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the Competitive Edge

The Economic Stabilization Act's Tax Provisions

Enacted on October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the "Act") contains core provisions to help the financial services sector and boost the economy, along with various tax provisions that will affect individuals and businesses.

The following are some of the changes in the Act that may affect your year-end 2008 and 2009 tax planning.

Alternative Minimum Tax Relief

For 2008, the AMT exemption amounts had been scheduled to drop from the 2007 figures of $66,250 (married individuals filing jointly), $44,350 (unmarried filers), and $33,125 (married individuals filing separately) to $45,000, $33,750, and $22,500, respectively – the exemption amounts in effect in 2000. Under the Act, these exemption amounts are increased to $69,950 (married individuals filing jointly), $46,200 (unmarried filers), and $34,975 (married individuals filing separately) for 2008 only. Absent further legislation, the exemptions will drop back to the 2000 amounts for 2009.

State and Local Taxes

The new law extends two deductions for state and local taxes. A prior law had provided an additional standard deduction for individuals of up to $500 ($1,000 for married individuals filing jointly) for state and local real property taxes paid, available only for 2008. The Act extends the deduction through 2009. Also under the new law, taxpayers who itemize their deductions again have the option of deducting state and local general sales taxes instead of state and local income taxes on their 2008 and 2009 returns.

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Education-Related Deductions

The Act also extends two popular education-related deductions through 2009. Eligible taxpayers may once again be able to deduct a limited amount of tuition and related expenses paid for higher education. The above-the-line deduction is capped at either $2,000 or $4,000, depending on income. No deduction is available if modified AGI is more than $80,000 ($160,000 on a joint return) or if an education credit is claimed with respect to the student. And eligible K-12 educators can claim an above-the-line deduction for up to $250 of classroom-related expenses they incur.

Charitable Contribution Provisions

The Act extends expired charitable contribution provisions for both individual and business taxpayers. Individual taxpayers who have reached age 70½ can roll over money in individual retirement accounts (IRAs) to qualified charities on a tax-free basis through 2009. As much as $100,000 may be donated annually.

Through 2009, C corporations can claim enhanced charitable deductions for donations of books to schools, public libraries, and literacy programs. They can also claim enhanced deductions for charitable contributions of computer equipment and software to elementary, secondary, and post-secondary schools. Any business can take advantage of an enhanced charitable deduction for contributions of food inventory.

Energy Incentives

The Act includes a variety of energy incentives. For individual taxpayers, it extends the tax credit of up to $500 for the costs of making certain energy-efficient improvements to your principal residence, including energy saving exterior doors, windows, insulation, and certain metal roofs, and for the installation of equipment (such as a furnace or water heater) that meets specified standards for energy efficiency. The credit, which expired December 31, 2007, will now be available for 2009 (but not for 2008).

The new law also extends the 30% credit for installing solar equipment in your principal residence or second home through 2016 and, starting in 2009, eliminates the former $2,000 cap on the credit for solar electric equipment. Also extended is the credit for installing fuel cell property in a principal residence. And the Act adds a new credit for the installation of small wind turbine systems to generate electricity and for expenditures on qualified geothermal heat pump property.

For businesses, the Act extends numerous energy credits and deductions – some through as late as 2016 – and adds several new ones. Among the new provisions, starting in 2009, employers can reimburse employees who ride bicycles to work for expenses of up to $20 a month on a tax-free basis. This benefit can't be funded through pre-tax salary deferral.

Other Business Provisions

The research and development credit is extended through 2009, with an increase in the alternative simplified research credit rate from 12% to 14% for tax years ending after December 31, 2008. The alternative incremental research credit is repealed for tax years beginning after December 31, 2008. In addition, businesses can depreciate qualified leasehold and restaurant improvements placed in service before 2010 over 15 years. Improvements made to qualifying retail space in 2009 are also eligible for a 15-year depreciation period.

Doeren Mayhew Can Help

If you need guidance about the Economic Stabilization Act's tax provisions – or any other tax matter – contact Doeren Mayhew today at (248) 244-3000. We would be happy to discuss with you how these recent changes might affect your tax situation.

