
Economic Stimulus Act of 2008

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Highlights of Significant Provisions for Individual and Business Taxpayers

The Economic Stimulus Act of 2008 (H.R. 5140) was signed into law on February 13, 2008 by President George W. Bush. The Act provides for cash payments to more than 130 million individual taxpayers, and for increases in the expense election and first-year “bonus” depreciation on qualified depreciable capital assets acquired by business taxpayers.

Individual Taxpayer Provisions

General Provisions

Economic stimulus payments will be made by the United States Treasury during late spring and summer, 2008. Most Americans who qualify for the economic stimulus payment will need only to file their 2007 federal income tax return to receive the payment. The payment will not be a part of any refund of 2007 income taxes due to individual taxpayers, but will be a separately issued check.

The IRS will use taxpayers’ 2007 income tax returns to determine eligibility for the economic stimulus payments, and to calculate the amount of the payment due to an individual taxpayer. Payments will be based on the tax liability shown on the 2007 return (prior to application of the Child Tax Credit), with the maximum

payment being \$600 for an individual (\$1,200 for taxpayers filing a joint return), and the minimum payment being \$300 for an individual (\$600 for taxpayers filing a joint return).

Taxpayers with little or no tax liability will qualify for the \$300 minimum payment (\$600 for taxpayers filing a joint return), if their tax return shows at least \$3,000 of qualifying income. Under the Act, qualifying income includes wages and net self-employment income, and Social Security and certain Railroad Retirement benefits, and veterans’ disability compensation, pension, and survivors’ benefits received in 2007 from the Department of Veterans Affairs. Supplemental Security Income (SSI) is not qualifying income for the economic stimulus payment, however.

Low-income taxpayers who have qualifying income of at least \$3,000, but who are normally not required to file an income tax return must file a 2007 tax return to receive the minimum economic stimulus payment.

Additional Payments for Qualifying Children

Parents and other individuals qualifying for the economic stimulus payment will receive an additional \$300 payment for each qualifying child listed on their 2007 federal income tax return. A qualifying child is a child having a social security number and eligible for the Child Tax Credit.

Limitation and Phase-out

Only taxpayers having a valid Social Security number are eligible for

Example

A single parent with one qualifying child has AGI of \$85,000, and a federal income tax liability in excess of \$600.

Individual stimulus payment	\$600	
Payment for qualifying child	300	
Less phase-out reduction	<u>-500</u>	(85,000 – 75,000) x 5%
Net economic stimulus payment	\$400	

Business Taxpayer Provisions

I.R.C. Section 179 Expense Deduction

Prior to passage of the Economic Stimulus Act of 2008, the Internal Revenue Code Sec. 179 expense deduction for qualifying depreciable assets placed in service in the years 2007 through 2010 was to have been \$125,000, with the deduction to be reduced on a dollar-for-dollar basis if the basis of qualified assets placed in service during tax year exceeded \$500,000. These amounts were scheduled to be adjusted annually for

economic stimulus payments. Individuals filing using an Individual Taxpayer Identification Number (ITIN), an Adoption Taxpayer Identification Number (ATIN), or any other identification number issued by the IRS is not eligible for the economic stimulus payment.

Economic stimulus payments (both the basic amount and the amount for qualifying children) are subject to a maximum income limit. Economic stimulus payments will be reduced at the rate of 5 percent of the amount of the taxpayer's Adjusted Gross Income (AGI) in excess of \$75,000 for individuals, and \$150,000 for married taxpayers filing a joint return.

inflation. Under the Economic Stimulus Act of 2008 the I.R.C. Sec. 179 expense deduction for taxable years beginning after December 31, 2007, and before January 1, 2011 is increased to \$250,000, with the phase-out threshold increased to \$800,000. The new limits will not be adjusted annually for inflation.

Special Depreciation Allowance ("Bonus Depreciation")

The Act also reinstates for all business taxpayers the Special Depreciation Allowance contained in I.R.C. Section 168(k). The Special Depreciation

Allowance permits additional first-year depreciation equal to 50 percent of the qualified property's adjusted basis. The Special Depreciation Allowance is generally permitted for qualified property placed in service after December 31, 2007, and before January 1, 2009. Qualified property is property depreciable under the MACRS depreciation system which has a recovery period of 20 years or less, and "off the shelf" computer software.

Comprehensive Business Example

C-Corp purchases \$650,000 of depreciable assets during 2008. All of their acquisitions qualify for the expense deduction under I.R.C. Sec. 179, and for the 50 percent "bonus" depreciation under I.R.C. Sec. 168(k)(2). C-Corp may claim up to \$250,000 section 179 expense election, reducing the adjusted basis of the property acquired and placed in service in 2008 from \$650,000 to \$400,000. C-Corp may also claim the 50 percent "bonus" depreciation on the \$400,000 adjusted basis, leaving an adjusted basis of \$200,000 for

recovery through regular depreciation. If all of C-Corps's 2008 purchases are classified as 5 year recovery period property for MACRS depreciation, and C-Corp uses the 200% declining balance method of depreciation, its 2008 deductions relating to its 2008 depreciable asset purchases are:

- \$250,000 Section 179 expense deduction
- \$200,000 Section 168 "bonus" depreciation
- \$40,000 Section 168 regular depreciation

C-Corp may deduct up to \$490,000 of its \$650,000 2008 depreciable asset purchases on its 2008 federal income tax return.

Additional Information

The Internal Revenue Service has additional information available on the Economic Stimulus Act of 2008 on its website. Enter <http://www.irs.gov/newsroom/index.html> to access this information, and click on "Information on Stimulus Payments."

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