SBLC WEEKLY

STIMULUS FINISH LINE

Senate cloture vote Monday. Final Senate approval on Tuesday. While much is being made about the differences between the House and Senate versions, the choices are difficult but clear. The hard decisions will be made in time for final congressional approval this week. I am putting $1 on a late Thursday night vote in the House, Friday vote in the Senate.

Of our priorities, we would like to see more transportation infrastructure spending included in the final bill but we may have hit our high water mark. Both bills include an extension of the temporary increase in the Section 179 direct expensing allowance for 2009. The amount of the allowance is $250,000 and the total capital asset purchase ceiling at which the allowance is phased out is $800,000. In 2010, they will return to the 2007 levels of $125,000 and $500,000, indexed. In 2011, the amounts revert to pre-2003 levels of $25,000 and $200,000.

The Senate version includes a homebuyer’s credit that is closer to what we had in mind in our stimulus recommendations. Currently there is a modest first time homebuyer’s tax credit. The Senate proposal would double the amount, remove the “first time” from the eligibility definition, and eliminate a requirement that the credit has to be paid back. The new proposed credit would cover purchases for a year starting with the enactment date of the legislation. Senator Johnny Isakson (R-GA) was the author of the proposal. In his words, “The legislation provides a $15,000 tax credit, or 10 percent of the purchase price, against either 2008 income where one can monetize it at the closing date this year, or half in 2009 and half in 2010, for anyone who buys as their principal residence any single-family dwelling or single-family condominium or attached townhouse available in the United States of America.” Unfortunately, the tax credit proposal is reportedly high on the list of items to be dropped in negotiations between the House and Senate. (We may not see an actual conference committee.)

We have not talked much about one of the President’s proposal that is designed to turn workers into consumers again. One of the provisions found in both bills that could result in changes in workers’ take home pay as soon as June is the President’s “Making Work Pay” tax credit. There are only slight differences between the Senate and House versions. For 2009 and 2010, the House version would provide a refundable tax credit of up to $500 for working individuals and $1,000 for working families. This tax credit would be calculated at a rate of 6.2 percent of earned income, and would phase out for taxpayers with adjusted gross income in excess of $75,000 ($150,000 for married couples filing jointly). Workers would receive this benefit through a reduction in the amount of income tax that is withheld from their paychecks, or through claiming the credit on their tax returns. Most of the differences in the Senate bill have to do with the phase-out aspects of the credit.

The other big item found in the Senate bill, but not found in the House bill, is another temporary extension of the higher income thresholds to which the Alternative Minimum Tax (AMT) applies. If Congress does not act to extend it, the original income thresholds would be used to calculate AMT for 2008 taxes and, notwithstanding the state of the economy, the number of individuals that would have to pay AMT increases by the millions. The House will push back on this, and I am thinking this will get the axe in the inter-chamber negotiations as it has the heft to be dealt with on its own merits, or maybe even under the mantle of tax reform. You can shrink the differences in the spending provisions of the stimulus package fast, if the AMT “patch” is dropped.

Other business provisions likely to survive include allowing businesses to carry back Net Operating Losses for five years instead of two years to reduce back tax liability and the extending the bonus depreciation deduction. We would like to see adoption of the House government contractor withholding repeal language instead of the Senate “delay it” language.

ESTATE TAX RELIEF

You probably noticed there was no mention of estate tax relief in the stimulus article. While we still have one eye on the stimulus discussion, we are already turning our attention to other matters, and high on the list is finding a way to lock down some estate tax relief this year. One possibility is the budget reconciliation process. At this point, it is not clear how the majority will handle the budget process this year. Maybe they will not have a tax reconciliation component at all. One thing is increasingly certain; it will be nearly impossible to pass any kind of tax relief this year without revenue offsets. With the House Blue Dogs watching, “offset” is going to be the mantra. Did anyone say “tax gap?” Déjà vu all over again.

REGULAR ORDER

Congress will take a break for President’s day after it finishes up the stimulus bill.