Housing Stimulus Law

On July 30, 2008, the Housing Assistance Tax Act of 2008 (the "Act") became law. The Act provides more than $15 billion in tax incentives intended to help bolster the housing industry – and some revenue offsets to help pay for them.

The Law's Major Provisions

The new law contains numerous provisions affecting individuals, state and local governments, and companies engaged in the housing industry.

Among the principal provisions that may affect you or your business:

Tax credit for first-time home buyers. For homes purchased after April 8, 2008, through June 30, 2009, the law allows up to a $7,500 tax credit for first-time home buyers purchasing a principal residence. However, the credit must be repaid to the government in equal installments over 15 years, beginning with the second tax year after the tax year of purchase. The full credit is limited to buyers with modified adjusted gross income of $75,000 or less ($150,000 or less for married couples filing jointly). A credit phase-out applies for taxpayers with income over the limit.

Standard real property tax deduction. For 2008 only, a taxpayer who does not itemize deductions may claim an additional standard deduction of up to $500 ($1,000 for joint filers) for state and local real property taxes paid. This

provision will especially benefit taxpayers who have paid off their home mortgages and no longer have enough deductions to justify itemization.

AMT limits for certain items repealed. The alternative minimum tax (AMT) limitations on the low-income housing tax credit and the housing rehabilitation tax credit are repealed for buildings placed in service and for housing rehabilitation expenditures after 2007. Interest on certain tax-exempt housing bonds is exempt from the AMT.

Low-income housing credit cap increased. The volume cap for low-income housing tax credits is increased for 2008 and 2009, and states have greater flexibility in how to use those bonds efficiently.

Credit card information reporting rules. A new requirement is imposed on credit card companies and other electronic payment processors. Starting after 2010, these entities will have to report the value of a merchant's sales to the IRS if those sales exceed $20,000 per year and the merchant has a volume of more than 200 sales annually.

Exclusion for gain on certain residences disallowed. Gains on the sale of certain residences – including vacation homes and rental properties that are converted into primary residences and then sold – will no longer qualify for the full $250,000 ($500,000 for joint filers) capital gain tax exclusion on sale of a principal residence. In general, the exclusion will not apply to the portion of the gain allocable to the time the residence was not used as a principal residence. This provision is effective for sales and exchanges occurring after December 31, 2008.

How Financial Analysis Can Help Your Business

How do you use your company's financial statements? In many cases, owners and managers find that the insights they gain from their financial statements can improve their company's profitability, cash flow, and value.

One important tool that can help sort out the data you need is "ratio analysis." Ratio analysis looks at the relationships between key numbers on a company's financial statements. After the ratios are calculated, they can be compared to industry standards – and the company's past results, projections, and goals – to highlight trends and identify strengths and weaknesses.

The hypothetical situations that follow illustrate how ratio analysis can give you valuable feedback.

Do Higher Sales Mean Higher Profits?

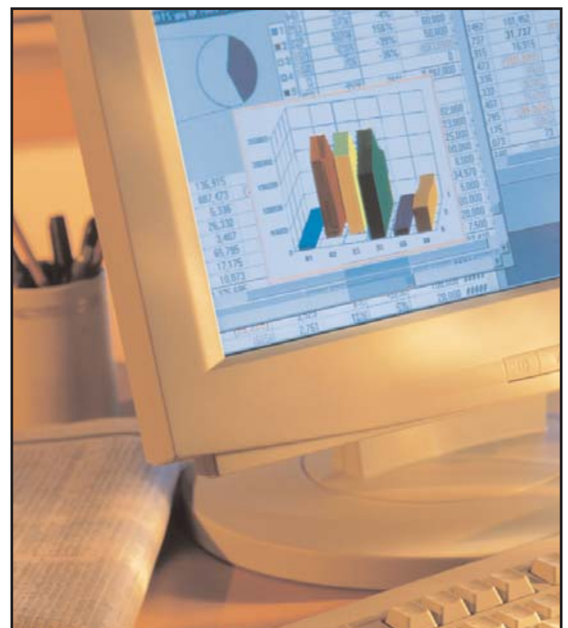
The recent increases in Company X's sales figures have been impressive, but the owners aren't certain that the additional revenues are being translated into profits. Net profit margin measures the proportion of each sales dollar that represents a profit, after taking into account all expenses. So, if Company X's margins aren't holding up during growth periods, a hard examination of overhead expenses may be in order.

