

Client letter explains forthcoming government rebate checks

In an effort to stimulate the economy, the recently-enacted Economic Stimulus Act of 2008 requires the U.S. Treasury to send rebate checks to eligible individuals (see Weekly Alert ¶ 14 2/14/2008). This Practice Alert consists of a client letter that practitioners can use to inform clients about who qualifies for rebates, how they are calculated, and what, if anything extra, needs to be done to get one.

Dear Client:

You've probably heard that the government is going to be sending rebate checks to most Americans in an effort to stimulate the economy. This letter explains, among other items, who gets rebates, how they are calculated, how higher income can reduce or eliminate a rebate, and what, if anything extra, you'll need to do to get one.

Who gets rebates? Only individuals get rebates. Business entities don't get them. Nor do estates and trusts. But there are other new tax breaks for businesses. Not all individuals, however, get rebates. You don't get one if you are or can be claimed, as someone else's dependent. Also, nonresident aliens and illegal immigrants don't get rebates.

Does that mean all other individuals get rebates? No, to get a rebate, in general, for 2007, you must either (1) owe tax as computed in a special way or (2) have at least \$3,000 of qualifying income—earned income generally, social security benefits, and veterans' disability payments (including payments to survivors of disabled veterans).

How much do you get? A single person with no qualifying children gets a maximum rebate of \$600 or a minimum rebate of \$300. A married couple filing jointly with no qualifying children gets a maximum rebate of \$1,200 or a minimum rebate of \$600. To get the maximum, your 2007 tax (figured in a special way) must be \$600 or more for a single person and \$1,200 or more for a married couple filing jointly. To get the minimum, you must have at least \$3,000 of qualifying income (explained above) or owe tax (figured in a special way) of at least \$1. Your rebate amount will fall in between the minimum and maximum if your tax is more than \$300 but less than the maximum rebate for your filing status. In that case, your rebate will be equal to your tax. For example, you are single and your tax is \$500. You will get a rebate of \$500.

Increased amount for those with one or more qualifying children. Anyone who qualifies for a rebate in any amount gets an additional \$300 for each qualifying child. To qualify, a child must be under the age of 17, live with you for more than half of the year, and be your son, daughter, stepson, stepdaughter, brother, sister, stepbrother, stepsister, or descendant of any such individual. In addition, the child must not have provided more than half of his or her own support. Thus, for example, a married couple filing jointly with two qualifying children could be eligible for a maximum rebate of \$1,800.

How does higher income affect a potential rebate? The amount of the rebate (both the basic and the child's amount) is reduced by 5% of a taxpayer's adjusted gross income (AGI) above \$75,000 (\$150,000 for joint returns). For example, a married couple filing jointly with no children has AGI of \$160,000, and net tax liability of over \$1,200. Their rebate is \$700: [\$1,200 basic rebate – \$500 phase out (i.e., 5% × (\$160,000 – \$150,000))].

What do I have to do to get the rebate check? Nothing. The IRS will automatically figure your rebate based on your 2007 tax return that is due April 15, 2008. It will start sending rebate checks out in May for those who file before then.

What if you don't have to file? Here's where it gets tricky. Many people who normally don't have to file a return will have to do so in order to get a rebate check. For example, an individual whose only income is \$3,000 of earnings normally would not be required to file a return. Likewise, an individual whose entire income consists of \$8,000 of social security benefits normally would not have to file a return. These individuals should file either Form 1040 or Form 1040A to show the IRS that they meet the \$3,000 qualifying income threshold. They will not owe any income tax as a result of filing. They should enter on Line 20a of Form 1040 or line 14a of Form 1040A the following benefits in any combination:

- Social security benefits reported on the 2007 Form 1099-SSA, which should have been received in January 2008.
- Railroad retirement benefits reported on the 2007 Form 1099-RRB, which should have been received in January 2008.
- The sum of veterans' disability compensation, pension or survivors' benefits received from the Department of Veterans' Affairs in 2007.

Do rebates affect 2008 taxes? The rebate that the IRS will send you after you file your 2007 return usually won't affect your 2008 taxes on the return that you file in 2009. However, it can. When you do your 2008 taxes, you will figure what the rebate would have been based on your 2008 taxes. It could be higher or lower than the check that you received from the IRS in 2007. If it is higher, you will get a credit against your 2008 taxes for the difference. If it is lower, you won't have to pay the difference back.

I hope this information is helpful. If you would like more details about this, please do not hesitate to call.

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