adjusted gross income (AGI) above \$75,000 (\$150,000 for joint returns).

Boosted Sec. 179 expensing. Under current law, taxpayers can expense up to \$128,000 for 2008 (as indexed for inflation). This annual expensing limit is reduced (but not below zero) by the amount by which the cost of qualifying property placed in service during 2008 exceeds \$510,000 (as indexed for inflation). The amount of the expensing deduction is limited to the amount of taxable income from any of the taxpayer's active trades or businesses. For tax years beginning in 2008, the Stimulus Act will increase the \$128,000 expensing limit to \$250,000 and boosts the overall investment limit from \$510,000 to \$800,000.

Bonus first-year depreciation. Bonus first-year depreciation was first allowed in 2001 but under current law generally isn't available for property acquired after 2004. The Stimulus Act permits a bonus first-year depreciation deduction of 50% of the adjusted basis of qualified property acquired and placed in service after Dec. 31, 2007, and before Jan. 1, 2009. The otherwise applicable "luxury auto" cap on first year depreciation will be increased by \$8,000 for vehicles that qualify. The types of property eligible for bonus depreciation will be the same as those eligible under earlier bonus depreciation packages: (1) tangible property with a recovery period not exceeding 20 years; (2) purchased computer software; (3) water utility property; and (4) qualified leasehold improvement property. Bonus depreciation will be allowed for alternative minimum tax (AMT) as well as for regular tax purposes.