Are We Getting Paid?

Company Y extends credit to the majority of its customers. The firm keeps a close watch on outstanding accounts so that slow-payers can be contacted. From a broader perspective, knowing the company's average collection period would be useful. In general, the faster Company Y can collect money from its customers, the better its cash flow will be. However, Company Y's management should also be aware that, if credit and collection policies are too restrictive, potential customers may decide to take their business elsewhere.

Is Inventory Being Managed Efficiently?

Company Z has several product lines. Inventory turnover measures the speed at which inventories are sold. A slow turnover ratio relative to industry standards may indicate that stock levels are excessive. The excess money tied up in inventories could be used for other purposes. Or, it could be that inventories simply aren't moving,



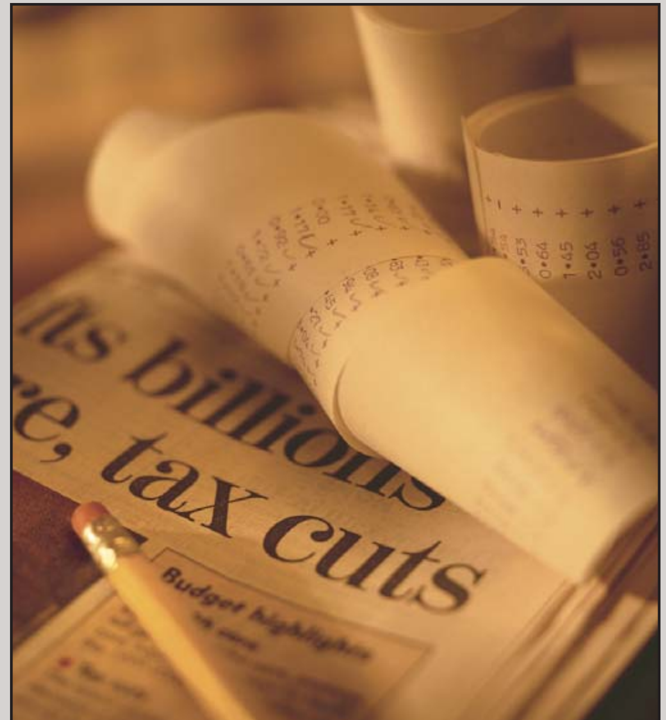
and that could lead to cash problems. In contrast, a high turnover ratio is usually a good sign – unless quantities aren't sufficient to fulfill customer orders in a timely way.

Doeren Mayhew Can Help

These are just some examples of ratios that may be meaningful to you. If you'd like to learn more about how financial analysis can help your business, contact Doeren Mayhew today at (248) 244-3000.

2008 Year-End Tax Planning: Mixing Tried-and-True With New

As 2008 comes to an end, many individuals are thinking ahead to the next filing season. There is just a short window of time to engage in effective year-end tax planning. Many tax breaks are up in the air, with their continuation dependent upon legislation, such as whether Congress will make the 2001 and 2003 tax cuts permanent. The possibility of additional economic stimulus measures as well as new tax cuts in 2009 make tax planning for 2008 a bit more complicated. Through traditional tax planning methods and assessment of the ever-changing tax landscape, prudent taxpayers can take advantage of tax benefits and possibly avoid unwelcome consequences.



Traditional Tax Planning

Traditional year-end tax planning incorporates a typically standard set of considerations, but remains far from a one-size-fits-all process. However, year-end tax planning requires accounting for the particular needs and circumstances of each individual or business.

