THE SMALLBIZ BUILDER

PADGETT
THE SMALL BIZ PROS

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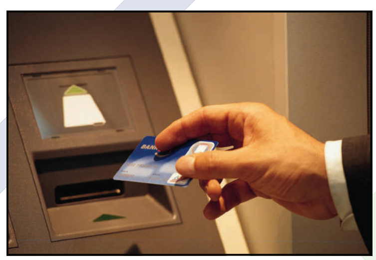
This Month:

Avoiding Direct Deposit Woes

Direct deposit of your income tax refund makes a lot of sense - you'll get it quicker and it's often safer. This year there are more options for distributing the refund. If you want, your refund can be split into three accounts, including your Individual Retirement Account and Health Savings Account. But take caution and verify routing and account numbers carefully. Although you can usually discern the routing number for your checking account from the face of your checks, routing numbers for other types of accounts are not always apparent. The IRS assumes no responsibility for taxpayer or preparer error and taxpayers should ensure their account and routing information is accurately entered. If you make a mistake and the financial institution rejects the deposit, the IRS will send you a check for that portion of the refund. But if you incorrectly enter an account or routing number belonging to others and the designated financial institutions accepts the deposits, you must work directly with the financial institution to recover the funds.



Economic Stimulus Act of 2008

By now, you've probably heard about the recently-passed economic stimulus package, the **Economic Stimulus Act of 2008***, which is intended to jump-start our economy in part through the government's issuance of rebate checks to most individuals, and also through tax incentives aimed at encouraging businesses to increase their investments in new equipment by the end of 2008. The following discussion is a summary of the new Act. If you would like more details about the new law, please do not hesitate to call.*

Individuals

Amount of rebate. In brief, the measure will bring tax rebates of $600 for individuals and $1,200 for couples, and $300 checks to low-income people, including disabled veterans and the elderly. There is an additional $300 credit for each qualifying child for whom the child tax credit can be claimed.

Your rebate credit (both the basic and qualifying child amounts) will be reduced at a rate of 5% of adjusted gross income (AGI) in excess of certain thresholds based on single or joint filing status.

The amount of the rebate is not includible in gross income and does not otherwise reduce the amount of withholding. The rebates will be subject to offsets for items like past-due child support and debts owed to the federal government.

Eligible individuals. An eligible individual is any individual other than a nonresident alien, a dependent, or an estate or trust. In an effort to bar illegal immigrants from receiving rebates, the rebate will not be available if an individual's tax return does not include social security numbers of the taxpayer, spouse, and any qualifying children. *Taxpayer identification numbers (ITINs) that the IRS issues to aliens who are ineligible for social security numbers are not valid for this purpose.*

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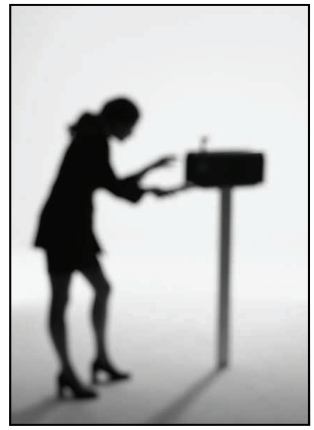

Delivery of rebate checks. Rebates will come in the form of a check or by direct deposit, with timely filers receiving their rebates first. Those who file their 2007 returns late or on extension will receive their payments later. No rebate checks will be issued after Dec. 31, 2008.

Although this is a 2008 rebate, the IRS will compute the amount on the basis of your 2007 tax return. When your 2008 return is filed in 2009, the IRS will reconcile your rebate with the amount of the credit based on your 2008 return. Chances are there will be no difference. But, if your rebate was less than the new calculation, you will be able to claim a credit for the difference. If your rebate was more than the new calculation, you will not be required to repay the excess.

Businesses

Boosted section 179 expensing. Under pre-Act law, taxpayers could deduct up to $128,000 of the cost of qualifying property placed in service in 2008, reduced by the total cost of qualifying property that exceeds $510,000. Under the Act, for tax years beginning in 2008, the $128,000 expensing limit is increased to $250,000, and the overall investment limit is increased from $510,000 to $800,000.

As a result of this incentive, most small businesses will be able to obtain a full deduction for the cost of business machinery and equipment purchased in 2008, thereby reducing their effective cost for those assets.

Bonus depreciation. The Act provides for accelerated depreciation by allowing a bonus first-year depreciation deduction of 50% of the cost of qualified property placed in service after Dec. 31, 2007, and before Jan. 1, 2009. The taxpayer may elect out of additional first-year depreciation for any class of property for any taxable year.

Bonus depreciation is allowed for Alternative Minimum Tax purposes as well as for regular tax purposes. Additionally, bonus depreciation is permitted only for property with a MACRS class life of 20 years or less, water utility property, off-the-shelf computer software, and qualified leasehold improvement property. Original use of the property must begin with the taxpayer after Dec. 31, 2007. Additionally, the placed-in-service cutoff date is extended for an additional year (i.e., before Jan. 1, 2010) for certain property with a recovery period of ten years or longer and certain transportation and aircraft property.

For vehicles subject to annual depreciation limits, the limit on first-year depreciation is increased by $8,000 for vehicles that qualify.