

## Important Income Tax Updates

On February 7<sup>th</sup>, 2009 Congress passed the much-awaited "Economic Stimulus Act of 2008". Most taxpayers can expect to receive rebate checks starting May 2008 based on the Adjusted Gross Income (AGI) reported on their 2007 tax returns. Key components of this Act are:

1. \$600 tax rebate per individual whose AGI does not exceed \$75,000
2. \$1,200 tax rebate for married-filing-jointly if AGI does not exceed \$150,000
3. An additional \$300 tax rebate per qualifying child
4. \$300 tax rebate for any filer with at least \$3,000 earned income OR at least \$1 2007 tax liability
5. Rebates phase out at 5% for every \$1,000 over the AGI limit. This means that single filers (without children) with AGI over \$87,000 and joint filers (without children) with AGI over \$174,000 will receive no rebates. For a joint filer with two children, rebates will completely phase out if their AGI exceeds \$186,000.
6. Senior citizens and disabled veterans also qualify for the rebate. The Act defines income to include social security income and federal payments to disabled veterans.
7. There are provisions in the Act to true up rebates in 2009 if, based on your 2008 adjusted gross income, you would receive a higher rebate than what is calculated based on 2007 adjusted gross income.

There is a **TAX PLANNING OPPORTUNITY** for married taxpayers filing jointly who find themselves with AGI within or above the rebate phase-out range. You may benefit from married-filing-separately for 2007. Consider the following example for a married couple with two children and having the following AGI.

	<u>Joint</u>	<u>Husband</u>	<u>Wife</u>
Adjusted Gross Income (AGI)	\$175,000	\$100,000	\$75,000
Standard deduction	10,700	5,350	5,350
Personal Exemptions	<u>13,600</u>	<u>3,400</u>	<u>10,200</u>
Taxable Income	<u>150,700</u>	<u>91,250</u>	<u>59,450</u>
Fed Income tax before rebates	31,189	20,039	11,280
VA Income tax	<u>8,994</u>	<u>5,268</u>	<u>3,727</u>
Basic Credit rebate	1,200	600	600
Child credit rebate	600	0	600
Phase-out	<u>(1,250)</u>	<u>(600)</u>	<u>0</u>
Net Rebate	550	0	1,200
Net Tax after Rebate*	<u>39,633</u>	<u>25,307</u>	<u>13,807</u>

\*Husband and wife save \$519 by filing 2007 married-filing-separately returns { $\$39,633 - (25,307 + \$13,807)$ }.

Important Note: Prior to making an election to file as married-separate, make sure that you do not lose other tax benefits that are available to joint filers but disallowed if filing married-separate. Also, state income tax issues should be considered to determine whether it's still advantageous to file married-separate. ***The information in the above article should not be construed as tax advice. Please consult your tax advisor for additional details.***

For more information and a free tax consultation please contact **Seth Enterprises, CPA** at (703) 723-9651.