



Tax Impact of the Emergency Economic Stability Act of 2008

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In response to the recent economic turmoil facing the United States, the Emergency Economic Stabilization Act of 2008 was signed into law on October 3rd. In addition to the assistance provided to financial institutions under the Troubled Assets Relief Program (TARP), there are a large number of tax provisions that will have an impact on individuals and businesses.

The Act has temporarily extended a number of provisions retroactively for 2008 as well as continuing them through 2009. However, after 2009 these extensions will expire unless permanently enacted.

- State and local sales tax deduction
- Additional standard deductions for state and local property taxes (new for 2008) even if you don't otherwise itemize
- Higher education tuition deduction
- Deduction for educator expenses
- Nontaxable IRA transfers to eligible charities
- Research credit (plus additional modifications including the increase of the alternative simplified research credit rate to 14% starting in 2009)
- 15-year life for qualifying leasehold and restaurant improvements
- Enhanced deduction for certain charitable contributions
- Hurricane Katrina measures
- Environmental remediation costs (extended to expenses paid or incurred before 1/1/2010)

Extended Provisions

- State and local sales tax deduction
- Additional standard deductions for state and local property taxes
- Higher education tuition deduction
- Deduction for educator expenses
- Nontaxable IRA transfers to eligible charities
- Research credit 15-year life for qualifying leasehold and restaurant improvements
- Enhanced deduction for certain charitable contributions
- Hurricane Katrina measures
- Environmental remediation costs
- Alternative Minimum Tax

New Provisions

- Refundable child tax credit
- Accelerated recovery period for certain farm machinery and equipment
- Natural disaster related tax relief
- Residential energy efficient property credit
- Residential energy credit
- Energy efficient commercial buildings deduction
- Credit for plug in electric vehicles

- Alternative Minimum Tax. The AMT exemption amounts (before phase-out) for individuals in 2008 have been increased to: \$69,950 for married individuals filing jointly and surviving spouses; \$46,200 for unmarried individuals; and \$34,975 for married individuals filing separately. Only for 2008, nonrefundable credits such as the child tax credit, dependent care credit and Hope Scholarship/ Lifetime Learning credits can be used to offset both AMT and regular taxes. Additionally, relief is available for any AMT liability resulting from the exercise of incentive stock options prior to October 3, 2008

In addition to the extensions above there are several new tax relief measures, as well as modifications of existing measures. Included are several new and extended provisions for natural disaster relief and more than 20 provisions specific to energy conservation.

- Refundable child tax credit. The earned income floor has been reduced to \$8,500.
- Accelerated recovery period for certain farm machinery and equipment. Certain property placed in service after 2008 and before 2010 can use a 5 year recovery period.
- Natural disaster related tax relief. Applicable individuals and businesses affected by federally declared disasters occurring after 2007.
- Residential energy efficient property credit. Extended through 2016 and expanded to include wind energy and geothermal heat pumps.
- Residential energy credit. This credit is reinstated for 2009 only with a maximum allowable credit of \$500 and applies to insulation, windows and doors.
- Energy efficient commercial buildings deduction. This deduction has been extended through 2013.
- Credit for plug in electric vehicles. This is a new credit that starts in 2009 and equals \$2,500 plus \$417 for each kilowatt hour of traction battery capacity in excess of four kilowatt hours. The credit is capped at up to \$15,000 depending on the weight of the vehicle.

The information presented above is a brief overview of the tax provisions of the Act. Please contact your professional at Decosimo with any questions you have regarding the specific provisions of the Act.

