

On February 13th, President Bush signed the Economic Stimulus Act of 2008 (the Stimulus Act) into law. The focal point of the Stimulus Act is a provision that will result in about 130 million *low- and middle-income* individuals automatically receiving more than \$100 billion in tax rebates, likely starting in May. The rebates are being sent in an attempt to jump-start the economy. Business incentives and residential mortgage relief provisions are also included in the Stimulus Act.

Basic Rebates. Eligible taxpayers will generally receive a minimum of \$300 for single filers and \$600 for married joint filers. To get the minimum \$300 or \$600 rebate, individuals must have either (a) \$3,000 from earned income, Social Security benefits, and certain veteran's benefits, or (b) pay at least \$1 in federal taxes and have gross income exceeding \$8,750 for single filers or \$17,500 for joint filers. The rebate can be as high as \$600 for single filers and \$1,200 for joint filers if their 2007 net federal income tax liability exceeds \$300 and \$600, respectively. Simply stated, an unmarried taxpayer who pays no income tax could potentially qualify for the \$300 minimum rebate. A married couple filing a joint return who, for example, paid \$2,000 of federal income tax could potentially qualify for the \$1,200 maximum rebate.

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Example #1: Minimum basic rebate based on Social Security income. Linda is a single filer with no children. Her 2007 net federal income tax liability is zero, but she received \$10,750 of Social Security benefits and had no other 2007 income. Linda is entitled to a \$300 minimum rebate based on having at least \$3,000 of Social Security benefits.



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Example #2: Maximum rebate. Carl and Carol are married joint filers with no children. Their 2007 federal tax liability is \$2,000. They qualify for a \$1,200 rebate: their federal tax liability exceeds \$600, but they are limited to a maximum rebate of \$1,200.

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The information contained in this newsletter was not intended or written to be used and cannot be used for the purpose of (1) avoiding tax-related penalties prescribed by the Internal Revenue Code or (2) promoting or marketing any tax-related matter addressed herein.

Tax Calendar

April 15—Besides being the last day to file (or extend) your 2007 personal return and pay any tax that is due, 2008 first quarter estimated tax payments for individuals, trusts, and calendar-year corporations are due today. So are 2007 returns for trusts and calendar-year estates, partnerships, and LLCs, plus any final contribution you plan to make to an IRA or Education Savings Account for 2007. SEP and Keogh contributions are also due today if your return is not being extended.

—If you need to file a 2007 gift tax return, it also must be filed or extended by this date.

—If you paid cash wages of \$1,500 or more in 2007 to a household employee, you must file Schedule H by this date. You may also have

to report any federal unemployment tax paid and any income tax you withheld for your household employees.

April 30—If you have employees, a federal unemployment tax (FUTA) deposit is due if the FUTA liability through March 31 exceeds \$500.

—Most employers must file Form 941 (Employer's Quarterly Federal Tax Return) to report Medicare, social security, and income taxes withheld in the first quarter of 2008. If your tax liability is less than \$2,500, you can pay it in full with a timely filed return. If you deposited the tax for the quarter in full and on time, you have until May 12 to file the return.

June 16—Second quarter estimated tax payments for individuals, trusts, and calendar-year corporations are due today. 

When to Buy Those Airline Tickets

In planning a trip, it's hard to know if the posted airfare is a good deal or not. You hate to pull the trigger now if the fares are going down next week. Now, you can get an idea

which way the fares are heading by plugging in your travel information at www.farecast.com. Based on your destination, travel dates, and trends in the industry, the website can help you decide whether to buy now or wait. A recent audit showed that farecast predictions have proven to be accurate nearly 75% of the time. The site is also launching a similar service for lodging. 

IRS Warns of Telephone Scam Related to Rebates



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The Economic Stimulus Act of 2008 (the Stimulus Act) provides tax rebates for millions of eligible individuals (see the related page 1 article). Even

before the Stimulus Act became law, the IRS warned taxpayers that scammers were already

using the word "rebate" as bait in fraudulent activities to induce innocent victims to reveal their identity to the scammer. Typically, identity thieves use a victim's personal and financial data to empty the victim's financial accounts, run up charges on the victim's existing credit cards, and apply for new loans, credit cards, services, or benefits in the victim's name. Most of these fraudulent activities can be committed electronically from a remote location, even overseas.

So, please contact us if you receive any suspicious phone calls or emails related to rebates or other issues that purportedly come from the IRS. 

Child Rebates. Anyone qualifying for the basic rebate is also potentially eligible to receive an additional rebate of \$300 for each *qualifying child*. There is no cap on the number of qualifying children. To qualify, a child must be under age 17 at year-end and be the taxpayer's qualifying child for dependency exemption deduction purposes.

