Summary of the American Recovery and Reinvestment Act of 2009

Provided by:

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The American Recovery and Reinvestment Act of 2009 was signed into law by President Obama on February 17, 2009.

Also known as the economic stimulus package, the American Recovery and Reinvestment Act of 2009 has four broad categories: tax breaks, investments in health care and alternative energy, funding for "ready-to-go" infrastructure projects and funds to aid state and local governments, including expanded benefits for the unemployed. The legislation comes with a $787 billion price tag, of which approximately $300 billion, or over 35%, is directed to tax relief.

This paper reviews the tax relief and tax incentives made available by the legislation to both individuals and businesses, as well as summarize the new assistance available to the unemployed.

As you review the attached summary, pay particular attention to any provisions you feel may impact on your situation. If you would like additional information on the American Recovery and Reinvestment Act of 2009 or to discuss the impact of specific provisions on your planning, please call my office.

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American Recovery and Reinvestment Act of 2009

Individual Tax Relief

"Making Work Pay" Tax Credit:

The Making Work Pay tax credit effectively offsets a worker's share of the FICA Social Security payroll tax by providing a credit against income tax equal to the lesser of 6.2% of an individual's earned income or $400 ($800 for married couples who file jointly). The credit applies retroactively to January 1, 2009 and will be available again in 2010. The full credit is available to single filers whose modified adjusted gross income does not exceed $75,000 ($150,000 for married couples who file jointly). The credit begins to phase out for single filers with modified adjusted gross incomes of $75,000 and disappears entirely when modified adjusted gross income reaches $95,000. For married couples filing jointly, the phaseout begins at $150,000 and the credit disappears entirely at $190,000.

"Making Work Pay" Tax Credit (2009 and 2010)			
		Credit Phases Out for Modified AGI	
Taxpayers	**Maximum Credit**	**From**	**To**
Single	$400	$75,000	$95,000
Married Filing Jointly	$800	$150,000	$190,000

- **Employees:** If you are eligible for the Making Work Pay tax credit, your employer will reduce the income tax withheld from your paycheck beginning no later than April 1, 2009. This means that your take-home pay will increase by the full tax credit spread out over the approximately nine remaining months of 2009. The tax credit will continue in 2010 but, since it will be spread out over the entire 12-month year, take-home pay will not increase as much due to this tax credit. Another alternative is to ask your employer not to adjust your withholding and, instead, receive your tax credit in a lump sum as a tax refund when you file your 2009 and 2010 tax returns.

- **Self-Employeds:** In order to receive an immediate benefit from the tax credit, self-employed individuals can reduce their quarterly estimated payments by the amount of the credit for which they qualify. The other alternative is to wait and benefit from the tax credit when their 2009 and 2010 tax returns are filed.

Economic Recovery Payment:

Recipients of Social Security benefits, Railroad Retirement benefits, Supplemental Security Income (SSI) payments, as well as recipients of pension and disability benefits from the Veterans' Administration, will receive a one-time $250 payment in 2009. Federal retirees who do not receive any Social Security benefits will also receive $250. People who receive their benefits electronically will receive this payment electronically as well. Others will receive a check. The $250 Economic Recovery Payment should be received no later than June 17, 2009.

NOTE: The Economic Recovery Payment will reduce any Making Work Pay tax credit to which an individual would otherwise be entitled.

Increased Alternative Minimum Tax (AMT) Exemption:

In order to prevent millions of middle-income taxpayers from having to pay the alternative minimum tax (AMT) in 2009, the minimum tax exemption is increased to $70,950 for married couples filing jointly and surviving spouses, up from $69,950 in 2008. For single filers and heads of households, the 2009 AMT exemption is $46,700, up from $46,200 in 2008.

Earned Income Tax Credit:

As explained by the IRS, "the Earned Income Tax Credit or the EITC is a refundable federal income tax credit for low to moderate income working individuals and families. Congress originally approved the tax credit legislation in 1975 in part to offset the burden of social security taxes and to provide an incentive to work. When the EITC exceeds the amount of taxes owed, it results in a tax refund to those who claim and qualify for the credit." The EITC has been expanded and enhanced several times since its original enactment.

The EITC for working families with three or more children is temporarily increased for 2009 and 2010. Under current law, working families with two or more children currently qualify for an earned income tax credit equal to 40% of the family's first $12,570 of earned income. This credit is subject to a phase-out for working families with adjusted gross income in excess of $16,420 ($19,540 for married couples filing jointly). The legislation, however, increases the earned income tax credit to 45% of a family's first $12,570 of earned income for families with three or more children and increases the beginning point of the phase-out range for all married couples filing a joint return (regardless of the number of children) by $1,880.

