

## Tax Rebate Winners and Losers

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As soon as lawmakers in [Washington, D.C.](#), began talking about [tax rebate checks](#) in January, two big questions arose: [Who will get the money](#) and [how much will they get?](#)

Congress took a step toward satisfying our curiosity Feb. 7 with final passage of the Economic Stimulus Act of 2008 (H.R. 5140). When [President Bush](#) makes it law with his signature this week, the IRS can begin setting up the system to get checks out to 130 million Americans.

In the meantime, as is often the case with taxes, answers to those first two big questions led to additional inquiries. And as the various rebate amounts and eligibility situations were more widely discussed, confusion reigned.

Don't despair. Most folks will get some cash back from Uncle Sam.

And [Bankrate](#) has found answers to some common questions that should help you determine just how big a check you can expect.

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### Tax rebate FAQs

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### Will I get a check?

If you had any [net income tax liability](#) for the 2007 tax year, you will get some money back.

So will individuals who last year had earned incomes of at least \$3,000 but who owed no taxes. This provision, added by the Senate to the original proposal drafted by the House and the administration, means that around 20 million lower-income older Americans who rely primarily on Social Security payments, and 250,000 disabled veterans (and those who receive their survivor benefits), will get a rebate.

Some parents also will get an extra payment for each eligible child.

### How much will I get?

The figures \$300, \$600 and \$1,200 have gotten a lot of attention. That's because they are part of the basic rebate amounts, as follows:

Individual taxpayers could receive rebate checks of at least \$300 and up to \$600.

Married couples will get up to \$1,200.

Most individuals who have income of \$3,000 but who do not have to file a return will get \$300.

Some taxpayers with children will receive an additional \$300 per child.

Now we get to that "additional inquiries" situation noted earlier.

Let's start with the majority of rebate recipients, who will be workers who in 2007 had "net tax liability." Most of them will get a check for \$600. That amount, however, is the maximum rebate, so some could get less.

The key phrase in determining the precise amount is "net tax liability." This figure is the amount of tax you owe, both regular and [alternative minimum tax](#) entered on line 46 on the 2007 Form 1040, before you continue working down your tax return and subtract certain credits to arrive at your actual, final tax bill.

Most workers will have a net tax liability well above \$600, so they'll get the maximum individual rebate amount. But if your tax liability is less, then that will be the amount of your rebate check.

Married taxpayers who file joint returns will get a maximum rebate of \$1,200. That's double the maximum possible rebate amount for single filers. Again, it could be less than that depending on your tax liability. But don't worry if only one spouse earned the income. Filing jointly is all that's necessary.

What if you don't have any net tax liability? Thanks to a provision added by the Senate to the [House/White House](#) original rebate proposal, you can still qualify for a rebate of \$300 for single filers (\$600 for joint filers) as long as you have at least \$3,000 in income from a job or [Social Security](#) or veterans' disability benefits.

### Will I get more for my child?

In many cases, there is a rebate bonus for children. But not for all kids.

For rebate purposes, a qualifying child is one who is younger than 17. That means that taxpayers who claim an older college student as a dependent won't get the extra money.

Neither will college kids themselves be happy. The rebate bill specifically makes

dependents, or even those who could be claimed as a dependent, ineligible for the rebate. So students who can be claimed by parents won't get rebates even if they held jobs outside class that otherwise would have qualified them for the money.

"The kid may have \$3,000 in income, but his parents are paying much more for his college expenses so he's a dependent," says Bob D. Scharin, RIA senior tax analyst from Thomson Tax & Accounting. "It does seem unfair that the child can't claim the rebate."

#### **Who won't get a rebate?**

In addition to the unlucky older kids and their parents, a few other folks are left out of the rebate mailing.

Nonresident aliens are excluded. So are trusts and estates.

And wealthier taxpayers also face some rebate limits. Your rebate amount will begin phasing out if you're a single filer with an [adjusted gross income](#), or [AGI](#), of more than \$75,000; more than \$150,000 for married couples filing jointly.

These taxpayers will find their rebates reduced by \$50 for every \$1,000 above the income limit. That means the \$600 rebate will be eliminated for individuals with an \$87,000 AGI; it will be zeroed out for married joint filers with an AGI of \$174,000.

#### **What do I need to do?**

Most of us just need to file and wait. "Fill out your 2007 return as usual," says Scharin.

Mark Luscombe, principal federal tax analyst for the tax software and publishing company CCH, says some folks, however, might be more proactive.

"A few people who otherwise wouldn't file might want to consider doing so this year," he says. "By filing, you're saying 'Here's my return. I have no taxes due, but by the way, please note that I have \$3,000 in earned income.' It's a way of waving your hand to make sure you get your rebate."

