



February 2008

Individual Incentives under the Economic Stimulus Package

To Our Clients and Friends:

On February 13, 2008 the President signed an economic stimulus package (the *Economic Stimulus Act of 2008*), the centerpiece of which is the federal government's issuance of rebate checks in 2008 to most Americans. In brief, the measure will bring tax rebates of \$600 to most individuals, \$1,200 to most couples, \$300 (paid to the parents) for each qualifying child, and \$300 to certain low income people, including disabled veterans and the elderly. Here are the key details of the rebate provisions in the stimulus package.

Amount of the "basic" rebate. Eligible individuals will receive a "basic" rebate in 2008 equal to the greater of:

- 1) The taxpayer's net 2007 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) The Taxpayer's net income tax liability is at least \$1 and gross income is greater than the sum of the applicable basic standard deduction amount (for single, married filing joint, etc.) plus one personal exemption amount (two personal exemption amounts for a joint return).

("Qualifying income" is generally earned income, social security benefits, and veterans' disability payments, including payments to survivors of disabled veterans.)

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

Phase outs. The amount of the rebate credits (both the basic and the additional qualifying child amounts) will phase out at a rate of 5% of adjusted gross income (AGI) above \$75,000 (\$150,000 for joint returns). For example, for joint filers with no children who would otherwise get only the maximum \$1,200 basic credit, the credit will be entirely lost at AGI of \$174,000 or more. For single filers with no children who would otherwise get only the maximum \$600 basic credit, the credit will be entirely lost at AGI of \$87,000 or more.

Eligible individuals. An eligible individual is any individual other than a nonresident alien, a dependent, or an estate or trust. Residents of the U.S. possessions will also receive the benefit. However, in an effort to bar illegal immigrants from receiving rebates, the rebate will not be available if an individual's tax return does not include social security numbers of the taxpayer, spouse, and any qualifying children. Taxpayer identification numbers that the Internal Revenue Service issues to aliens who are ineligible for social security numbers are not valid for this purpose.

Delivery of rebate checks. Most taxpayers will receive the rebate credit in the form of a check issued by the US Treasury in 2008. Those who Efiled their 2007 returns and who used direct deposit will be the first ones to get the rebates. The amount of the rebate check will be computed on the basis of tax returns filed for 2007 (not 2008). But see "Reconciliation" below.

Treasury will make every effort to issue payments as rapidly as possible to taxpayers who filed their 2007 tax returns by April 15, 2008. Taxpayers who file late or on extension will receive their payments later. No rebate checks will be issued after December 31, 2008.

Other. The amount of the rebate is not includible in gross income and does not otherwise reduce the amount of withholding. The rebates will be subject to offsets for items like past-due child support and debts owed to the federal government.

Reconciliation. When taxpayers file their 2008 returns in early 2009, they will reconcile the amount of the rebate credits they should have received with the rebates they actually received by completing a worksheet calculating the amount of the credit based on their 2008 tax returns. They will then subtract from the calculated credit the amount of the rebate they actually 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 the 2008 tax liability. If the result is a negative number (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.

We hope this information is helpful. If you would like more details about this or any other aspect of the new law, please do not hesitate to call.

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