



Emergency Economic Stabilization Tax Act of 2008

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NEWSLETTER
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President Signs Financial Markets Rescue Plan, AMT Patch, Extenders, Energy Incentives and More

Congress passed a historic financial markets rescue bill that includes over 100 tax provisions and over \$150 billion in separate tax breaks on October 3. The president signed the bill into law on the same day.

In addition to the major tax provisions that directly address current financial bailout measures new law includes a much-anticipated alternative minimum tax (AMT) patch, an extensive package of tax extenders, energy incentives, disaster relief, and more. The *Emergency Economic Stabilization Act's* \$150 billion in tax incentives impacts both individuals and businesses. Approximately \$44 billion in offsets, however, mean tax increases for certain groups.



FINANCIAL MARKETS RESCUE PLAN

The Troubled Assets Relief Program (TARP) is one of the main components in the new law.

Executive Compensation

Lawmakers took a two-prong approach to curbing excessive executive compensation within those companies directly assisted by the government. In a direct purchase situation, compensation standards will be set by the Treasury Department. The rescue package also limits the deductibility of compensation to

\$500,000 for CEOs, CFOs, and other executives of qualifying companies participating in TARP auctions, if the company has sold \$300 million or more in troubled assets.

Extended Exclusion for Homeowners

The rescue plan extends a temporary rule for cancellation of indebtedness income. When a lender forecloses on property, sells the home for less than the borrower's outstanding mortgage and forgives all or part of the excess mortgage debt, the tax code treats the cancelled debt as taxable income to the homeowner.

The Mortgage Forgiveness Debt Relief Act excludes from federal tax those discharges involving up to \$2 million of indebtedness (\$1 million for a married taxpayer filing a separate return) secured by a principal residence and incurred in the acquisition, construction or substantial improvement of the residence. The new law extends this treatment from the end of 2009 through 2012. This Act also helps homeowners whose mortgage debt may have been reduced through a restructuring. Short sales and deeds-in-lieu-of foreclosure are also covered by the extension.



AMT PATCH—Individual Tax Changes

Congress included an two-part alternative minimum tax (AMT) patch in the new law for tax years beginning in 2008. The first part of the patch grants expanded AMT exemption amounts (see the comparison table below). The second part of patch allows nonrefundable personal tax credits to offset individual AMT liabilities, as well as regular tax liabilities for tax years beginning in 2008.

AMT EXEMPTION AMOUNTS

| | 2007 | 2008 with patch | 2008 without patch |
|--|----------|-----------------|--------------------|
| Married filing jointly and surviving spouses | \$66,250 | \$69,950 | \$45,000 |
| Single and Heads of Household | \$44,350 | \$46,200 | \$33,750 |
| Married filing separately | \$33,125 | \$34,975 | \$22,500 |



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Nonrefundable Personal Credits

The patch allows taxpayers to take nonrefundable personal credits to reduce their AMT liability. The law also removes limits in the AMT on taking personal credits against regular tax liability. This provision applies to many personal tax credits.

Incentive Stock Options

The new law provides relief to those high-tech workers and others who were left holding worthless stock options but a large tax bill based on AMT calculations when the tech industry collapsed. The new law will abate AMT liability stemming from the exercise of incentive stock options (ISOs) before 2008, effective for any unpaid tax liability on the



law's date of enactment. Interest and penalties on the unpaid amounts would also be abated.

The law allows all individuals, including those who paid their ISO AMT liabilities, to accelerate the refund of the minimum tax credit that has not been used. The law also increases the minimum tax credit by 50% of any interest and penalties paid before the date of enactment.

Child Tax Credit

The new law enhances the child tax credit. The credit is currently refundable to the extent of 15% of the taxpayer's earned income in excess of approximately \$12,050. Under the

new law, the earned income floor falls to \$8,500.

Low-income individuals can claim bigger refundable child credits. The tax credit of \$1,000 per qualifying child can be refundable for low-income taxpayers.

Additional Standard Deduction for Real Property Taxes

The new law extends the additional standard deduction for real property taxes for non-itemizers through 2009. Congress authorized a maximum \$500 additional standard deductions (\$1,000 for joint filers) in the *Housing Assistance Tax Act of 2008* but made it available only for the 2008 tax year. The deduction is in addition to the standard deduction. It is not an above-the-line deduction that lowers a taxpayer's adjusted gross income.

BUSINESS TAX CHANGES

The new law includes a host of incentives targeted to businesses, several of which revise as well as extend tax benefits. Among the most significant are revised research tax credit, enhanced depreciation for leasehold and restaurant improvements, and brownfields remediation.

Leasehold and Restaurant Improvements

Under the new law, qualifying restaurant improvements and leasehold improvements will be eligible for 15-year cost recovery rather than a 39-year period for two more years, through December 31, 2009. Similarly, Congress authorized a 15-year recovery period for depreciation of

certain improvements to retail space. This treatment is extended through December 31, 2009.

Transportation Fringes Benefit

Employees can exclude certain employer-provided transportation fringes benefits from income, such as transit passes and van pooling. The new law extends this treatment to employer-provided transportation fringe benefits paid to employees who commute by bicycle. The exclusion amount is \$20 per month. This treatment is effective for tax years beginning after December 31, 2008.

ENERGY-RELATED TAX CHANGES

The Emergency Economic Stabilization Act (the Act) of 2008 includes a number of new, extended, and modified tax breaks for energy-related expenditures. Here are the highlights:

- The Act establishes a new tax credit for Plug-in electric drive motor vehicles. It applies to qualifying new (not used) vehicles that are purchased (not leased). The credit is available to both business and individuals.
- The Act extends the business and personal tax credit for up to 30% of the cost of installing non-hydrogen alternative fuel vehicle refueling property for one more year, to cover property placed in service through 2010.
- The Act extends the \$2,000 per-home contractor tax for building new energy-efficient homes in the U.S. for one more year, through 2009.



If you have any questions, please don't hesitate to call. We are at your service.