Both Luscombe and Scharin expect the IRS and [Social Security](#)

[Administration](#) to work together to find eligible rebate recipients who don't have to file. The new law gives the IRS \$202 million, the [Treasury Department](#) \$64 million and the Social Security Administration \$31 million in additional funds to administer the rebate program.

#### **When can I expect my money?**

With all that money added to the government agencies' budgets, you'd think they could get the checks out quickly. That's not necessarily so.

Because this law took effect during filing season, and one that already was slowed because of previous [alternative minimum tax legislation](#) passed late last year, the IRS will not be able to start issuing checks until mid-May. That will give them time to process most of the 1040s that arrive by the April 15 deadline.

And if you ask the IRS for more time to finish your 2007 return, expect to also wait on your rebate. Filing an extension, and not actually filing your return until the Oct. 15 deadline for extended returns, will delay your rebate," says Luscombe.

Right now, the official word from the IRS is that it has not yet worked out the mechanics of the rebates.

In 2001 -- the last time the agency issued such checks -- they were distributed based on taxpayer [Social Security numbers](#). Those payments seven years ago also were mailed, but there is a possibility that rebates could be directly deposited into taxpayer accounts if that's how they receive any 2007 refund.

The IRS promises to post rebate delivery information to its [Web site](#) as soon as it's available.

#### **Will a refund affect my rebate?**

Speaking of refunds, some folks have expressed concern that if their 2007 return gets them tax money back, they won't get a rebate check. Not to worry.

"Your refund has nothing to do with it," says Scharin. "The rebate is treated as if you gave the government extra money and then it is sending it back to you. It's sort of like extra withholding."

In fact, although the rebates will be determined by your 2007 tax filing data, the money actually is officially an "advance credit payment" against your 2008 income. So it has no bearing on your 2007 taxes, whether you owe or get a refund.

And that leads to our last frequently asked question, or rather questions.

#### **What will the rebate mean to my 2008 taxes?**

Will I owe taxes on my rebate amount next year? What if this year my situation changes and that means my rebate amount should be less?

For most filers, says Luscombe, this year's rebate will appear as a simple gift from the government. The rebate amounts are tax-free.

But filers will have to reconcile any money they receive this year when they file their 2008 returns.

"It harks back to the 2001 situation when we got the new 10 percent bracket and got an advance check for that. Then on next return had to account for it," says Luscombe. "It's expected to be that way this time."

The 2008 tax forms should have a line for the new credit. When calculating taxes next year, taxpayers will have to subtract what they got as a rebate check the previous summer.

"Some people might think that's unfair," says Luscombe, "but they got the money, and they got it early."

One thing taxpayers won't have to worry about is giving back any excess if their 2008 taxes show that the advance this year was actually more than they should have received.

"If it turns out that credit on your 2008 return is greater, you get to take that additional

amount," says Luscombe. "If it's lesser than what you got in 2007, you don't have to refund that back to government." The law says the IRS can't recover the extra payment by reducing your 2008 refund or adding to your 2008 tax bill.

#### **Rebate boosting tax moves**

Because the law is technically an advance credit on 2008 taxes, taxpayers essentially get two shots at maximizing the extra tax money.

Since there's still two months left in the 2007 filing season, you still have time to tweak your 2007 returns to enhance the rebate amount. And if that's not viable now, you have the rest of this year to take some tax steps that could maximize the rebate/credit on 2008 returns you'll file next year.

Consider, for example, a taxpayer now working on his 2007 return. He has no earned income so he is not eligible for the rebate. Neither does he get [Social Security](#), which would trigger a rebate check. But he does have unearned income and is planning to use deductions and credits to reduce the tax due on those earnings to zero or less. He might want to reconsider that usually advantageous strategy.

"The provisions get pretty tricky here, but people in this situation might want to take a close look at the law and consider not taking every last penny of the deductions and credits they're entitled to, in order to qualify for a rebate," says Luscombe. Ideally, the taxpayer in this income situation also has rebate eligible children. By creating a [tax liability](#) -- a few dollars is enough -- he would get that small tax amount back along with the child rebate bonus.

"A dollar or two tax liability is probably not worth it, but two kids means \$602 in rebates," says Luscombe. "As long as you have a tax liability, even on unearned income, you'll get a rebate up that that liability."

At the other end of the rebate scale, taxpayers whose 2007 income was just above the phaseout limits should look now at ways to reduce their 2008 income. This will give them another chance at rebate/credit money they're missing now.

Something as simple as increasing 401(k) contributions, says Scharin, could bring down your [adjusted gross income](#) enough to get more rebate money. You also might look at selling assets that would produce a [capital loss](#).

Either way, if you get your rebate in a few months, enjoy what you receive this year. And if you're able to get a bit more on your 2008 returns, be sure to take advantage of it then, too.

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