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Emergency Economic Stabilization Act: Tax Breaks for Individuals

On October 3, 2008, Congress passed, and the President signed, the Emergency Economic Stabilization Act of 2008 (EESA), a "bailout bill" or "rescue plan" aimed at stabilizing the nation's current economic problems. While much of the attention has been on the billions of dollars provided by EESA to help shore up America's financial institutions, EESA also contains significant tax provisions that affect individuals. These tax provisions include an AMT patch, extensions of several expired or expiring tax breaks, energy incentives, and disaster tax relief.



Another AMT patch

EESA includes yet another AMT patch. The AMT was created in 1969 as an alternative tax to ensure that the richest taxpayers could not avoid paying income taxes despite the use of deductions and "loopholes." But, in part because key figures are not adjusted for inflation, it has ensnared more and more middle-class taxpayers each year.

To address this, Congress has passed a series of temporary fixes or "patches," instead of permanently overhauling the AMT system. Without a patch for 2008, the number of taxpayers affected by the AMT would have increased from approximately 5 million in 2007 to 24.2 million. (Source: Steven Maguire, Cong. Research Serv. Report for Congress, Order Code RS22083, Alternative Minimum Taxpayers by State: 2005, 2006, and Projections for 2008--updated July 15, 2008)

This year's patch extends (and slightly increases) AMT exemption amounts for 2008. (Generally, the larger the exemption, the less chance that you'll actually have to pay the AMT.)

The expanded exemption amounts for 2008 are as follows:

- \$69,950 for married couples filing jointly and surviving spouses
- \$46,200 for unmarried individuals
- \$34,975 for married individuals filing separately

Be aware, however, that these exemptions continue to be phased out for higher income taxpayers. For married couples filing jointly, the phaseout starts when income exceeds \$150,000. For unmarried individuals, the phaseout threshold is

\$112,500, and for married individuals filing separately, the threshold is \$75,000.

This year's patch also continues to allow nonrefundable personal tax credits to offset AMT liability (as well as regular tax liability). Again, this reduces the chance of actually having to pay the tax.

EESA also modifies the way that 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, EESA 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.

Personal income tax credits that can offset regular tax and AMT for 2008:

- *Hope credit*
- *Lifetime Learning credit*
- *Child tax credit*
- *Child and dependent care credit*
- *Adoption credit*
- *Retirement "savers" credit*
- *Tax credit for the elderly and disabled*
- *Mortgage tax credit*
- *Certain energy tax credits*

Extended/modified tax breaks for individuals

Much of the tax relief for individual taxpayers contained in EESA comes in the form of tax "extenders"--provisions that renew for another year or two tax laws that had expired or were set to expire on January 1, 2009. These renewals include:

Deduction for sales tax: The optional deduction for sales tax can be taken in lieu of state and local income taxes as an itemized deduction through 2009.

Deduction for educator expenses: This above-the-line deduction of up to \$250 is for classroom expenses incurred by teachers, counselors, and principals in K-12 schools is extended through 2009.

Tip: Expenses that exceed \$250 and non-classroom supplies may be deducted as an employment-related miscellaneous itemized deduction subject to the 2% floor.

Deduction for tuition and fees: The tuition and fees deduction can be worth up to \$4,000, depending on adjusted gross income (AGI), and is extended through 2009.

Additional standard deduction for property tax: This is a new deduction for 2008; individuals who don't itemize can take an additional standard deduction for real property taxes paid during the year. This deduction provides an additional \$500 (or \$1,000 for joint filers) on top of the taxpayer's regular standard deduction. This deduction is extended through 2009.

Tax-free distributions from IRAs for charitable purposes:

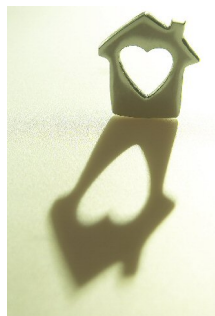
EESA permits taxpayers over age 70½ to make tax-free distributions of up to \$100,000 from IRAs for charitable purposes through 2009.

Child tax credit: The income threshold for the additional child tax credit is lowered from \$12,050 (the scheduled threshold amount for 2008) to \$8,500 for 2008 only.

Energy tax incentives

Residential energy tax credits

EESA extends the tax credit for residential energy-efficient property from 2009 to 2016. EESA removes the \$2,000 maximum limit on solar electric property. Further, EESA adds new types of equipment that qualify for the credit: (1) wind energy equipment, which qualifies for a tax credit of up to 30% of the cost, capped at \$4,000, and (2) geothermal heat pumps, which qualify for a credit of up to 30% of the cost, capped at \$2,000.



Additionally, the residential energy conservation property credit, which provides a credit of up to \$500 for purchasing energy-saving products such as windows, insulation, and HVAC systems, is extended, but only for

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property placed in service during 2009. EESA also adds two new types of improvements that qualify for the credit: (1) qualifying biomass fuel stoves, and (2) asphalt roofs with cooling granules. Note, however, that while the credit is worth up to \$500 for various improvements, the credit is limited to \$200 for windows, \$300 for biomass fuel stoves, and \$150 for qualifying furnaces or hot water boilers.

Tax credit for electric vehicles

EESA 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 credits are also available for electric vehicles with gross vehicle weight ratings of more than 10,000 pounds.

Tax-free fringe benefits for bicyclists

EESA provides a new tax break for people 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.



Disaster relief

EESA provides temporary tax relief to victims of the storms, tornadoes, and flooding that occurred in the Midwest in 2008, and to victims of Hurricane Ike in Texas. Additionally, EESA generally authorizes relief for all locations declared disaster areas by the President in tax years beginning after December 31, 2007, and before January 1, 2010.

For more information, consult your financial or tax professional.

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Jim

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