



Midwest Flooding 2008

To our clients and friends:

As part of the Economic Stabilization Act of 2008 (Bailout Bill), Congress again granted disaster relief to a ten state region known as the Midwestern Disaster area. The Act granted many forms of tax relief to those who suffered from the disaster. The following may apply to your situation. Please contact us to discuss your situation and assess what is the most beneficial course of action.

- ✚ **Additional \$100,000 of Section 179 expensing.** The limit for current expensing of equipment purchased in 2008 is \$250,000. However, those in the flooded area can elect to expense up to \$350,000 of equipment in the first year.
- ✚ **Expensing for certain demolition and clean-up costs.** The Act allows taxpayers to elect to treat up to 50% of clean-up costs as an expense in the current year, for debris removal from, or demolition of structures on, real property. The real property must be held by the taxpayer for trade or business use or for the production of income.
- ✚ **Treatment of losses attributable to flooding.** There is a special 5 year carryback for losses attributable to the flooding.
- ✚ **Students** attending an accredited higher education institution will qualify for a maximum \$3,000 Hope Credit and a maximum Lifetime Learning Credit of \$4,000 (40% of tuition).
- ✚ **There is a waiver of the 10% penalty tax on IRA distributions.** For these purposes a distribution is considered a qualified distribution if it is made on or after the Federally-declared disaster date and before January 1, 2010, and is made to an individual whose principal residence is located in a Midwestern Disaster Area and who sustained an economic loss by reason of the disaster.
- ✚ **IRAs** – There is a tax-free recontribution to a retirement plan or IRA of certain distributions which were made for home purchases that were not finalized because of floods giving rise to the designation of the area as a disaster.
- ✚ **Employee retention credit** – 40% of wages paid up to \$6,000 if paid after the applicable date and before January 1, 2009 by employers with 200 or fewer employees located in the Midwestern Disaster area. Further, certain outstanding loan payments may be deferred an additional 12 months, with appropriate adjustments for interest.

If you have been impacted by the flooding, there are many tax advantages available to you, please call us to discuss.

Very truly yours,

Bodilly CPAs & Consultants, LLP