

Tax-Free IRA Withdrawals Allowed for Rebates

The IRS started distributing economic stimulus payments in late April, and by mid-July, the agency expects to have issued about 44 million so-called tax rebates through direct deposit and an estimated 88 million rebates as paper checks through the mail, according to a statement by Treasury Secretary Henry M. Paulson.

"By the end of May, we will have pumped almost \$50 billion into the economy and another \$50 billion will follow—by early July, about 130 million households will have almost \$100 billion of payments in-hand," Paulson said in reference to the rebates made possible under the Economic Stimulus Act of 2008 [P.L. 110-185], which was enacted this February.

"We expect that these payments will help right away—help individuals, families and our economy," he continued. "Giving people cash means they can decide how best to use it. Seniors, veterans, moms, dads and grandparents can each put their payments toward what is important to them—whether it's gas for a summer vacation, clothes for back to school, or a trip to see the grandkids."

Relief for Direct Deposits in IRAs

For taxpayers who opted to have their 2007 federal income

tax refund direct deposited, the IRS generally will direct deposit their economic stimulus payment. Recognizing that some taxpayers may have been unaware of that provision, the IRS recently announced that rebates that are directly deposited into individual retirement accounts (IRAs) and other tax-favored accounts may be withdrawn tax-free and penalty-free. [Announcement 2008-44, IRB 2008-20, Apr. 30, 2008.]

Taxpayers whose economic stimulus payment was directly deposited into a tax-favored account generally have until April 15, 2009, to withdraw amounts less than or equal to their payment without facing taxes or penalties on their withdrawals, according to the IRS. Those who obtain a tax-filing extension next year will have until October 15, 2009, to make withdrawals.

Tax-favored accounts to which this relief applies include the following:

- Traditional IRAs
- Roth IRAs
- Health savings accounts (HSAs)
- Archer medical savings accounts (MSAs)
- Coverdell education savings accounts (ESAs)
- Qualified tuition plans (e.g., QTPs or Section 529 plans)

The IRS notes that taxpayers who elected to have their 2007 tax refund split in two or three accounts will receive a paper check for their economic stimulus payment.

Tax forms and instructions for 2008 will include details on reporting tax-free withdrawals of direct-deposited rebates.

IRS Reminders

In late April, an IRS spokesperson told CCH, publisher of EXECUTIVE'S TAX & MANAGEMENT REPORT, that the IRS had received "over 5 million calls" about the rebate "in just the past two months."

The IRS has posted a list of frequently asked questions on IRS.gov to address some taxpayer questions and concerns. A payment schedule, economic stimulus payment calculator, and various other resources related to the rebates are also available on the IRS Web site.

Here is some additional information from the IRS to keep in mind:

- Those who qualify for an economic stimulus payment must file a 2007 tax return by October 15, 2008.
- Rebates range from up to \$600 for an individual to \$1,200 for married couples, plus \$300 for each eligible child under age 17.
- Payment begins to phase out for individuals with adjusted gross

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incomes (AGI) over \$75,000 and married couples filing jointly with AGI over \$150,000.

- Some taxpayers under those income limits may receive a smaller payment than they may have expected if they have past-due taxes, student loans, child support or certain other debts. By law, the stimulus payments are offset to satisfy such obligations.

Survey Looks at Spending Plans

Taxpayers in a recent survey by the American Institute of Certified Public Accountants (AICPA) are divided about how they plan to use their rebates:

- 28 percent expect to save their rebate
- 27 percent plan to spend it
- 25 percent plan to pay down debt

Those most likely to fall into the first category are single individuals, while retirees and married couples are most likely to spend their rebate, according to the AICPA (www.aicpa.org). The organization also found that working

women with children are the most likely to pay down debt.

"How you use your rebate, if you qualify for one, depends on your own personal circumstances," said Carl George, chair of the AICPA's National CPA Financial Literacy Commission. "It's important that you evaluate your situation appropriately. Discretionary spending should always be subordinate to obligations like paying down debt."

AICPA member Doug Stives, CPA/PFS, offers another tip to consider. "If you are not currently contributing the maximum allowed into your retirement plan, such as a 401(k), take the rebate amount, divide it by the number of pay periods left in 2008 and have that amount withheld from each remaining paycheck and put into your retirement plan," said Stives, who is a professor of accounting at Monmouth University in West Long Branch, New Jersey. "The tax saved by reducing your taxable income will provide a second windfall." ■