

The Bailout Bill: Tax Changes Affecting Individuals



The Emergency Economic Stabilization Act of 2008, referred to by some as the "bailout bill," or, as others prefer to call it, the "rescue plan," was recently enacted in an attempt to stabilize the turmoil in the U.S. economy. While a great deal of attention has been focused on the true bailout provisions of the Act, there are also a plethora of tax law changes affecting individual taxpayers. Here are some of the most noteworthy.

Extension of mortgage debt forgiveness

The Act extends for three additional years the exclusion from gross income for discharges of qualified principal residence indebtedness.

The Mortgage Forgiveness Debt Relief Act of 2007 provided an exclusion for the discharge of up to \$2 million (\$1 million if married filing separately) of Qualified Principal Residence Indebtedness that applies to debts discharged from January 1, 2007 through December 31, 2009. The Act extends the end date to December 31, 2012. The exclusion applies to foreclosures, deed-in-lieu of foreclosures, or any loan modification.

Note: "Qualified Principal Residence Indebtedness" is a debt incurred to acquire, construct, or substantially improve a principal residence.

One-year "patch" for the alternative minimum tax (AMT)

The 2008 AMT exemption amount for individuals is raised to \$46,200 for singles, \$69,950 for married couples filing jointly, and \$34,975 for married couples filing separately. This is a one-year "patch." Absent further legislation, the AMT exemption amounts in 2009 will be \$33,750 (single), \$45,000 (married filing jointly), and \$22,500 (married filing separately).

The Act also modifies the way the AMT refundable credit is calculated, generally making it easier for individuals to utilize any AMT credit that is carried over from prior years.

Additionally, the Act offers specific relief to individuals who were unable to pay AMT liability that resulted from the exercise of incentive stock options (ISOs) in prior years.

Note: AMT exemption amounts are phased out for higher income taxpayers. For married couples filing jointly, phase-out starts when income exceeds \$150,000. For unmarried individuals, the phase out threshold is \$112,500, and for married individuals filing separately, the threshold is \$75,000.

New tax credit for electric vehicles

The Act creates a new tax credit of \$2,500 to \$7,500 for plug-in electric vehicles. The credit will start to phase out for each manufacturer after 250,000 qualifying electric vehicles are sold. Vehicles that qualify will need to be certified under the Clean Air Act and meet low-emission standards. Higher tax credit amounts are also available for electric vehicles with gross vehicle weight ratings of more than 10,000 pounds.

New tax-free fringe benefit for bicyclists

The Act provides a new tax break for employees who commute by bicycle. Employers can provide a tax-free fringe benefit of up to \$20 per month to cover "reasonable expenses incurred by the employee" for the purchase, improvement, repair, and storage of a bicycle that is regularly used to commute between the employee's home and office. This bicycle fringe benefit will begin in 2009.

Extension and modification of energy tax credits

The Act extends and modifies the energy efficient property credit through 2016, and allows the credit to offset AMT liabilities. The Act also removes the \$2,000 maximum limit on solar electric property. Two new types of equipment are added that would qualify for the credit: wind energy equipment will produce a tax credit worth 30% of the cost of the equipment, with a maximum credit of \$4,000, and geothermal heat pumps would qualify for a credit worth 30% of the cost, with a maximum credit of \$2,000.

The non-business energy property credit is extended for property placed in service during 2009. This provides a credit of up to \$500 for purchasing energy-saving products, such as windows, insulation, and HVAC systems. The Act also adds two new types of improvements that qualify for the credit: biomass fuel stoves with a thermal efficiency rating of 75% or more, and asphalt roofs with cooling granules.

Other tax changes

- The Act modifies the child tax credit for 2008 by lowering the income threshold for the refundability of the credit from \$12,050 to \$8,500.
- The deduction for up to \$250 of personal expenditures by teachers, counselors, and principals in K-12 schools for materials and supplies is extended for 2008 and 2009. This is an "above-the-line" deduction: you need not itemize to take this deduction.
- IRA owners who have reached age 70½--and who must therefore begin to withdraw money from their retirement accounts--can contribute up to \$100,000 directly to a qualified charity without having to include the distribution in income. This tax benefit is extended for 2008 and 2009, but is only available for individuals over age 70½ by the end of the year.
- The Housing and Economic Recovery Act of 2008 established a new real property tax standard deduction for non-itemizers. The maximum deduction is \$1,000 for married couples filing jointly and \$500 for all others. This deduction can't exceed the amount of state and local real property taxes that you actually pay during the year. This deduction was originally for 2008 only. The Emergency Economic Stabilization Act of 2008 extends it through 2009.
- The optional itemized deduction for state and local sales taxes (in lieu of deducting state and local income taxes) is extended for 2008 and 2009. You must claim itemized deductions on Schedule A of Form 1040 to take this deduction.
- The deduction for up to \$4,000 of college tuition and related fees is extended for 2008 and 2009. This above-the-line deduction allows married couples (filing jointly) with incomes of \$130,000 or less (\$65,000 for individuals) to deduct up to \$4,000 in higher education expenses and those couples (filing

jointly) earning \$130,000 to \$160,000 (\$65,000 to \$80,000 for individuals) to deduct up to \$2,000. As it is an "above-the line" deduction, if you qualify, you need not itemize to take it.

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