

Re: 2009 Recovery Act: Individuals

The American Recovery and Reinvestment Act of 2009 (2009 Recovery Act) is one of the largest spending and tax cut bills in recent years. 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 2009 Recovery Act.

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). Income limitations apply so the credit will not be available to higher income wage earners.

Effective April 1, 2009, employers have started withholding at reduced rates to reflect the Making Work Pay credit. Many individuals will benefit from an automatic and immediate increase in their take home pay. However, married couples whose combined incomes place them in a higher tax bracket and individuals with more than one job may want to submit a revised Form W-4 to their employers to ensure that enough withholding is held. Our office can help you determine if you should submit a revised Form W-4 to your employer.

Seniors and others. Individuals receiving Social Security benefits, disabled veterans and others on fixed incomes will receive one-time payments of \$250. If the individual also qualifies for the Making Work pay credit, his or her credit will be reduced by the \$250 payment. The Social Security Administration, which will be sending the bulk of the one-time payments, has announced it will start making the one-time payments by mail and direct deposit in May 2009.

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 to include purchases made before December 1, 2009. Moreover, the new law eliminates the repayment requirement for homes purchased after December 31, 2008 and before December 1, 2009. In a taxpayer-friendly move, the IRS has announced that individuals who purchase a home in 2009 may claim the \$8,000 credit on their 2008 returns. However, individuals cannot claim the credit until they finalize the purchase of their home.

New car deduction. Automobile sales, like new home sales, have plummeted in recent months. Congress has created a non-itemized 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. The vehicle must be purchased after February 16, 2009, and before January 1, 2010, to qualify for the deduction. Income thresholds and other limitations apply. 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 2009 Recovery Act 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 2009 Recovery Act excludes up to \$2,400 in unemployment compensation from a recipient's gross income in 2009. For a married couple, the exclusion applies to each spouse, separately. If both spouses receive unemployment benefits during 2009, each spouse may exclude from income the first \$2,400 of benefits.

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 2009 Recovery Act 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 2009 Recovery Act 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 2009 Recovery Act. 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 2009 Recovery Act 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 2009 Recovery Act 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 2009 Recovery Act 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 2009 Recovery Act 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.

COBRA coverage. Individuals who are involuntarily separated from employment between September 1, 2008 and January 1, 2010 can elect to pay 35 percent of their premiums for COBRA coverage and will be treated under the 2009 Recovery Act as paying the full amount. The former employer will pay the remaining 65 percent of the premium. In return, the employer will be able to credit its share of this temporary COBRA subsidy against wage withholdings and payroll taxes. The COBRA subsidy is generally only available for nine months. The Department of Labor has issued model notices that employers can send to former employees who are eligible for the COBRA subsidy. The IRS has also issued guidance on what qualifies as involuntary termination for purposes of the COBRA subsidy.

More incentives. The 2009 Recovery Act 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.

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.