

Tax News

October 2008

The Economic Stabilization Act's Tax Provisions

Enacted on October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the "Act") contains core provisions to help the financial services sector and boost the economy, along with various tax provisions that will affect individuals and businesses.

The following are some of the changes in the Act that may affect your year-end 2008 and 2009 tax planning.

Alternative Minimum Tax Relief

For 2008, the AMT exemption amounts had been scheduled to drop from the 2007 figures of \$66,250 (married individuals filing jointly), \$44,350 (unmarried filers), and \$33,125 (married individuals filing separately) to \$45,000, \$33,750, and \$22,500, respectively – the exemption amounts in effect in 2000. Under the Act, these exemption amounts are increased to \$69,950 (married individuals filing jointly), \$46,200 (unmarried filers), and \$34,975 (married individuals filing separately) for 2008 only. Absent further legislation, the exemptions will drop back to the 2000 amounts for 2009.

State and Local Taxes

The new law extends two deductions for state and local taxes. A prior law had provided an additional standard deduction for individuals of up to \$500 (\$1,000 for married individuals filing jointly) for state and local real property taxes paid, available only for 2008. The Act extends the deduction through 2009. Also under the new law, taxpayers who itemize their deductions again have the option of deducting state and local general sales taxes instead of state and local income taxes on their 2008 and 2009 returns.

Education-Related Deductions

The Act also extends two popular education-related deductions through 2009. Eligible taxpayers may once again be able to deduct a limited amount of tuition and related expenses paid for higher education. The above-the-line deduction is capped at either \$2,000 or \$4,000, depending on income. No deduction is available if

modified AGI is more than \$80,000 (\$160,000 on a joint return) or if an education credit is claimed with respect to the student. And eligible K-12 educators can claim an above-the-line deduction for up to \$250 of classroom-related expenses they incur.

Charitable Contribution Provisions

The Act extends expired charitable contribution provisions for both individual and business taxpayers. Individual taxpayers who have reached age 70½ can roll over money in individual retirement accounts (IRAs) to qualified charities on a tax-free basis through 2009. As much as \$100,000 may be donated annually.

Through 2009, C corporations can claim enhanced charitable deductions for donations of books to schools, public libraries, and literacy programs. They can also claim enhanced deductions for charitable contributions of computer equipment and software to elementary, secondary, and post-secondary schools. Any business can take advantage of an enhanced charitable deduction for contributions of food inventory.

Energy Incentives

The Act includes a variety of energy incentives. For individual taxpayers, it extends the tax credit of up to \$500 for the costs of making certain energy-efficient improvements to your principal residence, including energy saving exterior doors, windows, insulation, and certain metal roofs, and for the installation of equipment (such as a furnace or water heater) that meets specified standards for energy efficiency. The credit, which expired December 31, 2007, will now be available for 2009 (but not for 2008).

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The new law also extends the 30% credit for installing solar equipment in your principal residence or second home through 2016 and, starting in 2009, eliminates the former \$2,000 cap on the credit for solar electric equipment. Also extended is the credit for installing fuel cell property in a principal residence. And the Act adds a new credit for the installation of small wind turbine systems to generate electricity and for expenditures on qualified geothermal heat pump property.

For businesses, the Act extends numerous energy credits and deductions – some through as late as 2016 – and adds several new ones. Among the new provisions, starting in 2009, employers can reimburse employees who ride bicycles to work for expenses of up to \$20 a month on a tax-free basis. This benefit can't be funded through pretax salary deferral.

Other Business Provisions

The research and development credit is extended through 2009, with an increase in the alternative simplified research credit rate from 12% to 14% for tax years ending after December 31, 2008. The alternative incremental research credit is repealed for tax years beginning after December 31, 2008. In addition, businesses can depreciate qualified leasehold and restaurant improvements placed in service before 2010 over 15 years. Improvements made to qualifying retail space in 2009 are also eligible for a 15-year depreciation period.

We Can Help

If you need guidance about the Economic Stabilization Act's tax provisions – or any other tax matter – contact Doeren Mayhew today at (248) 244-3000. We would be happy to discuss with you how these recent tax law changes might affect your tax situation.



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