Expanded First-Time Homebuyer Tax Credit:

A homebuyer tax credit of up to $7,500 was initially enacted in 2008. It applied to homes purchased from April 9, 2008 and before July 1, 2009, and required that the credit be repaid in equal interest-free installments over 15 years, beginning two years after the year in which the home was purchased. Purchases that were made from April 9, 2008 through December 31, 2008 continue to be governed by this original first-time homebuyer tax credit.

For purchases of a principal residence made after December 31, 2008, the new law increases the maximum first-time homebuyer tax credit to 10% of the purchase price of the home, up to $8,000, and extends it at that level through November 30, 2009. In addition, the requirement that the credit be repaid is eliminated as long as the home isn't sold within three years. A person is considered a first-time homebuyer if he or she (or spouse) had no ownership interest in a principal residence during the three-year period prior to purchasing the new home. The credit begins to phase out for taxpayers with adjusted gross income in excess of $75,000 ($150,000 if married filing a joint return).

It's important to understand that a purchase takes place when the title closes, not when a sales contract is executed. This distinction becomes particularly important as the November 30, 2009 deadline approaches.

NOTE: First-time homebuyers in 2009 can claim the tax credit on their 2008 tax returns by completing IRS Form 5405. (http://www.irs.gov/pub/irs-pdf/f5405.pdf). If you've already filed your 2008 tax return and claimed the previous $7,500 credit, you can file an amended return to get the remaining $500 or, alternatively, you can claim the tax credit when you file your 2009 tax return. Finally, the credit is refundable, meaning that you will receive a refund if the credit exceeds your tax bill.

Enhanced Child Tax Credit:

Taxpayers with dependent children under age 17 at the close of the calendar year receive a $1,000 per child tax credit through 2010. In 2008, if the total amount of the allowable credit exceeded total tax liability, the credit was refundable to the extent of 15% of a taxpayer's earned income in excess of $8,500. The new law lowers that income threshhold to $3,000. A tax return must be filed to receive a child tax credit refund.

Education Incentives:

The new law has several education incentives, including:

- **American Opportunity Tax Credit:** A temporary increase in the existing HOPE college tax credit. For 2009 and 2010 only, the HOPE education is increased from a maximum of $1,800 to $2,500 per year by covering 100% of the first $2,000 of tuition and related college expenses and 25% of the next $2,000. In addition, the credit is available for all four years of college, instead of just two years, and the credit can also now be used to cover the cost of course materials/books. The credit now begins to phase out at higher adjusted gross income levels...$80,000 for single taxpayers and $160,000 for married taxpayers filing jointly. Finally, 40% of the credit is refundable, meaning that low income earners who pay little or no income tax will get money back.

- **For Beneficiaries of Qualified Tuition Programs (Section 529 Plans):** Qualfied education expenses that can be paid for by tax-free distributions have been expanded to include the cost of computers and computer technology, including Internet access.

New Car Tax Deduction:

If you purchase a new car, light truck, SUV, motorcyle or motor home that weighs no more than 8,500 gross pounds from February 17, 2009 through December 31, 2009, you can deduct the state and/or local sales tax or excise tax you paid. The federal income tax deduction is an "above-the-line" deduction, meaning that it is available whether or not you itemize deductions. If you do not itemize deductions, you'll add the sales/excise tax paid to your standard deduction. The deduction is not available for sales or excise taxes paid on a lease agreement.

The following limits also apply:

- The deductible sales or excise tax is limited to that portion of tax attributable to the first $49,500 of the vehicle's purchase price; and

- The tax deduction phases out for single taxpayers with adjusted gross incomes over $125,000 ($250,000 for married filing jointly) and disappears entirely at adjusted gross incomes of $135,000 and $260,000 respectively.

Transit Benefit Equalization:

Certain transit benefits provided by employers, such as qualified parking, transit passes and van pooling, are tax-free fringe benefits up to specified amounts. In the past, up to $230 per month was permitted for parking expenses, but the tax-free exclusion amount for transit passes and van pooling was only $120 per month. The new law equalizes the exclusion amount so that, starting in March 2009, transit passes and van pooling provided by an employer are eligible for a $230 per month exclusion from taxable income. The increased exclusion amount will continue in 2010, but with an inflation adjustment.

