

the Competitive Edge

Summary of the 2008 Economic Stimulus Act

In an effort to head off a major economic slowdown, the Administration and Congress agreed on a package of tax provisions intended to stimulate the economy. The Economic Stimulus Act of 2008 (“Act”) provides benefits to both individuals and businesses.

Below, we highlight the Act’s provisions and illustrate how they might apply to your personal and business situations. Of course, before acting on anything you read here, you should consult with us.



income, veterans’ disability payments (including payments to survivors of disabled veterans), and Social Security benefits. So, those who do not pay taxes but have these other sources of income could be eligible for a rebate check.

The *maximum* base rebate amount is \$600 (\$1,200 for joint filers). The amount of the rebate will be equal to the lesser of the individual’s tax liability or 10% of the first \$6,000 of taxable income (\$12,000 for joint filers).

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Rebate for Individuals

Each qualifying individual will receive a tax credit in the form of a “recovery rebate” check to be received generally in 2008. Some taxpayers will receive a credit for some of or the entire rebate amount on their 2008 tax returns (filed in 2009).

The rebate has two components: (1) a base amount generally dependent on filing status and income-tax liability and (2) an increase in the child tax credit.

Base Amount – The *minimum* base rebate amount is \$300 (\$600 for married couples filing jointly). Very generally, a person will be entitled to this amount if he/she has at least \$1 of federal income-tax liability or \$3,000 in qualifying income. “Qualifying income” means the sum of earned



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Example: A married couple is retired and living on Social Security benefits only. They pay no income tax on their joint return. The couple would be entitled to a \$600 rebate check.

Example: A single individual has a taxable income of \$25,000 and pays income tax of \$500. The rebate amount is \$500 – the lesser of her tax (\$500) or 10% of \$6,000 (\$600).

Example: A married couple files a joint return showing \$50,000 in taxable income and a tax of \$10,000. The couple would receive a base rebate of \$1,200 (10% of the first \$12,000 of taxable income).

In determining taxable income for eligibility and rebate purposes, taxpayers generally must use 2007 income as reported on their 2007 tax return, filed in 2008. If a person isn't eligible for a rebate check based on 2007 income (for example, where the individual was someone else's dependent for 2007), but becomes eligible during 2008, then the IRS won't send that person a rebate check. However, the individual will be able to claim a credit when he files his 2008 return.

Child Credit Amount – If an individual receives at least \$1 of the base rebate and has qualifying children under age 17, that individual will receive an additional child tax credit of \$300 per child, which will be included in the rebate check. This amount is a refundable credit, so the recipient receives this extra amount even if the amount of the recipient's 2007 income tax is less than the total child tax credit.

Example: A married couple files jointly with three qualifying children. Their taxable income is

\$45,000 and their income tax is \$5,000. The amount of the total rebate check for the couple would be \$1,200 (base amount) plus \$900 (three times \$300 as additional child tax credit), for a total of \$2,100.

Recovery Rebate Phase Out – The rebate amount (including both the base credit and the additional child tax credit) is phased out at a rate of 5% of adjusted gross income (AGI) over \$75,000 (\$150,000 for joint filers).

Example: A married couple filing a joint return has two qualifying children and \$160,000 of AGI. The maximum rebate of \$1,800 (i.e., \$1,200 base credit plus \$600 additional child tax credit) is reduced by \$500 (5% of the \$10,000 AGI in excess of \$150,000), so the couple's rebate is \$1,300.

Therefore, most higher-income individuals' rebate amounts will be reduced or eliminated. There is no specific amount of AGI at which the credit is fully phased out, since that amount will depend on the specific family situation of the taxpayer.

Valid ID Requirement – No rebate amount is allowed to an individual if he/she doesn't include on the tax return a valid identification number (that is, a Social Security number). Both joint return filers must provide their own numbers. If a child tax credit amount is claimed for a qualifying child, the child's Social Security number must be included on the return.

Increase in Section 179 Expensing

One provision intended to stimulate business spending is an increase in the limits applicable to the so-called "Section 179 expensing election" for the 2008 tax year.

Under Section 179 of the tax law, a taxpayer may elect to deduct, up to a dollar limit, the cost of qualifying

property placed in service during the tax year. So, a taxpayer could elect to write off the cost of a purchase all at once instead of depreciating it over time. Generally, qualifying property includes tangible personal property, like equipment, vehicles, machinery, etc. Certain off-the-shelf computer software can qualify as well.

The dollar amount of purchases that qualify for the expensing election is phased out dollar-for-dollar as the value of the taxpayer's investment in qualified property exceeds a certain amount. In addition, the amount that can be expensed cannot exceed the taxpayer's taxable income from the business for the year.

