Money and You: The new tax rebates - what's in it for you, the economy

by Carrie_Schwab_Pomerantz

On Feb. 13, President George W. Bush signed a bill designed to put money into the pockets of millions of consumers, provide tax breaks to businesses, and alleviate some of the problems in the home mortgage industry. But the real goal of the "Economic Stimulus Plan of 2008" is to jump-start the ailing economy.

The plan will probably affect you and the larger economic picture.

- Rebates for (almost) everyone: Most American families who file taxes in 2007 are going to get checks with varied amounts, according to their income and the number of children (under the age of 17) in the family. Single workers will receive up to $600; joint filers get up to $1,200. Households with kids obtain an additional $300 per child. However, if your adjusted gross income is above $75,000 and you're single, or above $150,000 and you're married, the amount of your rebate will decline by $50 for every $1,000 you earn above these limits.

In short, a lot of Americans are going to receive a rebate. The Bush Administration estimates that some 117 million households will be eligible and the IRS plans to start sending rebates by May.

- Encouraging business investment: About $50 billion of the $153 billion package comes in the form of business tax breaks, mostly through the method of accelerated depreciation. These incentives are designed to encourage businesses to ramp up their investment activity.

- More affordable mortgages: The final component of the bill allows the Federal Housing Administration and other housing-related government-sponsored enterprises to increase lending limits for substantial home mortgages.

The crisis in the housing market has made it difficult for people to gain financing for so-called "jumbo" mortgages; this aspect of the package should make large mortgage loans easier to repackage and sell to investors.

WHAT IT ALL MEANS

What does this mean for you? It's pretty straightforward. If you're eligible, you're going to get some money from the federal government (all you have to do is file your 2007 tax return). The government hopes you'll spend the money and, by doing so, give a little boost to the overall economy and perhaps help the United

States avoid a recession. The other two components of the bill, while targeted at different groups, are designed to do the same thing.

But realistically, this package is a mere drop in our country's $14 trillion economic ocean. Moreover, as one of my colleagues at Schwab put it, spending - consumption - isn't our problem; saving and investing are bigger issues for our long-term economic future. This stimulus package is a one-time shot in the arm, but like most temporary "fixes," it probably won't have a lasting effect on the economy. That said, something is probably better than nothing.

But this column isn't intended to be about economics - it's about personal finance. So what should you do when you get your check? It depends on your personal situation, but if you have high-interest consumer debt, I recommend using this windfall to pay it down. Otherwise, save it or invest it.

In any case, this stimulus package almost certainly doesn't represent the kind of money that will change your life, just as it probably doesn't represent the kind of stimulus that will rev up the engines of economic growth. But it could offer a little boost to your family's economic health.

Take it and use it wisely.

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