

ECONOMIC STIMULUS ACT CASH REBATE PROVISIONS FOR INDIVIDUAL TAXPAYERS

President signs economic stimulus bill into law—

On February 13, 2008, President Bush signed H.R. 5140, the “Economic Stimulus Act of 2008,” into law. The Act provides for a refundable recovery rebate credit for 2008 to eligible individuals, including retirees receiving only Social Security income and disabled veterans and their survivors. An advance rebate of this credit (based on information in taxpayers' 2007 returns) will be sent to most taxpayers during 2008 by check or direct deposit. The minimum credit for those qualifying is \$300 (\$600 for a joint return), and the maximum is \$600 (\$1,200 for a joint return).

The taxpayer's rebate credit equals 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) his 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).

There is an additional \$300 for each qualifying child for whom the child tax credit can be claimed. This is generally a child under age 17 at the end of the year.

Most taxpayers will receive the maximum rebate. The rebate is phased out for taxpayers with AGIs starting at \$75,000 for singles and \$150,000 for a joint return. The amount of the reduction in the rebate is 5% of any income over the \$75,000 and \$150,000 levels applied against the rebate. Examples of the rebate phase-out are as follows:

Illustration: A married couple filing jointly with two children has AGI of \$160,000, and net tax liability of over \$1,200. Their rebate is \$1,300: [\$1,800 (i.e., \$1,200 basic + \$600 children rebate) – \$500 phase-out (i.e., 5% × (\$160,000 – \$150,000))]. (Treasury Fact Sheet)

Illustration: A single parent with two children has AGI of \$90,000, and net tax liability of over \$600. Her rebate is \$450: [\$1,200 (i.e., \$600 basic + \$600 children rebate) – \$750 phase-out (i.e., 5% × (\$90,000 – \$75,000))]. (Treasury Fact Sheet)

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Illustration: A married couple filing jointly with no children has AGI of \$160,000, and net tax liability of over \$1,200. Their rebate is \$700: [$\$1,200$ basic rebate – $\$500$ phase-out (i.e., $5\% \times (\$160,000 - \$150,000)$)]. (Treasury Fact Sheet)

Illustration: An individual has AGI of \$80,000, and net tax liability of over \$600. His rebate is \$350: [$\$600$ basic rebate – $\$250$ phase-out (i.e., $5\% \times (\$80,000 - \$75,000)$)].

The IRS has announced that individuals will have to file a Form 1040 or 1040A for 2007 to get a rebate in 2008, even if they are not otherwise required to file a 2007 return because of low income. Low income individuals qualify for the rebate if their tax return reflects \$3,000 or more in qualifying income, which consists of earned income (e.g., wages, net self-employment income) as well as Social Security or certain Railroad Retirement benefits and veterans' disability compensation, pension or survivors' benefits received from the Department of Veterans' Affairs in 2007.

The IRS said they will be sending out the rebates beginning in May and ending on December 31, 2008. Any rebates not paid in 2008 are to be claimed as a credit on the taxpayer's 2008 returns filed in 2009.

When taxpayers file their 2008 returns early in 2009, they will reconcile the amount of the credit with the rebate they received in the following manner. They will complete a worksheet calculating the amount of the credit based on their 2008 tax return. They will then subtract from the credit the amount of the rebate they received.

For many taxpayers, these two amounts will be the same. However, if the result is a positive number (because, for example, the taxpayer paid no tax in 2007 but is paying tax in 2008), the taxpayer will be able to claim that amount as a credit against 2008 tax liability. If the result is negative (because, for example, the taxpayer paid tax in 2007 but owes no tax for 2008), the taxpayer will not be required to repay the rebate amount to the Treasury.

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223 Little Canada Road
St. Paul, MN 55117
(651) 483-4521

Flagship Corporate Center
775 Prairie Center Drive Ste 480
Minneapolis, MN 55344
(952) 941-9242

www.otcpas.com