

2009 Recovery Act - General Information for Individuals

Congress has just passed the largest spending bill in U.S. history, including some significant tax incentives for individuals. The nearly \$800 billion American Recovery and Reinvestment Act is roughly two-thirds spending and one-third tax cuts. The massive infusion of spending and tax incentives is designed to jump start the troubled U.S. economy. Many of the tax incentives are retroactive to January 1, 2009. This letter examines the individual tax incentives in the new law.

Making Work Pay credit. The centerpiece of the new law is the Making Work Pay credit. Wage earners will see an increase in their take-home pay. The new law allows a credit against income tax in an amount equal to the lesser of 6.2 percent of the individual's earned income or \$400 (\$800 for married couples filing jointly). The credit applies retroactively to the start of 2009 and will be repeated again in 2010. Individuals, disabled veterans and others on fixed incomes will receive one-time payments of \$250. At this time, it is likely that the Making Work Pay credit will not appear in workers' paychecks until late spring as it may take that long for the IRS to revise the payroll tax withholding tables. President Obama and many members of Congress want the IRS to move more quickly. *We'll keep you posted of developments.*

Homebuyer tax credit. Home sales are at record lows in most parts of the country. The new law extends and enhances a tax credit put in place last year to encourage home sales. The credit gives first-time homebuyers a temporary refundable tax credit equal to 10 percent of the purchase price of a home up to \$8,000 (\$4,000 for married individuals filing separately) The credit begins to phase out for higher-income taxpayers. Initially, the credit was effective for homes purchased on or after April 9, 2008, and before July 1, 2009. The new law extends the credit through November 30, 2009. Moreover, the new law eliminates the repayment requirement for homes purchased after December 31, 2008 and before December 1, 2009. This is a significant enhancement. *Please contact our office for details.*

New car deduction. Automobile sales, like new home sales, have plummeted in recent months. Congress has created an above-the-line deduction for state and local sales taxes or excise taxes paid on qualified purchases of new motor vehicles. Income limits and other restrictions apply so please contact our office before you purchase a new vehicle. This deduction is temporary and also prospective. It will expire at the end of 2009. Because it is an above-the-line deduction, itemizers and non-itemizers can take advantage of it.

AMT patch. The alternative minimum tax (AMT) was created to ensure that very wealthy individuals pay their fair share of federal taxes. Over time, the AMT has encroached on middle income taxpayers, largely because it was not indexed for inflation. Many in Congress would like to abolish the AMT but it generates huge amounts of revenue. To help middle income taxpayers avoid the AMT, the new law increases the AMT exemption amounts and allows taxpayers to take most personal credits to reduce AMT liability for 2009.

Unemployment compensation. Sadly, the number of Americans receiving unemployment benefits is at record numbers. Many individuals are surprised to learn that unemployment benefits are taxable. The new law excludes up to \$2,400 in unemployment compensation from a recipient's gross income in 2009.

Education. Education expenses are increasing faster than the rate of inflation in many cases. The Tax Code includes a number of incentives to help bring down the cost of education. The new law expands the current Hope education credit (and renames it the American Opportunity Tax Credit). More individuals will be able to take advantage of this credit because of expanded income phase-outs. The new law also raises the maximum credit, extends it over four years of post-secondary school education, and makes 40 percent of the credit refundable. In a related development, the new law also permits beneficiaries of qualified tuition plans (known as "529" plan) to use tax-free distributions to pay for computers and computer technology. The education credits in

the Tax Code are complex and made more so by the new law. *Please contact our office and we'll be happy to explain them in detail.*

Child tax credit. Congress has tinkered with the current \$1,000 child tax credit many times in recent years. The new law increases the refundable portion of the child tax credit for 2009 and 2010. Taxpayers are eligible for a refundable credit equal to 15 percent of their earned income in excess of \$3,000 subject to certain restrictions and phase-outs.

Transit benefits. Transit benefits, such as bus/subway passes and van pooling payments, are very popular with employers and employees. The new law increases the income exclusion amount for transit passes and van pooling from \$120 per month to \$230 per month for 2009 (starting in March) and 2010 (with an inflation adjustment for 2010).

EITC. The earned income tax credit (EITC) is a refundable tax credit targeted to lower and middle income wage earners and families. When the EITC exceeds the amount of taxes owed, it generates a refund. The new law enhances the EITC for taxpayers with three or more qualifying children.

Energy Incentives. Did you know that you might qualify for a tax break for installing energy-efficient windows, doors, furnaces, and other items in your home? The new law enhances several energy tax incentives that reward taxpayers for installing energy-efficient property and alternative sources of energy in their homes. Before you invest in energy-efficient property, contact our office and we can review the various tax breaks available. Some state tax incentives may piggyback on the federal ones.

More incentives. The new law also increases the health coverage tax credit (HCTC) for, among others, individuals receiving Trade Adjustment Assistance benefits. The new law also decreases estimated tax payments for certain individuals whose incomes come from a small business in 2009. Dislocated workers who apply for COBRA coverage will benefit from an enhanced but temporary subsidy.

Please contact our office if you have any questions about the tax incentives in the American Recovery and Reinvestment Act. Because many of the tax incentives are temporary, don't delay. We don't want you to miss out on any tax savings.