

Taxing Times

Tax information for clients and friends of Stambaugh Ness, PC



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Emergency Act may provide Relief

The Emergency Economic Stabilization Act of 2008 promises to "help prevent the financial crisis on Wall Street from becoming a crisis in communities across the country," according to a statement made by President George Bush when he signed the bill on Oct. 3.

The new rescue package consists of three parts:

- Emergency Economic Stabilization Act of 2008
- Tax Extenders and Alternative Minimum Tax Relief Act of 2008
- Energy Improvement and Extension Act of 2008

The scope of the rescue package includes authorizing the Secretary of the Treasury to establish a troubled asset relief program, provides a much-anticipated alternative minimum tax (AMT) "patch," and extends numerous expiring tax provision and energy incentives.

Troubled Assets Relief Program (TARP)

A major component of the Emergency Economic Stabilization Act involves the Troubled Asset Relief Program. The TARP incorporates three tax-related provisions:

- (1.) Limits executive compensation for companies directly assisted by the government,
- (2.) Permits community banks and other financial institutions holding Fannie Mae and Freddie Mac preferred stock to recognize ordinary losses, and
- (3.) Extends the exclusion from income for discharges of qualified principal residence indebtedness under IRC § 108(a)(1)(E).



Kevin Eisenhart, CPA
Tax Supervisor

KEVIN'S OBSERVATION:

"Certainly, the economic ramifications of this act far exceed these tax considerations, which affect a more narrow scope of businesses and individuals."

What if I'm not in a troubled asset situation?

One important provision of the new bill includes increasing the ceiling on the Federal Deposit Insurance Corporation's (FDIC) guarantee from \$100,000 to \$250,000 per depositor.

AMT "Patch" for Individuals

Prior to the passage of this act, the AMT exemption for married couples filing jointly was set to revert to the "permanent" rate of \$45,000. Had congress not intervened, the number of taxpayers hit by AMT was projected to more than triple. Under the new law, the AMT exemption amount for 2008 only will be as follows:

Taxpayer Filing Status	2008 Exemption
Married filing jointly and surviving spouses	\$69,950
Single and heads of household	\$46,200
Married filing separately	\$34,975

KEVIN'S OBSERVATION:

"The patch will definitely help prevent middle-income taxpayers from coming within the grasp of AMT. One important item to note is that although the exemption amount for individuals increased for 2008, the threshold levels for the calculation of the "phase out" remained unchanged. Additionally, the corporate AMT exemption amount remains at \$40,000. On the up side, the enactment of this patch in October as opposed to December (as was the case last year), will allow for greater tax planning opportunities."

Tax Extenders

The following individual incentives, which expired or were set to expire, have been extended through December 31, 2009:

State and local sales tax deduction - itemized deduction for state and local sales taxes paid in lieu of deducting state and local income taxes

Tuition and fees deduction - deduction (above-the-line) for qualified higher education expenses paid during the year

Additional standard deduction on real property taxes paid by non-itemizers - Maximum \$500/\$1,000 (joint filers)

Educator's expense deduction - maximum \$250 (above-the-line) deduction for teachers and other education professionals

Tax-free distributions from IRAs for charitable purposes - maximum \$100,000 for those individuals who reached 70 1/2 before the distribution

KEVIN'S OBSERVATION:

"Although there were other individual incentives extended / enhanced by these new laws, those not mentioned affect a smaller population of individuals. The extension of these items earlier in the year should give the Service adequate time to revise their 2008 forms by the start of the 2009 filing season."

Business Incentives

Individuals were not the only ones who benefited by the provisions of the new rescue package. Some popular business deductions / credits were also extended through December 31, 2009.

Research Tax Credit - for qualified research and experimentation expenses paid or incurred. The new law also increases the alternative simplified credit amount to 14 percent of qualified expenditures.

KEVIN'S OBSERVATION:

"The enhancement of the alternative simplified credit, a method which provides for greater ease in calculating the research credit, as well as the extension of the research tax credit, adds an additional incentive for business owners to take a second look at whether or not they qualify for the credit. Although initially intended to benefit the manufacturing industry, the scope of the research tax credit is greater than most people think. Remember, you don't need to have people with "white coats" working for you to qualify for the credit."

Leasehold and Restaurant Improvements - extends the 15-year (as opposed to 39-year) recovery period for qualified restaurant and leasehold improvement property. The new law also introduced a 15-year recovery period for certain improvements to retail space.

KEVIN'S OBSERVATION:

"In addition to the accelerated cost recovery, bonus depreciation for property acquired after December 31, 2007 will generally be available. There are, however, certain requirements for improvements to be considered a qualified leasehold improvement."

Energy Enhancements and Extensions for Businesses and Individuals

The new law extended / reinstated energy incentives affecting both individuals and business. Some of the more popular incentives extended include:



Residential Energy Property Credit - maximum \$500 credit, applies to energy efficient improvements made to nonbusiness property for 2009 only

Residential Alternative Energy Credit - maximum \$2,000 annual credit limited to qualified solar electric property expenditures made in 2008

Credit for New Energy-Efficient Homes - maximum \$2,000 credit for contractors who construct or manufacture qualified energy efficient homes

There were numerous other energy incentives enacted as part of this rescue plan as well as a host of disaster relief provisions, affecting those hit by natural disasters. For a complete list of these and other provisions relating to the Act, visit <http://www.house.gov/>.

For more information about how any portion(s) of the Economic Stabilization Act of 2008 will affect your tax picture for 2008, please contact your tax professional or Tax Supervisor Kevin Eisenhart, CPA at 717-757-6999/800-745-8233, or reply to this email.