Energy-Saving Tax Incentives:

As part of the nation's efforts to expand the use of "clean energy," the legislation enhances the Residential Energy Property Tax Credit. Certain energy-efficient home improvements are eligible for a residential energy property tax credit. The credit was 10%, but the new law increases that to a 30% tax credit, raises the maximum cap to a $1,500 aggregate amount for 2009 and 2010 home improvements and eliminates the $500 lifetime cap. Home improvements that qualify for the tax credit include energy-efficient windows, skylights and outer doors, together with energy-saving water heaters, central air conditioners and biomass stoves.

Assistance to the Unemployed

Expansion of Unemployment Benefits:

- **Increased Unemployment Benefits**: The legislation increases unemployment benefits by $25 per week through 2009. This increase is intended to be automatic, but it may take state unemployment offices a few weeks to reprogram their computers and begin paying the extra money.

- **Extended Unemployment Benefits**: For unemployed workers who have exhausted their regular unemployment benefits, the stimulus legislation provides up to 33 weeks of extended unemployment benefits. You should contact your state unemployment office if you believe you qualify for extended benefits.

- **Tax-Free Benefits**: While unemployment benefits are normally subject to federal income tax, people receiving unemployment benefits in 2009 can exclude the first $2,400 of those benefits from gross income. Any amounts received in excess of $2,400 remain fully taxable.

COBRA Health Insurance Benefits:

When you are involuntary laid-off or terminated from your job without cause and you worked for a company with 20 or more employees that provides health insurance benefits to employees, you generally can continue health insurance coverage through your former employer's plan for up to 18 months through a federal program called COBRA. You are required to pay the full premium for the health insurance coverage provided under COBRA, which can be quite high. The stimulus bill, however, provides a 65% reduction in the cost of COBRA premiums for up to nine months:

- To qualify for the 65% premium reduction and pay only 35% of the COBRA premium, you must be involuntarily terminated from your job between September 1, 2008 and December 31, 2009 and your annual adjusted gross income for the year must be less than $125,000 for individuals and $250,000 for married couples.

- If you are eligible for other group health insurance coverage, such as through a spouse's plan, or if you are eligible for Medicare, you do not qualify for the 65% premium reduction.

- The subsidy ends if you find a new job and your new employer offers health insurance coverage.

- If you lost your job between September 1, 2008 and February 17, 2009 and did not elect COBRA coverage, you will be given 60 days to elect COBRA coverage and receive the 65% subsidy after being notified by your former employer that you are again eligible for COBRA coverage.

You should contact your former employer for details on the COBRA premium subsidy.

Business Tax Incentives

The stimulus legislation provides businesses with approximately $75 billion in tax benefits in 2009 and 2010. The new business tax incentives include:

Bonus First-Year Depreciation:

The 50% first-year bonus depreciation provision enacted in 2008 is extended through 2009, retroactive to January 1, 2009. In addition, the legislation extends through 2010 the additional year of bonus depreciation allowed for property with a recovery period of 10 years or longer, for transportation property (property used to transport people or property), and for certain aircraft.

For the year the property is placed in service, 50% bonus depreciation is taken on top of regular depreciation reported for the year.

Section 179 Extension:

Section 179 expensing is available to small businesses on the purchase of new or used property. The stimulus bill extends the increased 2008 Section 179 expensing amounts through 2009. As a result, the maximum Section 179 deduction remains at $250,000 and full expensing remains available until $800,000 of assets are placed in service.

Longer Carryback Period for Net Operating Losses:

Small firms can now carryback 2008 net operating losses for three, four or five tax years instead of two. To qualify, the business must have average gross receipts of $15 million or less.

Expansion of the Work Opportunity Tax Credit:

The Work Opportunity Tax Credit has been expanded to include two new categories of targeted groups: unemployed veterans and and "disconnected" youth (out-of-work youths between the ages of 16 and 25).

Small Business Estimated Tax Relief:

Individuals running small businesses whose 2008 adjusted gross income was less than $500,000, with more than half of their gross income from a firm with less than 500 workers, are not required to make their 2009 quarterly estimated tax payments based on 100% of their 2008 income. Instead, they can base their 2009 estimated tax payments on the lesser of 90% of 2008 or 2009 tax liability.

Extension of Renewable Energy Credits:

Renewable energy tax credits are extended through 2013 (through 2012 for wind energy facilities). In addition, businesses can receive a 30% tax credit for investing in advanced renewable energy facilities.