Income shifting. Individuals and businesses alike can benefit from the classic strategy of shifting taxable income and accelerating or deferring deductions between 2008 and 2009 by controlling the receipt of income and payment of expenses. Taxpayers expecting to be in the same or lower tax bracket in 2009 should consider deferring income until next year and accelerating deductible expenses in 2008. Alternatively, if a substantial increase in income is anticipated in 2009 (propelling the taxpayer into a higher tax bracket), income should be accelerated in 2008 and deductions deferred until next year.

Accounting methods. The accounting method used by a business determines when income must be recognized and expenses may be deducted for tax purposes. Cash-based businesses can shift income to next year by delaying billing notices for services or products so that payment is not received until 2009. Accrual based businesses can defer income by delaying the shipment of products or provision of services until the 2009 tax year. Sudden changes from one accounting method to another to gain a year-end tax advantage are not permitted unless it is happenstance with a legitimate business reason for which the IRS gives its consent.

Business losses. Business loss deductions can be taken for bad debts; losses on the sale of business assets, and net operating losses. If a business will have a bad year in 2008 but had profitable years in 2006 or 2007, a carryback of net operating losses when the 2008 tax return is filed will allow the business to apply for an immediate refund based on use of those losses. A carryforward of up to 20 years is also permitted.

Casualty losses. Both individuals and businesses are also allowed deductions for casualty and theft losses, and capital losses. Deductions by individual taxpayers for those losses, however, are limited. Casualty losses are deductible only if deductions are itemized and then subject to both a $100 deductible per occurrence and a 10 percent adjusted gross income limitation.

Capital losses. Long-term capital losses can be used to fully offset long-term capital gains. Losses taken in excess of gains can also be used to offset up to $3,000 in ordinary income (or $1,500 for a married couple filing separately) for the 2008 tax year. Short-term losses can be used to offset short-term gains that are otherwise taxable at your ordinary individual income tax rate (which can reach as high as 35 percent). Unlike carrybacks for businesses, excess capital losses incurred by individuals may only be carried forward.

Temporary Provisions Ending in '08

Several tax incentives are set to expire at the end of 2008. These expiring tax breaks include:

50-percent bonus depreciation. The Economic Stimulus Act of 2008 provided businesses with 50 percent bonus depreciation of the adjusted basis of qualifying property. The property generally must be purchased and placed in service during 2008.

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Enhanced expensing. The Economic Stimulus Act also increased the amount of deductible Code Sec. 179 expensing for 2008, and increased the threshold for reducing the deduction. For property purchased and placed in service in tax years beginning in 2008, businesses can expense up to $250,000 of Code Sec. 179 property, reduced by the value of the property over $800,000. However, these levels are set to decrease beginning in 2009 to $133,000 (with $530,000 phase-out limit).

Businesses not on a calendar year, should note that the higher expensing limits apply to tax years beginning in 2008. Their higher expensing under the new law does not start until their new fiscal tax year starts. For example, a small business on a June 1-May 31 year would be limited for purchases for the year ending May 31, 2008, to a $125,000 deduction and a $500,000 threshold. The new $250,000/$800,000 amounts would kick in starting June 1, 2008, and continue through May 31, 2009.

Reduced home sale exclusion. Gain from the sale of a principal residence will no longer be excluded from gross income under Code Sec. 121 for periods that the home was not used as a principal residence (i.e., “non-qualified use”). This new income inclusion rule applies to home sales after December 31, 2008, and, under a generous transition rule, is based only on non-qualified use periods that begin on or after January 1, 2009. Essentially, the new rule prevents use of Code Sec 121’s exclusion of gain from the sale of a principal residence of up to $250,000 ($500,000 for joint filers) for appreciation attributable to periods after 2008 during which a residence was used as a vacation home or as a rental property before its use as the principal residence. Thus, this provision makes 2008 the last year for vacation-property conversions to avoid the new rule entirely.

Property tax deduction for non-itemizer. Also made available by the Housing and Economic Recovery Act of 2008 is an above-the-line deduction, for 2008 only, of up to $500 of real property taxes paid during the year. This gives non-itemizers a limited deduction for state and local real property taxes by increasing the amount of their standard deduction. This temporary deduction expires for individual homeowners on December 31, 2008.

