



March 7, 2008

## Re: The Economic Stimulus Act of 2008

***Definition of "Stimulus": An action that elicits or accelerates a physiological or psychological activity.***

There has been a great deal of press about the Economic Stimulus Act of 2008. Whether or not this Act will actually work to stimulate the economy, here are the highlights of what is in it for you:

### **INDIVIDUALS:**

You will receive a rebate check from the government of up to \$600 for individual taxpayers and \$1,200 for married couples, plus \$300 for each dependent child under 17 years old. Of course, there are limitations. The rebates are phased out by 5% of the excess of adjusted gross income (AGI) over \$75,000 (to \$87,000 if no children) for individuals and \$150,000 (to \$174,000 if no children) for married taxpayers filing joint returns, based on your 2007 filed tax return. Checks should arrive in May/June of 2008.

Example:

Joint return - if AGI is	Up to \$150,000	\$162,000	\$174,000	\$186,000
Taxpayer rebate	\$1,200	\$1,200	\$1,200	\$1,200
If two dependent children	\$600	\$600	\$600	\$600
Phase-out	\$0	-\$600	-\$1,200	-\$1,800
Total rebate checks	\$1,800	\$1,200	\$600	\$0

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**BUSINESSES:**

- 1) Businesses will receive increases in section 179 expensing limit on 2008 purchases of capitalized tangible personal property (and certain leasehold improvements):

	2007	2008 OLD	2008 NEW
Expensing limit	\$125,000	\$128,000	\$250,000
Phase-out threshold – beginning	\$500,000	\$510,000	\$800,000
Phase-out threshold – end	\$625,000	\$638,000	\$1,050,000

- 2) The first year depreciation deduction will be accelerated by 50% of the cost of capitalized tangible personal property (and certain leasehold improvements) acquired and placed in service during 2008. (*Fictitiously called “bonus” depreciation—it does not actually increase the total depreciation write-off, it only accelerates the deduction*). The bonus depreciation is computed on the net cost, after the section 179 depreciation deduction.

Example:

	OLD	NEW
Yearly equipment purchases	\$750,000	\$750,000
Taxable income before depreciation of new equipment	\$550,000	\$550,000
Depreciation expense		
1 <sup>st</sup> year maximum section 179 depreciation	\$ 0	\$250,000
1 <sup>st</sup> year Bonus depreciation	\$ 0	\$250,000
1 <sup>st</sup> year regular depreciation (7 years)	\$107,142	\$35,714
Taxable income	\$442,858	\$14,286
Fed and State taxes (40% and 20%, respectively)	\$177,143	\$2,857
1 <sup>st</sup> year tax reduction		\$174,286

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*Important note:* The first year's tax reduction is the result of accelerated depreciation deductions. It is not a permanent benefit, nor is it a bonus. The benefit will reverse and taxes will be higher than normal over the remaining life of the 2008 assets. According to economists, as long as there is continued equipment investment, the accelerated tax benefit should yield a net, after tax, reduction in the cost of assets acquired and the cost of capital.

Will the cash effect of these one-time rebates and accelerated tax deductions act to stimulate the economy? Will psychological benefits accelerate the country's confidence, personal spending, and business investment, and then ultimately stimulate the economy? Let's hope so.

If you have any questions on these "Stimulating" changes, or on any other tax matters, please feel free to call us.



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