

Federal Recovery Rebates

What are federal recovery rebates?

The federal Economic Stimulus Act of 2008 (Public Law 110-185) provides for “recovery rebates” to be paid as a refundable advance credits against 2008 federal income tax liability.

Who is eligible for a rebate?

Anyone with federal income tax liability for tax year 2007 is eligible for a rebate. Individuals with “qualifying income” of at least \$3,000 in 2007 are also eligible. “Qualifying income” is defined as:

- ▶ earned income (wages and self-employment income);
- ▶ Social Security and railroad retirement benefits (both taxable and nontaxable);
- ▶ nontaxable combat pay; and
- ▶ disability, pension, and survivor benefits paid by the U.S. Department of Veterans Affairs (both taxable and nontaxable).

Individuals who are eligible as a result of having at least \$3,000 of qualifying income in 2007 must file a 2007 federal income tax return in order to receive a rebate, even if they aren’t otherwise required to file a return.

Individuals who do not have federal liability or at least \$3,000 of qualifying income in 2007 may qualify to receive a refund if they have federal income tax liability or at least \$3,000 of qualifying income in 2008.

How much are the rebates?

For individuals who qualify because they have federal income tax liability for 2007, the rebate amount is calculated as shown in the table.

	Federal income tax	Rebate equals
Married joint filers	More than \$1,200	\$1,200 plus \$300 per qualifying child
	\$600 to \$1,200	Federal tax plus \$300 per qualifying child
	Less than \$600*	\$600 plus \$300 per qualifying child
All other filers	More than \$600	\$600 plus \$300 per qualifying child
	\$300 to \$600	Federal tax plus \$300 per qualifying child
	Less than \$300*	\$300 plus \$300 per qualifying child
*Must have gross income of at least \$17,500 (married joint), \$8,750 (married separate or single), or \$11,250 (head of household)		

For individuals who are eligible because they have at least \$3,000 of qualifying income, the rebate equals \$600 for married joint filers (\$300 for all other filers), plus \$300 for each qualifying child.

“Qualifying child” follows the definition used for the federal child tax credit: an individual eligible to be claimed as the taxpayer’s dependent who was under age 17 as of December 31, 2007.

Are rebates phased out based on income?

Yes, rebates are reduced by 5 percent of adjusted gross income over \$150,000 for married joint filers (\$75,000 for all other filers), as shown in the table.

	Phaseout starts	Rebate fully phased out
Married joint		
No qualifying children	\$150,000	\$174,000
1 qualifying child	\$150,000	\$180,000
2 qualifying children	\$150,000	\$186,000
More than 2 children	\$150,000	\$6,000 higher for each additional child
All other filers		
No qualifying children	\$75,000	\$87,000
1 qualifying child	\$75,000	\$93,000
2 qualifying children	\$75,000	\$99,000
More than 2 children	\$75,000	\$6,000 higher for each additional child

When will the rebates be paid?

The U.S. Treasury Department will begin issuing rebates in early May 2008. Rebates will be issued separately from federal income tax refunds. Individuals who provide routing and account numbers on their federal income tax return will receive their rebates by direct deposit, even if they don’t qualify for an income tax refund. All others will receive their rebates by check.

Individuals who are not eligible for a rebate based on 2007 federal liability or 2007 qualifying income, but who have federal liability or \$3,000 of qualifying income for tax year 2008, will be able to claim a rebate when they file their 2008 income tax return (generally in January through April 2009).

Are the rebates subject to federal or Minnesota income tax?

No. Because rebates are a credit against federal tax liability, they are not taxable income (the federal definition of “taxable income” ensures that rebate payments that exceed liability are excluded).

Minnesota conforms to the federal definition of taxable income and will not tax federal recovery rebates.

For more information: See the IRS web site: <http://www.irs.gov/irs/article/0,,id=177937,00.html>.

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