

THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

The American Recovery and Reinvestment Act of 2009 (The Recovery Act) was signed into law by the President on February 17, 2009. The Recovery Act includes substantial changes for businesses and individuals. This legislation, in many cases, applies to tax law beyond 2009 as well. A listing of the more applicable deductions and credits, that may affect most businesses and taxpayers are as follows:

Personal Income Tax Changes

- **American Opportunity Tax Credit**
 - In 2009 and 2010 an enhanced tax credit of up to \$2,500 per eligible student for the cost of the qualified tuition and related expenses paid during the tax year, will be available. This credit replaces the Hope Scholarship Tax Credit.
 - The credit is available to an individual student for four years, provided they have not completed the first four years of post-secondary education before the beginning of the fourth tax year.
 - Up to 40% of the credit is refundable unless the taxpayer claiming the credit is a child subject to the kiddie tax rules.
 - The credit is phased out for taxpayers with modified AGI between \$80,000 - \$90,000 for Single, Head of Household and Married Filing Separate and \$160,000 – \$180,000 for Married Filing Joint taxpayers.
 - **Example**
 - Bob and Mary have two children in college, one a junior and one a freshman. Their modified adjusted gross income is \$100,000. The annual tuition costs for each eligible student is \$10,000 each. Bob and Mary would be able to claim a credit of up to \$5,000 (\$2,500 for each student) on their 2009 personal income tax return.
- **Child Tax Credit**
 - The Recovery Act reduces the gross income calculation to determine the refundable child tax credit. Previously the child tax credit was refundable to the extent earned income exceeded \$8,500.
 - Starting in 2009, the child tax credit is refundable to the extent of 15% of earned income over \$3,000.
 - The maximum credit refundable in 2009 is \$1,000 per qualifying child.
 - **Example**
 - Jill has a child that qualifies for the child tax credit and earns \$10,000 of income in 2009. She has no tax liability. Jill would have received a refundable child tax credit of \$225 in 2008 ($\$10,000 - \$8,500 = \$1,500 \times 15\%$). Due to the tax change, her refundable child tax credit, for 2009, will be \$1,000 ($\$10,000 - \$3,000 = \$7,000 \times 15\%$)
- **First Time Homebuyer's Credit**
 - Prior to January 1, 2009 the law allowed a refundable tax credit for first-time homebuyers up to 10% of the purchase price of a qualified home, up to a maximum of \$7,500 for qualifying purchases on April 9, 2008 through June 30, 2009. The

\$7,500 credit was considered an interest free loan because it had to be repaid over a 15 year period.

- The Recovery Act improved the credit for 2009 purchases by eliminating the requirement to repay the credit and increasing the credit to \$8,000. The credit is equal to 10% of the purchase price of a qualified home, up to a maximum of \$8,000 (\$4,000 Married Filing Separately) for first-time homebuyer's.
- If the taxpayer qualifies for the credit and purchases a home before December 1, 2009 they can elect to claim the credit on their 2009 return or amend their 2008 return if already filed.
- An individual is considered a first-time homebuyer if they (or spouse if married) had no ownership interest in a personal residence in the prior three years.
- The credit phases out for individual taxpayers with modified adjusted gross income between \$75,000 - \$95,000 for Single, Head of Household and Married Filing Separate and \$150,000 – \$170,000 for Married Filing Joint taxpayers.
- If the taxpayer disposes of the home or the home ceases to be the principal residence of the taxpayer within 36 months from the date of purchase, the credit will be subject to recapture (repayment).
- Click on the link below to see a variety of scenarios provided by IRS.
 - <http://www.irs.gov/newsroom/article/0,,id=206294,00.html>
- **Example**
 - Bob and Mary are first time homebuyer's with modified adjusted gross income of \$135,000 and purchase a home on April 20, 2009 for \$225,000. Bob and Mary would qualify for the \$8,000 first time homebuyers credit and could claim the credit on either their amended 2008 (if filed) or 2009 personal income tax return.
- **Government Retiree Special Credit**
 - Individuals receiving a government pension or annuity from work that are not covered by Social Security, and were not eligible to receive an economic recovery payment, are allowed a \$250 refundable tax credit (per taxpayer).when they file their 2009 personal income tax returns.
- **Making Work Pay Credit**
 - In 2009 and 2010, individuals who work will receive a credit of up to \$400 per taxpayer (\$800 for Married Filing Joint filers).
 - The credit is phased out for joint filers with modified adjusted gross income between \$150,000 – \$190,000 and \$75,000 – \$95,000 for Single, Head of Household and Married Filing Separate taxpayers.
 - Most taxpayer's paychecks, from their employers, have been adjusted to account for this credit by a reduction of the federal tax withheld.
- **Personal Energy Property Tax Credit**
 - A non-refundable credit of up to 30% of the cost of personal energy property (such as insulation, doors, windows & electric heat pumps) to their principal residence.
 - The credit is limited to \$1,500 for 2009 and 2010 combined.
- **Sales Tax Deduction on Vehicle Purchases**
 - A new deduction is allowed for the state and local sales taxes paid on the purchase of **NEW** cars, light trucks, motor homes and motorcycles after February 16, 2009 and before January 1, 2010.

- The deduction is allowed in addition to the standard deduction or as an additional itemized deduction.
- Alternate Minimum Tax (AMT) Exemption
 - In 2009, the AMT exemption amounts have increased to: \$46,700 for Single (Head of Household), \$70,950 for Married Filing Joint and \$35,475 for Married Filing Separately.
 - This is more commonly known as an AMT patch to minimize taxpayer's exposure to additional income taxes.
- Unemployment Compensation
 - In the 2009 tax year, up to \$2,400 of unemployment compensation is excludable from the taxpayer's gross income. We believe most states will follow suit.
 - For a married couple, the exclusion applies to each spouse, separately. Thus, if both spouses receive unemployment benefits during 2009, each may exclude (reduce) the taxable portion of their benefit by the first \$2,400 they received.
- COBRA Premium Assistance
 - The Recovery Act allows individuals to pay only 35% of the cost for COBRA continuation premiums for up to 9 months for workers who have been involuntary terminated.
 - To qualify for premium assistance, a worker must be involuntarily terminated between September 1, 2008 and December 31, 2009.
 - The subsidy is not taxable when received; however, recipients with modified Adjusted Gross Income above \$125,000 for Single, Head of Household or Married Filing Separate and \$250,000 for Married Filing Joint the taxpayer's income tax for the year is increased by the amount of the premium assistance.

Business Tax Changes

- Special Bonus Depreciation
 - A special depreciation allowance equal to 50% of the adjusted basis of qualified property, is allowed for property acquired and placed in service in 2009.
 - Taxpayers may elect out of the special depreciation.
- Section 179 Expensing
 - Under Code Sec. 179, taxpayers can elect to deduct as an expense (rather than depreciate), up to \$250,000 for qualifying property purchased in 2009.
 - The qualifying property limit for 2009 is \$800,000.
- Work Opportunity Tax Credit
 - An employer can claim a tax credit up to \$2,400 per employee for wages paid to members of certain targeted groups.
 - The credit is determined by taking 40% of up to a maximum of \$6,000 of qualified wages.
 - The credit applies to nine targeted work groups and the 2009 Recovery Act applies to two new groups: unemployed veterans and disconnected youths.

Remember, the topics covered in this newsletter are an abridged version to the actual tax laws and codes covered by the Internal Revenue Service. If additional information is needed, contact our office.