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FEBRUARY 2008

Individuals Must File 2007 Income Tax Returns To Receive 2008 Rebate Checks

In an effort to organize the distribution of over 130 million rebate checks required under the Economic Stimulus Act of 2008, the IRS has decided to base all payments on a properly-filed 2007 income tax return. To get an economic stimulus payment, "All you need to do is file a federal income tax return for 2007," the IRS advises. On the flip side, however, are approximately 20 million low-income workers, Social Security beneficiaries and disabled veterans who must file a 2007 return to receive a rebate payment even though they are not otherwise required to do so.

Immediately following President Bush's signing of the Economic Stimulus Act into law on February 13, the information arm of the IRS went into action with a series of news releases, "facts sheets," a special website corner of irs.gov, frequently-asked-questions, and a press conference with Acting Commissioner Linda Stiff. That blitz was specifically directed to the

"when-and-how" of rebate check distribution and to assuring the public that Treasury and the IRS have the entire task under control.

Comment: Part of the government's strategy for jumpstarting consumer spending is to assure the public that they can spend their rebate money now in anticipation of receiving their actual rebate checks quickly and in full. Particularly challenging will be getting the word out that 2007 forms need to be filed by low-income workers and Social Security recipients who Congress anticipates will be most likely to spend their rebates.

Timing

The IRS is assuring individuals who file a 2007 tax return by April 15 that they will receive their rebate checks sometime between May and August, based on a distribution order yet to be disclosed. Within that distribution order, however, those who specified direct deposit on their 2007 income tax return will have their rebates direct-deposited, on average, seven to 10 days

faster than receiving a rebate check by mail. Those who have specified a split refund on their 2007 return will find that the check will be deposited in full in the first account listed.

Comment: The 2001 rebate program had checks going out based on the last two digits of the taxpayer's Social Security number. That option is not being ruled out this time. A team within Treasury and the IRS is investigating the most efficient and fair ordering method. An IRS spokesperson said that the method will be announced "as soon as it is tied down." There was no suggestion that individuals filing in advance of April 15, or those using IRS e-file, would get to the head of the line.

Comment: An IRS spokesperson told CCH that a decision has not yet been made on whether to extend direct deposit to those who do not receive a 2007 refund by direct deposit; that is, to those who fill out the direct deposit information on Form 1040 without being entitled to a refund or without selecting direct deposit for their refund.

While money has been set aside for residents of Puerto Rico, the U.S. Virgin Islands, American Samoa, Guam, and the Northern Marianas, it will be up to their local tax authorities to determine how the rebates there will be distributed. For example, the Department of Revenue and Taxation director for Guam recently said the rebates may be distributed this fall.

2007 Returns Required

The determination of eligibility for a rebate check and payment amount for each individual will be made by the IRS based exclusively on information provided on a filed 2007 income tax return. Until a 2007 tax return is filed by any eligible individual, that individual will not be sent a rebate check. The IRS estimates that most individuals will receive the full \$600 rebate (\$1,200 for those filing jointly), with those receiving less being either high-income taxpayers earning more than the phase out amounts or low-income individuals who are workers, Social Security or VA benefits recipients.

Those not required to file a 2007 tax return for federal income tax purposes nevertheless must file if they wish to receive a rebate this year. That group includes those individuals with no taxable income for 2007 but having at least \$3,000 in qualifying earned income, social security benefits or veteran's disability payments. Stiff said that the IRS was working with the Social Security Administration and the Veterans Administration "to get the word

out" that a 2007 return must be filed to get a rebate check.

What To File

The IRS has released a special version of Form 1040A, which should be filed by recipients of Social Security and certain veterans' benefits and low-income workers to qualify for a stimulus payment. The web site highlights which lines these individuals need to fill out in order to be eligible for the special payments -- they include name, address and Social Security number(s), Lines 1-5 (filing status), Line 6 (exemptions) Line 7 (wages), Line 14a (Social Security benefits), Lines 44b, c & d - routing information; signature and preparer information, as well as writing across the top of the form on page 1 "Stimulus Payment." This special version may only be filed on paper.

Individuals who have already filed 2007 returns, but did not disclose nontaxable Social Security or veterans' payments that would qualify them for a higher rebate, are being advised to file an amended return on Form 1040X to provide the IRS with the information needed for issuing a rebate check in the proper amount.

Comment: The Social Security Administration advises on its website that Social Security beneficiaries, who are filing a 2007 tax return only to obtain the stimulus payment, will not need a replacement Form 1099 for the IRS to determine if they are eligible to receive a stimulus payment. An estimate of Social

Security benefits received in 2007 is sufficient.

Comment: The higher minimum rebate of \$600 is reserved for those who file joint returns. However, the same \$3,000 minimum "earned income" applies whether a single (or head of household or married filing separately) or a joint return is filed, even though others are only entitled to a \$300 minimum credit. The issue has been raised whether entitlement to file a joint return under Code Sec. 6013 requires gross income above certain minimum amounts, irrespective of the IRS's need to have those taxpayers file informational returns for 2007; that is, are couples not required to file a joint return entitled to a \$300 or a \$600 rebate check based on a single \$3,000 amount. The IRS spokesperson told CCH that the agency is looking into this issue.

Special child rebates

Eligible taxpayers who qualify for a basic rebate payment may receive an additional \$300 for each qualifying child. The \$300 payment is an all or nothing proposition, except for taxpayers subject to the phase-out because of a high adjusted gross income level. It will be sent together with the basic rebate check. A child for this purpose is an individual under age 17 at the close of the tax year.

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