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# Client Update

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## **\$152 Billion Stimulus Law Passed**

In an effort to boost the U.S. economy, Congress passed the *Economic Stimulus Package Act of 2008* on February 7. The legislation will provide tax rebate checks to about 130 million households, starting sometime in May.

The package also contains business tax incentives and help for distressed homeowners. Here are the major provisions in the law:



- Single individuals may be entitled to receive a one-time tax rebate of up to \$600; joint filers may qualify for up to \$1,200. The rebate amount begins to phase out for higher-income taxpayers, beginning at \$75,000 of adjusted gross income for single filers and \$150,000 for joint filers (based on 2007 tax returns).
- People who do not pay income taxes may qualify for \$300 rebates if they had at least \$3,000 of earned income or tax liability of at least \$1 in 2007. Social security income and federal payments to disabled veterans and their widows count as earned income for rebate purposes.
- Those who qualify for the basic rebates are also eligible for an additional \$300 for each dependent child under age 17.
- Businesses may qualify for 50% bonus depreciation on qualifying new equipment purchases in 2008.
- The section 179 expensing limit for 2008 has increased from the previous \$128,000 to \$250,000, and the 2008 phase-out threshold is increased from \$510,000 of total equipment purchases to \$800,000.
- The loan limits for Fannie Mae, Freddie Mac and the Federal Housing Administration are increased; a provision intended to assist taxpayers during the sub-prime mortgage crisis.

## **Unused alternative minimum tax credits**

Good news for taxpayers with unused AMT credits: They can now be used up faster. A new law allows most filers with unused

credits to burn them off over a five-year period, starting with the 2007 tax year. Under the previous formula, the amount of AMT that could be used to offset a regular income-tax bill fell each year. The credit still starts to phase-out for couples with adjusted gross incomes above \$234,600 and single filers with AGIs over \$156,400. But the new rule will help workers who generated large AMT credits by exercising incentives stock options during the dot-com boom. Those credits haven't been much use to those who sold after stock prices fell precipitously during the dot-com bust.

*Kiplinger's Finance Adviser, February 2008*

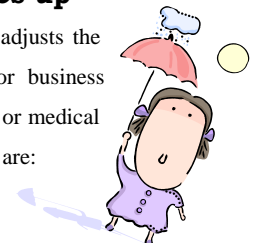
## **Adoption credit rises**

This credit will benefit most taxpayers who add children to their families through adoption. The maximum adoption credit for families rises to \$11,390 in 2007. In addition, the credit for adopting children with special needs rises to \$11,390. Also a taxpayer can exclude from gross income as much as \$11,390 for amounts paid or expenses under his employer's adoption-assistance program. The credit starts to be phased-out when adjusted gross income hits \$170,820 and is phased-out completely when it exceeds \$210,820. In 2008, the adoption credit will raise to \$11,650 for standard adoption, plus \$11,650 for children with special needs. Also, the maximum exclusion from gross income for amounts paid or expenses incurred under his employer's adoption-assistance program will be increased to \$11,650. The credit will start to be phased-out when adjusted gross income hits \$174,730 and will be phased-out completely when it exceeds \$214,730.

<http://articles.moneycentral.msn.com/Common/Taxes/2007AdoptionCreditRises.asp>

## **Business-mileage rate goes up**

Every year, the Internal Revenue Service adjusts the standard mileage rate for automobile use for business purposes or charitable activities, or for moving or medical expenses. For 2007, the standard mileage rates are:



- 48.5 cents a mile for business use.
- 20 cents a mile for medical or moving expenses.
- 14 cents a mile for driving in charitable activities.

For 2008, the standard mileage rates will be:

- 50.5 cents a mile for business use.
- 19 cents a mile for medical or moving expenses.
- 14 cents a mile for driving in charitable activities.

The standard mileage rate for business is based on an annual study of the fixed and variable costs of operating an automobile. The standard rate for medical and moving purposes is based on the variable costs as determined by a study.