New Provisions

Certain tax provisions appeared for the first time in 2008 and now need to be incorporated for the first time into year-end planning. They include:

Discharge of principal residence mortgage debt. The Mortgage Forgiveness Debt Relief Act of 2007 excludes from taxation under Code Sec. 108 discharges of up to $2 million of indebtedness that is secured by a principal residence and is incurred in the acquisition, construction, or substantial improvement of the principal residence. While this special relief is available for three years beginning January 1, 2007, and ending December 31, 2009, its basis reduction provision works on a calendar year basis. Taxpayers who exclude indebtedness income under the principal residence exclusion under Code Sec. 108 are required to reduce the basis of their principal residence by the amount excluded from gross income.

First-time homebuyer credit. The Housing and Economic Recovery Act of 2008 gives first-time home buyers a temporary refundable tax credit equal to 10 percent of the purchase price of a home, up to $7,500 ($3,750 for married individuals filing separately). The credit begins to phase out for taxpayers with adjusted gross income in excess of $75,000 ($150,000 in the case of a joint return). The credit is effective for homes purchased on or after April 9, 2008, and before July 1, 2009.

Extenders

Congress is currently debating a package of extenders – temporary but popular tax breaks for individuals and businesses – that have expired, or will expire. The list of extenders is long. Among expired extenders likely to be renewed are:

- State and local sales tax deduction
- Higher education tuition deduction
- Teacher’s classroom expense deduction
- Research tax credit

Other extenders have not yet expired, including:

- New Markets Tax Credit
- Subpart F exception for active financing income
- Special expensing rules for certain film and television production

Congress is also likely to pass an AMT patch. The patch helps to keep millions of middle-income individuals from paying the AMT. We will keep you posted of any new developments.

In the meantime, please feel free to call the professionals at Doeren Mayhew at (248) 244-3000 for answers to questions you may have regarding the Economic Stabilization Act, or to discuss your specific tax and financial situation.

Vehicle Tax Credits: Not Just for Hybrids Anymore

Move over hybrids – buyers of Volkswagen and Mercedes diesel vehicles now qualify for the valuable alternative motor vehicle tax credit. Previously, the credit had gone only to hybrid vehicles. Now, the IRS has qualified certain VW and Mercedes diesels as "clean" as a hybrid.

Qualifying Vehicles

The IRS has designated the following diesel-powered vehicles as advanced lean-burning technology motor vehicles that qualify for the alternative motor vehicle tax credit: 2009 VW Jetta TDI sedan and TDI sportwagen ($1,300 credit), 2009 Mercedes ML320 Bluetec ($900 credit), Mercedes R320 Bluetec ($1,550 credit), and Mercedes GL320 Bluetec ($1,800 credit). The credit amounts vary depending on the vehicle's fuel economy.

The alternative motor vehicle tax credit is a lucrative tax credit for purchasers of qualifying automobiles. But, just as the situation is with hybrids, the full amount of the credit for each vehicle is available only during a limited period. The dollar value of the tax credit will begin to be reduced once the manufacturer sells 60,000 vehicles that qualify for the tax credit. Additionally, the credit is available only to the original purchaser of a new, qualifying vehicle. As such, individuals who lease the vehicle are not eligible for the credit – the credit is allowed only to the vehicle's owner, such as the leasing company.

Taxpayers may claim the full amount of the allowable credit up to the end of the first calendar quarter after the quarter in which the manufacturer records its sale of the 60,000th advance lean burn technology motor vehicle or hybrid passenger automobile or light truck. For the second and third calendar quarters after the quarter in which the 60,000th vehicle is sold, taxpayers may claim 50 percent of the credit. For the fourth and fifth calendar quarters, taxpayers may claim 25 percent of the credit. No credit is allowed after the fifth quarter.

The credit – as Congress has allotted so far – may only be taken for qualified vehicles purchased before the end of 2010.

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