Example #3: Combined basic and child rebates. Becky and Bart are joint filers with one qualifying child and a 2007 tax liability of \$2,000. They are entitled to a \$1,200 basic rebate and a \$300 child rebate for a total rebate of \$1,500.

Income Limitations. Congress insisted that the rebates be limited to low- and middle-income individuals. So, the rebates are phased-out for unmarried taxpayers with adjusted gross income (AGI) above \$75,000 and for married joint filers with AGI above \$150,000. Rebates are reduced by 5% of any excess above the applicable threshold amounts of \$75,000 and \$150,000, respectively. Therefore, an unmarried taxpayer's \$600 rebate is phased out when his or her income reaches \$87,000 (assumes no qualifying children). A married couple's \$1,200 rebate is completely phased out when AGI reaches \$174,000 (assuming they have no qualifying children).

Example #4: Phase-out rule without child rebate. Gary is a single filer with AGI of \$82,000, a tax liability in excess of \$600, and no qualifying children. Without the phase-out rule, he would be entitled to a \$600 rebate. However, his rebate is reduced to only \$250 [$\$600 - (.05 \times \$7,000 \text{ excess AGI}) = \250] due to the phase-out rule.

Example #5: Phase-out rule with child rebate. Rob and Rhonda are joint filers with an AGI of \$175,000, a 2007 federal income tax liability exceeding \$1,800, and two qualifying children. Without the phase-out rule, they would be entitled to a basic rebate of \$1,200, plus two \$300 child rebates for a total of \$1,800. However, since their

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AGI exceeds \$150,000, their rebate is reduced to just \$550 [$\$1,800 - (.05 \times \$25,000 \text{ excess AGI}) = \550] due to the phase-out rule. If their AGI had been \$186,000 or more, their entire rebate would have been eliminated because of the phase-out rule.



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Mechanics. The government will automatically issue rebates by check or by direct deposit based on information regarding income, tax liability, and qualifying children from your 2007 tax return, or based on a certification of 2007 benefit payments from the Social Security Administration or Veterans Administration. Therefore, individuals will have to file a Form 1040 or 1040A for 2007 to get a rebate in 2008, even if they are not otherwise required to file a 2007 return because of low income.

The intent of the rebate program is for taxpayers to spend the rebate checks and boost the struggling economy. So, you cannot use a rebate to offset your 2007 federal income tax bill, nor can you apply a rebate to your 2008 estimated tax payment obligation.

Ineligible Taxpayers. Rebates are not available to any individual who can be claimed as a dependent on another taxpayer's return. In addition, nonresident aliens and estates and trusts are not eligible to receive a tax rebate.

We hope this coverage of the rebate provisions in the Stimulus Act has helped answer your questions concerning the eligibility for and amount of the potential tax rebate you may receive. Please call us if you have questions about the Stimulus Act or any other tax planning or compliance issue.



Paying for College: Recent Legislation May Help



As anyone with a child in college or going to college in the next few years knows, a college education is not getting any cheaper.

But, recent legislation has made that college education a bit more attainable. The following information highlights some of the key provisions of the College Cost Reduction and Access Act of 2007 (College Act).

The Pell grant program was reauthorized through 2017 by the Act, and the amounts available through a Pell grant were increased. Award amounts will continue to increase gradually over a period of years starting at \$7,600 for the 2008–09 academic year. The grant amounts then go to \$8,600 for 2009–10, \$9,600 for 2010–11, \$10,600 for 2011–12, and \$11,600 for 2012–13.

The Act dictates that interest rates on Stafford and other federally backed loans to undergraduate students will be reduced

gradually over several years. The rate of interest for loans disbursed before July 1, 2008, will be 6.8%. The applicable rate will then decrease each year until it reaches 3.4% for disbursement made after July 1, 2010, and before July 1, 2013.

The Act also increased the aggregate limit for federally insured loans. The amount for undergraduate students was increased from \$23,000 to \$30,500. For graduate and professional students, the aggregate amount was increased from \$65,500 to \$73,000.

A new program known as Teacher Education Assistance for College and Higher Education Grants (TEACH Grants) was authorized by the Act, which also provides for Bonus TEACH Grants. A TEACH Grant provides up to \$4,000 of tuition assistance each academic year to higher achieving undergraduate and graduate students who commit to teaching a specific subject in a high-need elementary or secondary school for four years within the eight-year period following their graduation.

TEACH Grants are available in the following fields: mathematics, science, a foreign language, bilingual education, special education, reading specialist, or other fields documented as high-need. An additional Bonus TEACH Grant of up to \$500 per year is available for students in the fields of mathematics and science.

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