

# Tax Acts of October 3, 2008

## Emergency Economic Stabilization, Energy Improvement and Extension, and Tax Extenders and Alternative Minimum Tax Relief

On October 3, 2008, Congress passed new legislation that contains many provisions that affect individuals and businesses. More than 30 tax breaks that either expired at the end of 2007 or are soon to expire have been extended by the Act. Highlights of the legislation are listed below:

### Provisions Affecting Individuals

Bank and Credit Union Accounts: The Federal Deposit Insurance Act and the Federal Credit Union Act insurance coverage of \$100,000 has been increased to \$250,000 until December 31, 2009.

IRA Charitable Rollover: This popular charitable incentive expired at the end of 2007 but has been extended for 2008 and 2009. The provision allows individuals age 70-1/2 and older to donate up to \$100,000 from their individual retirement accounts (IRAs) and Roth IRAs to public charities without having to count the distributions as taxable income. This giving incentive is particularly beneficial to those individuals who do not itemize their tax deductions and would not otherwise receive any tax benefit for their charitable contributions.

Alternative Minimum Tax: To prevent the unintended result of having millions of middle-income taxpayers fall prey to the AMT, Congress has once again relied on a temporary "patch". This time it is a one-year extension of the 2007 exemption amounts, with a slight increase.

Under the new law, for tax years beginning in 2008, the AMT exemption amounts are increased to: (1) \$69,950 in the case of married individuals filing a joint return and surviving spouses; (2) \$46,200 in the case of unmarried individuals other than surviving spouses; and (3) \$34,975 in the case of married individuals filing a separate return.

Qualified Tuition Deduction: The tax deduction for qualified higher education expenses is extended through 2009.

Teacher Expense Deduction: The provision allowing teachers a deduction of up to \$250 for educational expenses is extended through 2009.

Real Estate Tax Deductions: For 2008 and extended through 2009, non-itemizers receive up to a \$500 (\$1,000 for a joint return) addition to their standard deduction for real property taxes.

Non-Business Energy Credit: Reinstated for 2009. Qualified energy efficiency improvements to the dwelling of a primary residence, qualified natural gas, propane, or

oil furnace or hot water boiler, qualified heat pumps, water heaters, and central air conditions may all apply.

Plug-In Electric Drive Vehicle Credit: Consumers may claim a tax credit of \$2,500 to \$7,500 for the purchase of a plug-in electric car or light truck, depending on the capacity of the battery. The credit is available against the AMT. Phase out of the credit begins after the 250,000<sup>th</sup> plug-in electric vehicle has been sold.

Disaster Relief: Included in the new legislation is tax relief for victims of the storm and flood disaster in Arkansas, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska and Wisconsin. Various tax advantages may apply to those affected.

### **Provisions Affecting Businesses**

Energy Credits: Congress liberalized the definition of property that qualifies for the energy credit to encourage investment in alternative energy technologies. Property qualifying for the credit includes wind energy, solar energy, qualified fuel cell and micro turbine property. The credit is generally for property placed in service after October 3, 2008.

Farmers: For any machinery or equipment used in a farming business, except grain bins, fences or land improvements, purchased and placed in service in calendar year 2009, the depreciable life is 5 years, not 7 years. To qualify, the original use of the equipment must be with the taxpayer after December 31, 2008.

Payroll: The additional 0.2% FUTA surtax is extended to apply through 2009.

Research and Development Credit: The research tax credit is extended through 2009. In addition, the alternative simplified credit is increased from 12% to 14% for the 2009 tax year, and the alternative incremental research credit is repealed for the 2009 tax year.

Bicycle Commuters: Employers are allowed to provide employees who commute to work by bicycle limited fringe benefits to offset the costs of such commuting (e.g., storage).

Please see new provisions under the 2009 Tax Law Stimulus link on our website for additional changes.

We hope this information is helpful. If you would like more details about these changes or any other aspects of the new law, please contact William Philbrick at (508)791-0901.