The new law raises both the expensing limit and the investment limit. For property placed in service in tax years beginning in 2008, the Act increases the pre-law \$128,000 expensing limit to \$250,000. The overall investment limit increases from \$510,000 to \$800,000. Neither new amount is to be indexed for inflation.

Example: ABC Company, having taxable income of \$300,000 in 2008, purchases and places in service new equipment worth \$220,000 during the year. Under the Act, the full \$220,000 purchase price of the equipment can be deducted for 2008 tax purposes.

Example: XYZ Corporation places in service new equipment worth \$850,000 in 2008. The business' taxable income is \$1 million. The maximum Section 179 expensing election that XYZ can make is \$200,000 (i.e., \$250,000 maximum expensing election less \$50,000 phase-out (\$850,000 purchases less \$800,000 investment limitation)). Note the remainder of the purchased equipment may be eligible for deduction under the regular depreciation rules (as amended by the Act – see page 3).

Due to these increases, most small businesses and some medium-sized businesses may be able to claim a full deduction for the cost of business equipment and machinery placed in service this year.

Bonus First-Year Depreciation

In addition to the limit increases in the Section 179 expensing election, the Act provides a second incentive for the purchase of business-related assets.

For property placed in service after December 31, 2007, and acquired after that date and before January 1, 2009, the taxpayer will be entitled to an additional depreciation deduction equal to 50% of the adjusted basis of the qualifying property (generally, new

business property other than real estate). The adjusted basis of the property is then reduced by this bonus depreciation when computing regular depreciation on the property.

Example: M Corp., a calendar-year company, bought and placed in service \$1 million of depreciable machinery with a five-year life under the tax law’s depreciation rules. Under the pre-2008 Act law, the first-year depreciation on the machinery would have been \$200,000 (20%). Under the Act, M Corp. may deduct first-year depreciation of \$600,000 (i.e., 50% of \$1 million bonus depreciation (\$500,000

plus 20% of the remaining \$500,000 adjusted basis (\$100,000)).

A taxpayer may “elect out” of the bonus first-year depreciation allowance for one or more classes of property for the tax year.

More Information

We have highlighted many of the important items in the 2008 Economic Stimulus Act. However, there are many details not printed in this article that may impact you.

Please contact the Doeren Mayhew tax professionals today at 248.244.3000 if you have questions or would like more specific information about this new package.

Alternative Minimum Tax Relief Available for 2007

The alternative minimum tax (AMT) has received a lot of press over the past few months. The AMT was originally enacted as an alternate tax system to ensure that higher-income taxpayers with large deductions, credits, or “preferences” pay a minimum amount of tax. However, over the years, the AMT has also affected many middle-income taxpayers. A major reason: The AMT tax brackets and exemptions have not kept pace with inflation.

In recent years, many people who were never supposed to be taxed under the AMT have been caught in its net. To provide some relief, prior tax legislation had temporarily increased the AMT exemption amounts available to individuals. But that expired after 2006. So, for 2007 and beyond, the “old” exemption amounts applied – meaning many more middle-income taxpayers were now exposed to the AMT.

New Legislation

Late in December 2007, Congress passed the Tax Increase Prevention Act of 2007, which restored and increased

the temporary AMT exemptions. Below is a table showing the exemption amounts for 2006, what they were scheduled to be in 2007, and what the new law raised them to for 2007.

However, this “patch” is not permanent. It applies only for one year. So, the AMT exemptions are scheduled to return to the “old” levels (e.g., \$33,750 for unmarried filers) for 2008 and beyond.

In addition, the new law extended through 2007 another expired AMT provision that allows those claiming certain personal tax credits (e.g., the dependent care credit and the HOPE

Scholarship and Lifetime Learning Credits) to use them to offset both regular tax and AMT. So, a taxpayer may claim the eligible tax credits up to the amount of the regular income tax plus AMT.

We’re Here to Help

While the new law gives taxpayers a reprieve, figuring the alternative minimum tax remains tricky. Doeren Mayhew’s tax professionals can help you determine if you are subject to AMT. Call us today at 248.244.3000 for assistance with the AMT patch, or any of your tax needs.

Tax Filing Status	2006	2007 (before new law)	2007 (after new law)
Unmarried Filers	\$42,500	\$33,750	\$44,350
Joint Filers	\$62,550	\$45,000	\$66,250
Married Filing Separately	\$31,275	\$22,500	\$33,125

Exemption amounts are phased out when AMT income exceeds certain levels, depending on filing status.

Doing Business in an Economic Slowdown

Whether the U.S. is in an official recession or not, it is clear that the economy is not as robust as everyone would hope. And the prospects for a quick recovery are not very encouraging. There are a number of steps that business owners and executives can take to successfully deal with an economic downturn. Following are some strategies to help your business weather the storm.

Know What Is Going on Around You.

Keep aware of economic developments in your region that affect your business directly. Are your suppliers and customers feeling the pinch of a tight economy? What impact will that have on you?

