

The Checks in the Mail - By Kevin F. Reilly

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The first year of Democratic control of Congress did not look much different than the prior years. The Democrats in the House of Representatives had a program for the first 100 days and were relatively successful getting legislation passed, but much of it went no further. While the House can pass legislation with a simple majority, the arcane rules of the Senate require sixty votes to close debate and bring an issue to the floor for an up and down vote. The sixty votes seldom were there.

Even the 'low hanging fruit' that both parties supported had a difficult time getting passed and Congress continued its partisan ways. As a result, a number of very important bills went nowhere, including the immigration bill. While not an immigration issue, the H2-B visa debate was caught up in the whole discussion. The inability to pass the extension to the returning worker program has left many, particularly in the hospitality field, scrambling for workers. The addition of a number of Senators running for President added a new dimension to the debate. With elections in the fall, you can expect the partisanship to continue and little will be accomplished.

However, Congress can act when the economy begins to slow down and recession begins to raise its ugly head. The crisis in the housing market, the volatility in the stock market and dramatic drop in consumer confidence in the economy forced Congress to do something. Congress, in an overwhelmingly bipartisan manner passed a \$151.7 billion economic stimulus package to provide a short term boost to the economy. Even this was not easy as the Senate tried to add a number of additional provisions that neither the House nor the President would have accepted.

By the time this article is published, individuals should begin receiving checks in the mail. Individuals with \$3,000 of qualifying income in 2007 and who paid little or no income tax would receive either \$300 if they are single or \$600 if married and filing a joint return. Workers who paid taxes would receive \$600 (individuals) or \$1,200 (couples). The payments would phase out beginning with singles making more than \$75,000 or couples making more than \$150,000. Additional rebates apply for those with dependent children under 17. The hope is that the money will be in the hands of consumers by spring and that they will use the funds to purchase goods and services and not just pay down debt.

Depending on how confident the public is, the hospitality industry could benefit from the extra cash in individuals' hands. However, the business provisions may have a more direct impact on the lodging industry. The legislation provides nearly \$45 billion in investment incentives. First, businesses will be allowed to expense 50 percent of the value of new equipment placed in service during 2008. In addition, the limit for direct expensing of equipment purchases would be raised from \$128,000 to \$250,000 for 2008. The phase out threshold would also increase to \$800,000 from \$510,000. The Senate language dealing with these provisions stated that, 'This tax relief will encourage businesses to make investments that will enable them to keep growing - and the requirement for investment this year will achieve the stimulus bill's goal of injecting money into the economy right away.'

If the economy continues its slowdown, you can expect other legislation to be introduced to provide further stimulus. In fact, the Senate GOP Committee has already offered additional proposals for a second economic growth package. Among the issues pushed by the Republicans are:

A permanent extension of the 2001/2003 tax cuts (this is also contained in President Bush's 2009 budget proposal to Congress)

Lower capital gains and dividends rate

Lower corporate rate (at the present time the U.S. has the second highest tax rate in the OECD)

Reduce the capital gains rate for inflation

Full immediate expensing for small businesses

Estate tax repeal

Unfortunately, these provisions are very expensive and the proposal provides no way to pay for the loss of revenue. The Democrats, on the other hand, are looking to enact some of the proposals dropped from the current bill and to find the funds to have a permanent fix to the alternative minimum tax.

Unquestionably, there is progress. The average American now pays out twice as much in taxes as he formerly got in wages.

-H.L. Mencken (1880-1956)

It is amazing that in 1956, H.L. Mencken identified an issue that Congress struggled with at the end of 2007. The alternative minimum tax (AMT) was established in 1969 and had a rather noble purpose. The nation's wealthy were sheltering all of their income through deductions and the AMT was set up to make sure they paid at least some tax. In 1970, only 20,000 taxpayers fell under the provisions. However, the brackets were not indexed for inflation and without action by Congress, it was expected that 25 million taxpayers would be subject to the tax and incur an average \$2,000 tax increase in 2007.

On December 19th, Congress passed the Tax Increase Prevention Act of 2007 providing limited relief for one year only. The problem is any permanent fix is very costly and Congress has been unable to find the revenue needed to replace the revenue that is lost. In fact, one reason that the legislation passed so late is that the House has a 'pay-as-you-go' rule that requires all tax breaks be offset. The late passage of the patch may slow processing of tax returns for the 2008 filing season. The IRS said it needed 10 weeks to reprogram its computer system. While we hope the problem is fixed by now, the IRS did advise certain taxpayers to delay filing a return.

While the exemption amounts are higher than in 2006, they are still very low and many more people still are caught paying AMT than was intended. In addition to the increased exemption amount, Congress also allowed taxpayers to use more nonrefundable credits to offset the AMT, which was not the case in the past. Unfortunately, the problem with alternative minimum tax has not gone away. Since Congress only came up with a one year patch, it must address the issue again this summer.

Congress did pass a number of other last minute bills but few will impact the lodging industry. Two that might include an increase in the penalties on S corporations and partnerships for a failure to file and an increase in the corporate estimated tax payments for corporations with more than \$1 billion in assets. The penalty for S corporations and partnerships is increased to \$85 per shareholder or partner per month up to 12 months.

Congress left a lot undone last year which needs to be addressed. However, with the focus on the economy, the Iraq war, and the elections, it is unlikely that very much will be accomplished. Congress will break for much of the summer for the conventions and the fall for the elections. Every item addressed in the meantime becomes a campaign issue to someone. Remember, not only do we have the presidential elections in the fall but one third of the Senate and all of the House also is up for reelection.

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