<http://articles.moneycentral.msn.com/Common/Taxes/2007MileageRates.aspx>

### **The best and worst states for taxes**

We pay Uncle Sam no matter where we live, but property, gas, sales and state income taxes are all over the map. The differences can be extreme. An Alaskan keeps 7 cents more of every dollar than a Vermonter, once cities and the state have grabbed their share. Factor in federal tax and the gap grows even wider. Those who earn more money generally pay a greater percentage of it in federal taxes, so states with a greater percentage of highly paid workers end up paying more. The state in which residents pay the most in combined state, local, and federal taxes, per capita, is Connecticut (38.3%), followed by New York (37.1%), New Jersey (35.6%) and Nevada (35.2%). Oklahoma residents pay the least (27.8%), followed by those in Alabama (28.0%) and Alaska (28.1%). We're all paying more, though. The U.S. average for state and local taxes in 2007 was 11%, up from 10.8% in 2006. The average combined state, local, and federal tab for 2007 was 32.7%, up from 32.3% in 2006 and 30.7% in 1980.

*On same income, taxes vary* – of course, even Ted Taxpayer and Debbie Deduction, two people making the same salary and living in the same neighborhood, pay different amounts in taxes. For example, Ted's house is worth more, so he pays higher property taxes; Debbie buys fewer goods and services, thus saving on sales taxes; Ted drives a gas hog and commutes further to work, costing him more in gas taxes; Debbie doesn't drink or smoke, so she saves on so-called sin taxes. That's not to mention the countless other ways they can incur, avoid or defer taxes.

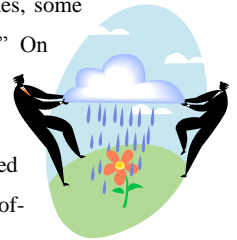
There are 50 states in the union and, it seems, 50 formulas for collecting taxes. Only seven states—Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming—don't assess income taxes, and New Hampshire and Tennessee have income taxes on just

dividends and interest. These states balance the lack of income taxes with other taxes, notably sales taxes.

Five states have no sales tax—Alaska, Montana, Delaware, New Hampshire and Oregon. For 2007, the state with the lowest sales tax rate is Colorado (2.9%); the highest is California (7.25%). Among the sales-tax majority, every state but one (Illinois) exempts prescription drugs, while 31 states exempt food. Counties and municipalities can add their own sales taxes, so comparisons are difficult between states.

Gas and diesel are taxed at different rates in most states. Besides the straight excise tax, which varies from a low of 4 cents a gallon in Florida to a high of 36 cents in Washington, most states add other gas taxes that increase the toll. The state with the greatest total state tax on gas is California (45.5 cents per gallon); the lowest is Alaska (8 cents). These are levied on top of the federal tax on gas, unchanged from last year at 18.4 cents per gallon. On average, the combined state and federal gas tax is 45.8 cents across the nation, making the U.S. one of the least expensive places in the Western world to buy fuel. In Europe, government taxes make up about 60% of the price of fuel, on average. Motorists in the western U.S. pay the most in fuel excise taxes (53.9 cents), while those in the South pay the least (38.4 cents).

*And coming up on the outside...*— we can notice that several patterns are developing. One is that state legislatures are coming up with plans that shift taxes from state residents to those who live outside the state. How can this sleight of hand occur? By raising taxes on commercial property and vacation homes, some of which are owned by “nonvoting, nonresidents.” On the same theme there are numerous plans to raise taxes on lodging, rental cars, restaurant meals and other tourism targets. They are pitched to voters as a way to extract revenue from out-of-staters.



Another trend is the larger percentage of state revenue being generated from what some call gaming revenue and others term gambling losses. In the early 1960s lotteries were illegal or unconstitutional in every state. Now 42 states have done a 180 and promoted lottery tickets as if they were mother's milk. Last year was the first year that any state got more than 10% of its revenue from the lottery. Rhode Island did that, and it will be joined by others soon.

<http://www.articles.moneycentral.msn.com/Taxes/Advice/TheBestandWorstStates.as>