Take Lessons From the Past. If you have been in business a while, you probably have gone through economic slowdowns before. What warning signs of a downturn did you see back then? What, in retrospect, would you have done differently back then to address the slowdown's impact on your business?

Know Your Business' Situation.

Economic slowdowns don't affect all regions of the country, or all businesses within a region, the same way. Understanding how your business fits into the local or regional economy and how your industry is being affected are keys to helping you understand what the downturn will mean to you.

Cash Is King. This old saying is especially true in a downturn. If you expect your business will be affected, having cash to pay your suppliers and your other obligations will ensure you can remain in business and be prepared to succeed in the prosperous times to come. This can be accomplished by carefully monitoring your cash flow and taking

steps (speeding up collections, for example) that can put more cash in your coffers.

Develop a Contingency Plan.

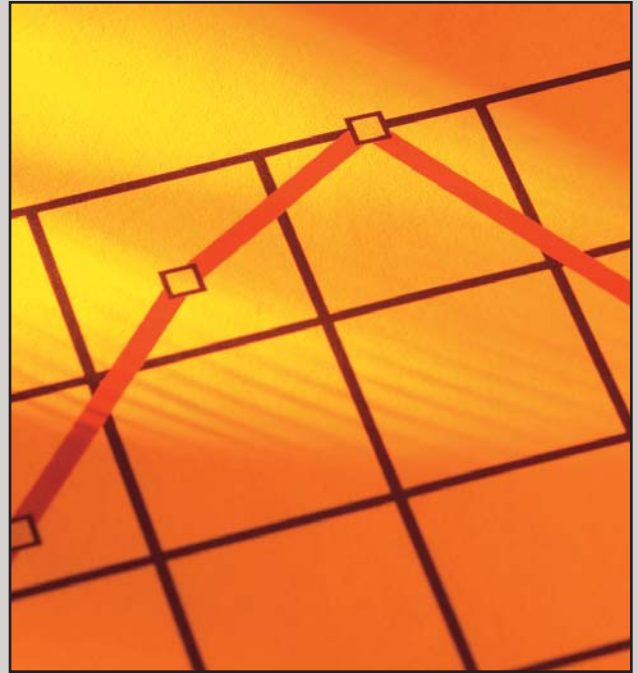
What if your business is hit hard by the stagnant economy? Having contingency plans for a variety of possible scenarios is important. Determine at what point you might have to defer capital expenditures, lay off employees, or sell assets in the event a dire scenario becomes reality.

Trim Expenses. This is a no-brainer, but figuring which expenses to cut and in what order is a valuable exercise. You don't want to institute widespread cuts now that might restrict your business' options when the economy recovers unless you really need to.

Purchase Intelligently. Use smart strategies such as bunching your orders (to get larger discounts or free shipping), negotiating longer term, lower fixed price deals, taking discounts, and avoiding late charges.

Monitor the Credit You Offer.

Extending credit may be an important aspect of your doing business. But extending credit to customers indiscriminately can result in heavy losses due to bad debts. Screening new customers' credit-worthiness is always important, but especially in a slowdown. And don't hesitate to look at existing customers' payment histories and decide if you are willing to extend further credit to them.



Take Advantage of Your Strengths.

A business downturn can represent opportunities as well, especially for businesses that are on a very sound financial footing. For example:

- Consider replacing equipment or buying new technology. Many manufacturers and dealers will be more than willing to sell on very favorable terms.
- Upgrade your staff by adding talented people who may have been let go by a competitor in a cost-cutting move.
- Look for acquisition or merger candidates. Hard economic times may make a competitor available at a very favorable price.

These are just some of the ways your business can prepare for – and survive – an economic downturn. Call Doeren Mayhew today at 248.244.3000 to discuss your planning strategies for difficult economic times.

Do I Have a Higher Risk of Being Audited if I File Early?

Often, timing is everything or so the adage goes. From medicine to sports and cooking, timing can make all the difference in the outcome. What about with taxes? Does timing play a factor in raising or decreasing your risk of being audited by the IRS? For example, does the time when you file your income tax return affect the IRS's decision to audit you? Some individuals think filing early will decrease their risk of an audit, while others file at the very-last minute, believing this will reduce their chance of being audited. And some taxpayers don't think timing matters at all.

