

THE RESCUE PACKAGE ROLLS OUT

The House approves it; the President signs it into law.



Senate Majority Leader Harry Reid (D), speaks to reporters after members of Congress met with SEC Chairman Chris Cox, Treasury Secretary Henry Paulson, Speaker Nancy Pelosi (D), & Federal Reserve Board Chairman Ben Bernanke

263 For, 171 Against. What a difference four days make. On Friday, the House of Representatives decisively approved the Senate-revised \$700+ billion bailout plan for Wall Street. President George W. Bush applauded the “decisive action” of Congress and immediately signed the bill into law on October 3, 2008.¹ This improved economic headlines on a day marked by the release of dismal unemployment and manufacturing data and Wachovia’s announcement that it will merge with Wells Fargo.

What Made the Difference? All the “sweeteners”, as they were termed, apparently had an effect in the House. There were many of them.

In addition to exempting more than 20 million middle-class Americans from the Alternative Minimum Tax for another year and increasing FDIC insurance limits for individual deposit holders from \$100,000 to \$250,000 for a year, the revised bailout plan extends tax breaks for hurricane victims, college students, and R&D and renewable energy firms.² Tax breaks for teachers are extended, and taxpayers who live in income tax-free states like



President Bush signs the rescue bill into law, October 3, 2008.

Nevada will still get to choose between the deduction for state income taxes and the one for sales taxes.³

If you’re 70 or older, here’s some interesting news: IRA charitable rollovers are making a comeback. Thanks to the Senate revision of the rescue package, taxpayers older than 70½ may again move as much as \$100,000 from an IRA to a charity without an income tax penalty. This will apply even to such IRA transfers that happen in 2008, according to a senior tax analyst with RIA, a tax-publication unit of Thomson Reuters.³

The Market Reaction. The market shrugged. Stocks actually lost major gains after the House vote; the Dow Jones Industrial Average was up close to 300 points Friday morning in anticipation of its passage, but it fell 157 points on the day.⁴ Certainly the new jobless data didn’t help, along with news of Wachovia’s proposed merger and AIG’s decision to sell its U.S. retirement and life insurance divisions.⁵

The Federal Reserve Statement. As the Treasury Department prepared for its new mission to purchase troubled assets, Federal Reserve Chairman Ben Bernanke stated that the Fed will employ “all of the powers at our disposal” to help ease the credit crisis. Speaking of all options at the Fed’s disposal, futures traders Friday were putting the chances of a half-point interest rate cut at or prior to the Fed’s next policy meeting at more than 90%. That meeting occurs October 28-29, 2008.⁶

The Many Tax Breaks in the Rescue Plan

Look at all these Tax Breaks. You may have noticed the semantic change this week in Washington – the “bailout” plan became the “rescue” plan. Indeed, the newly signed legislation offers help for taxpayers as well as Wall Street firms.

In addition to higher FDIC insurance limits through 2009 for bank deposit holders, the Senate’s revision of the Wall Street relief package threw in a bunch of tax perks for individuals and businesses. Let’s take a look at some of them.



A Higher AMT Exemption. The Senate rolled some AMT relief into this rescue package. The Senate bill raises the married filing jointly exemption amount from \$66,250 up to \$69,950.⁷ The exemption limit would almost certainly have been raised by the end of 2008 in the usual AMT patch, but it’s nice to have confirmation on this before December.

The Return of the IRA Charitable Rollover. This tax break expired at the end of 2007, and the Senate had voted to extend it on September 23 as part of a large measure to preserve a bundle of tax incentives.⁸ This week, it was added on to the rescue bill. Once again, taxpayers older than 70½ will be allowed to transfer as much as \$100,000 from an IRA to a charity without an income tax penalty. This will apply even to such IRA transfers that happen in 2008, according to a senior tax analyst with a tax-publication unit of Thomson Reuters.⁷

A Big Tax Break for Those Who Drive Electric Cars. The newly approved rescue package extends a brand new \$7,500 tax credit for plug-in electric drive vehicles.⁹

Extending Credits for Homeowners. Homeowners who prefer not to itemize their federal income taxes have recently been allowed to take a deduction up to a limit of \$1,000 for state and local property taxes. The relief package extends this privilege. Homeowners who upgrade their residences with energy-efficient products can potentially take advantage of tax credits as well.⁹

Deductions Preserved for Collegians and Teachers. That \$250 deduction teachers have been taking for school supplies? Count on it again, thanks to the relief package. College students will still get to take that \$4,000 above-the-line deduction for tuition expenses.⁷

Tax Relief for Areas Hit Hardest by Storms. The relief package offers regional tax breaks for Louisiana, Texas and certain states in the Midwest. It provides tax-exempt private activity bonds for those states and tax benefits to aid businesses and further the development of low-income housing.⁹

R&D Tax Credit Extended through 2009. In addition to that extension, the rescue package offers \$18 billion in tax breaks for clean energy business and extends tax credits for solar energy producers. There are new tax credits for carbon capture and sequestration demonstration projects for advanced coal electricity generation. Tax credits for biodiesel production will also be preserved through 2009.⁹

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¹ bloomberg.com/apps/news?pid=20601103&sid=an09c2JjGttE&refer=news [10/3/08]

² abcnews.go.com/print?id=5947176 [10/3/08]

³ marketwatch.com/news/story/plenty-perks-taxpayers-savers-senate/story.aspx?guid={64473848-11F3-40FC-98AC-83F26C4807D2}&dist=hplatest [10/3/08]

⁴ cncb.com/id/27010242/ [10/3/08]

⁵ bloomberg.com/apps/news?pid=20601087&sid=aqiSa4M6QK8U&refer=home [10/3/08]

⁶ bloomberg.com/apps/news?pid=20601103&sid=aLdvCLBioMOU&refer=news [10/3/08]

⁷ marketwatch.com/news/story/plenty-perks-taxpayers-savers-senate/story.aspx?guid={64473848-11F3-40FC-98AC-83F26C4807D2}&dist=hplatest [10/3/08]

⁸ independentsector.org/programs/gr/irarollover.html [9/24/2008]

⁹ cncb.com/id/27007993/ [10/3/08]