

October 6, 2008

Dear Clients and Friends,

President Signs Emergency Economic Stabilization Act of 2008

On October 3, 2008, President Bush signed into law the *Emergency Economic Stabilization Act of 2008*. The centerpiece of the legislation is, of course, the financial bailout package, but it also includes a host of tax changes affecting individuals, corporations, and businesses. In addition to the major provisions that directly address the financial bailout measures, the new law includes a temporary AMT patch for 2008, an extensive package of tax extenders, energy incentives, disaster relief and more.

Financial bailout-related tax changes. The emergency economic stabilization related tax measures include: 1) three-year extension for home mortgage debt forgiveness relief, 2) tax relief for community banks by permitting them to treat losses on Fannie Mae and Freddie Mac preferred stock holdings as ordinary losses, and 3) tax crackdown on compensation and severance pay for certain financial executives. In addition, the legislation includes a provision (which expires at the end of 2009) that would temporarily raise the cap on federally insured deposits from \$100,000 to \$250,000.

Alternative Minimum Tax (AMT) relief for individuals. The 2008 Act increases the AMT exemption amounts to \$46,200 for unmarried individuals and \$69,950 (married filing jointly) for 2008. Additionally, personal nonrefundable credits may offset AMT and regular tax. This is a "patch" to AMT problem; however, it does not eliminate it.

Extended tax breaks. The 2008 Act extends more than 30 tax breaks that either expired at the end of 2007, or are soon to expire. The extenders include:

- A two-year extension of the option to deduct state and local general sales taxes, the above-the-line tax deduction for qualified higher education expenses, and the above-the-line deduction for up to \$250 of educators' expenses.
- Extension through 2009 of the standard deduction for real property taxes for non-itemizers, maximum of \$500 (single) and \$1,000 (married filing jointly) for those taxpayers who do not itemize.
- Extension through 2009 of the ability for qualifying taxpayers to make tax-free contributions from their IRA plans to qualified charitable organizations.
- An extension of the research tax credit through 2009, plus an increase in alternative simplified credit from 12% to 14% for the 2009 tax year; the alternative incremental research credit would be repealed for the 2009 tax year.
- Extension through 2009 of the 15-year write-off for qualified leasehold, restaurant and retail improvements.
- The Act extends investments and loans in economically distressed areas known as the "new markets tax credit" through 2009.

Energy incentives. The new law extends a host of energy tax incentives, including the alternative energy credit, the residential energy efficient property credit, the energy efficient buildings deduction, and the credit for energy efficient improvements to new homes. Also, a new credit for plug in electric vehicles has been added. Many other tax incentives for alternative energy conservation solutions are either extended or created.

Disaster relief. The 2008 Act provides a host of tax relief measures for disaster victims (both individuals and businesses) in ten Midwestern states and also creates new national disaster relief for all federally declared disasters occurring after 2007 and before 2010 (which includes those taxpayers affected by Hurricane Ike). This relief includes:

- Eased loss deduction rules for individuals which includes a waiver of the 10% AGI limitation for a “net disaster loss.”
- Expensing of qualified disaster expenses.
- 5-year carryback for NOLs attributable to qualified disaster expenses.
- Increased Section 179 expensing and 50% bonus depreciation for disaster assistance property.

Revenue raisers. The revenue raisers in the 2008 Act include broker reporting of customers' basis in securities transactions, an extension of the 0.2% FUTA surcharge, a limited Code Sec. 199 domestic production activities deduction for the oil and gas industry, and new rules for nonqualified deferred compensation from certain tax-indifferent parties.

Please keep in mind that this letter describes only the highlights of the most important changes in the new law. Please give our Tax Services Group a call at your earliest convenience for more details on how you may be affected by this important tax legislation.

Very truly yours,

Mir•Fox & Rodríguez, P.C.