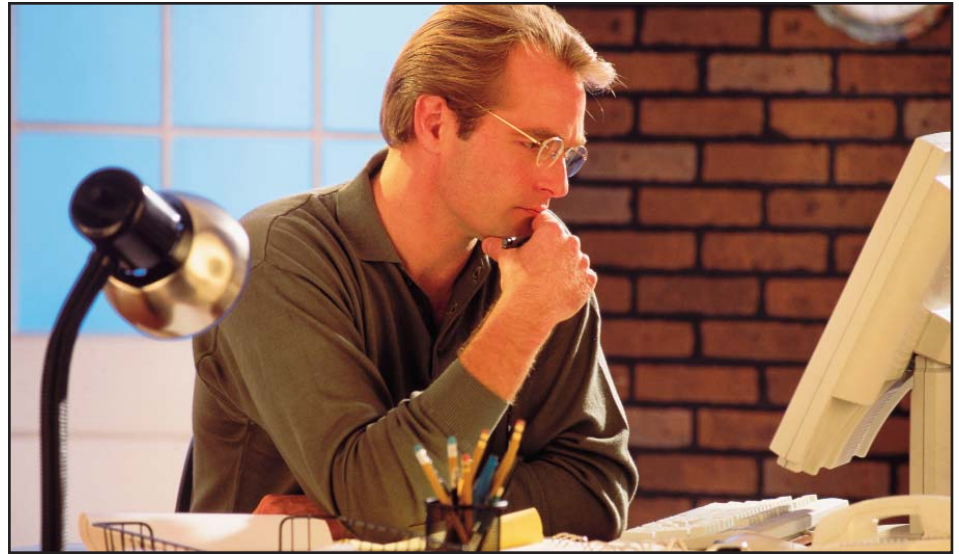
When to File

Some individuals believe that since the pool of filed returns is small at the beginning of the filing season, they have a greater chance of being audited. There is absolutely no evidence that filing your tax return early increases your risk of being audited.

If you expect a refund from the IRS you should consider filing early so that you receive your refund sooner. Keep in mind, however, with Congress's late passage of the alternative minimum tax (AMT) patch in 2007, early filers may be surprised to find that their refunds are delayed. The delay is due to the time the IRS needs to reprogram its computers for the patch. However, only a small number, about three million out of 140 million returns, will be delayed.

What Your Return Says Is Key

If it's not the time of filing, what really increases your audit potential? The information on your return, your income bracket, and profession – not when you file – are the most significant factors that increase your chances of being audited. The higher your income the more attractive your return becomes to the IRS to audit. And if you're self-employed and/or



work in a profession that generates mostly cash income, you are also more likely to draw IRS attention.

Further, you risk piquing the IRS's interest and triggering an audit if:

- You claim a large amount of itemized deductions or an unusually large amount of deductions or losses in relation to your income;
- You have questionable business deductions;
- You have a high income (the IRS considers \$100,000 to be "high income");
- You claim tax shelter investment losses;
- Information on your return doesn't match up with information on your 1099 or W-2 forms received from your employer or investment house;
- You have a history of being audited;
- You are self-employed or you are a business or profession currently on the IRS's "hit list" for being targeted for audit;
- You are a partner or shareholder of a corporation that is being audited;
- You are primarily a cash-income earner (i.e., you work in a profession that is traditionally a cash-income business);
- You claim the earned income tax credit;
- You report rental property losses; or
- An informant has contacted the IRS asserting you haven't complied with the tax laws.

DIF Score

Most audits are generated by a computer program that creates a DIF score (Discriminate Information Function) for your return. The DIF score is used by the IRS to select returns with the highest likelihood of generating additional taxes, interest, and penalties for collection by the IRS. It is computed by comparing certain tax items such as income, expenses, and deductions reported on your return with national DIF averages for taxpayers in similar tax brackets.

The Power of Pink

Long after more than 30,000 supporters donning pink ribbons gathered at Comerica Park on June 16, 2007, for the 16th Annual Komen Detroit Race for the Cure®, dedicated friends continued their work in battling breast cancer. The result broke all previous Detroit Race records – raising more than \$2 million.

Doeren Mayhew Employee Receives a Special Thank You

Members of Friends for the Cure®, a Detroit group formed in 1997 to support race-related fundraising, solicited donations from friends, neighbors, and co-workers and raised over \$900,000 – a new record, and a 30 percent increase over last year.

Three Friends for the Cure® members received special recognition

for their efforts. The third place winner was Doeren Mayhew's very own, Dawn Jasinski. Dawn is the team captain for "DASH for a Cure," and raised \$8,102.

Doeren Mayhew and its employees were also recognized for supporting Dawn's fundraising with contributions and matching funds totaling over \$6,000.

As a result of their hard work and dedication, DASH for the Cure raised more than \$13,000.

Congratulations to Dawn and her team on this awesome accomplishment!

You Can Make a Difference

Dawn's next fund raiser is May 17, 2008, and she is already busy accepting donations. If you would like to support Dawn and her team,



Dawn Jasinski (left) and Sharon Hemmen (former Doeren Mayhew employee and cancer survivor) at the 2007 Race for the Cure®.

please visit their Web site at active.com/donate/detroitRFTC08/DASH to make a contribution.



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