

Cluff Notes

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Diane W. Clough, CPA, Ltd.
6130 W. Elton Ave
Las Vegas, NV 89107
(702) 870-0888

Economic Stimulus Act of 2008 & Mortgage Forgiveness Debt Relief Act of 2007

The Rebate under the Economic Stimulus Act of 2008

Why did I receive a smaller rebate or none at all?

Generally, the rebate is \$600 for singles, \$1,200 for married couples (two incomes), plus \$300 for each qualifying child. You may receive a lower rebate if:

1. Your total tax liability is less than \$600 single, \$1,200 married couple.
2. Your adjusted gross income is more than \$75,000 single, or \$150,000 married. (No rebate at all.)
3. You owe back taxes that reduced your payments.
4. You have unpaid federal student loans or child support obligations.

The Expanded Section 179 Deduction under the Economic Stimulus Act of 2008

Thanks to the Economic Stimulus Act, larger Section 179 depreciation deductions are allowed for qualifying **new or used assets** placed in service in tax years beginning in 2008.

Specifically, the new law almost doubled the maximum Section 179 deduction to \$250,000 (up from \$128,000). From 2009 to 2010, however, the maximum deduction will revert back to \$125,000 (plus inflation adjustments) unless congress takes further action.

Section 179 only applies to assets purchased for use in a trade or business.

First Year Bonus Depreciation under the Economic Stimulus Act of 2008

Bonus depreciation is back! Under the first-year bonus depreciation, your business can immediately deduct half of the cost of qualifying **new assets** purchased and placed in service during the calendar year 2008.

Qualifying assets include most types of tangible personal property, as well as new cars, trucks, and SUVs that are used more than 50% for business use. The bonus is also available with "qualified leasehold improvement property." To meet this definition, all of the following tests must be passed:

1. Improvement must be made to the interior portion of the building.
2. The building must be nonresidential real property, i.e. commercial building.
3. The improvement must be made pursuant to an operating lease by either the landlord of the property or the lessee (or sub-lessee).
4. The improvement must be made more than 3 years after the date the building was first placed in service.

While larger businesses may be ineligible for the Section 179 deduction, 50% first year bonus depreciation is available to any business regardless of size.

Planning Note: Unlike Sec. 179 expense, bonus depreciation deductions can be used to generate an overall taxable loss for the year. Please note that used assets do not qualify.

Bonus depreciation can be combined with Sec. 179 for significantly greater deductions. And SUVs over 6,000 lbs. GVWR, formerly limited to \$25,000 under Sec. 179, can be largely expensed in the first year with bonus depreciation.

The Mortgage Forgiveness Debt Relief Act of 2007 (www.irs.gov)

Usually, debt that is cancelled or forgiven by a lender must be reported as taxable income. Under the Mortgage Forgiveness Debt Relief Act of 2007, debt cancelled or forgiven on your principal residence is not taxable. The act applies to debt forgiven in years 2007-2009.

Note: The debt must have been incurred to buy, build, or improve your principal residence only. Debt forgiven on a second home or investment property is still taxable income, as is refinance debt used for other purposes.

IRS Increases Standard Mileage Rates

Beginning July 1, 2008, IRS has increased the standard mileage rates for business use of a vehicle from 50.5 to 58.5 cents per mile. Medical mileage rates increase from 19 to 27 cents per mile.

Now is a good time to consider planning for 2008 income taxes. Please call our office for planning assistance.