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“American Recovery and Reinvestment Act of 2009” is signed into law

On February 17, President Obama signed the “American Recovery and Reinvestment Act of 2009,” a \$789 billion package of tax breaks and spending programs designed to stimulate the economy. The tax portion of the law makes over 300 changes to the tax code. Here is an overview of the major tax provisions.

\* **MAKING WORK PAY CREDIT.** A tax credit is provided for working Americans of up to \$400 for singles and \$800 for couples. The credit phases out for single taxpayers with adjusted gross income (AGI) over \$75,000 and for married couples with AGI over \$150,000.

\* **\$250 PAYMENTS FOR SOME.** A one-time payment of \$250 will be made to social security recipients, railroad retirees, disabled veterans, and certain other fixed-income groups.

\* **FIRST-TIME HOMEBUYER CREDIT.** Those who buy a first home from January 1, 2009, through November 30, 2009, may be eligible for a refundable tax credit of 10% of the home’s purchase price up to a maximum credit of \$8,000. If the taxpayer lives in the home for at least three years, no repayment of the credit is required. The credit phases out for single taxpayers with an AGI over \$75,000 and for marrieds with an AGI over \$150,000.

\* **NEW CAR DEDUCTION.** Taxpayers who purchase a new vehicle from February 17, 2009, through December 31, 2009, may take an above-the-line tax deduction for all state and local taxes attributable to the first \$49,500 of the purchase price. The deduction is subject to phase-out for singles with AGI exceeding \$125,000 and marrieds with AGI exceeding \$250,000.

\* **EDUCATION CREDIT.** The Hope education credit is enhanced for 2009 and 2010. Renamed the “American Opportunity Tax Credit,” the credit is increased from \$1,800 to \$2,500 and applies to all four years of college, not just two. 40% of the credit is refundable, and income limits apply.

\* **ALTERNATIVE MINIMUM TAX.** An early “patch” to the 2009 alternative minimum income tax is included in the law, saving some 26 million middle-income taxpayers from being hit by a tax originally designed to keep the wealthy from escaping taxes. The 2009 AMT exemption amounts are \$70,950 for joint filers and \$46,700 for single filers. The law also extends the use of certain personal credits to offset AMT liability for 2009.

- \* **ENERGY INCENTIVES.** Among the various energy incentives in the new law is an increase in the tax credit for residential energy improvements, such as installing insulation, energy-efficient windows, and other energy-savers.
- \* **UNEMPLOYMENT BENEFITS.** Unemployment compensation is usually included in income, but for 2009 up to \$2,400 of benefits are excluded from income for tax purposes. Unemployment benefits above \$2,400 are subject to tax.
- \* **BONUS DEPRECIATION.** First-year 50% bonus depreciation for new business equipment purchases is extended through 2009 (through 2010 for certain other property).
- \* **INCREASED EXPENSING.** Code Section 179 first-year expensing of new and used business equipment purchases is extended through 2009 at the higher limit of \$250,000. The deduction is reduced once purchases for the year exceed \$800,000.
- \* **LOSS CARRYBACK PERIOD.** The new law allows businesses with average gross receipts of \$15 million or less to carry back net operating losses for up to five years, rather than the normal two years. The longer carryback period applies only to losses incurred in a tax year beginning or ending in 2008.
- \* **WORK OPPORTUNITY TAX CREDIT.** Two new categories of targeted groups are eligible for the work opportunity tax credit: unemployed veterans and disconnected youth. The credit applies to workers in these groups hired in 2009 and 2010.
- \* **COBRA BENEFITS.** Employees who lose their jobs between September 1, 2008, and January 1, 2010, may elect to pay 35% of their COBRA coverage and have that treated as paying the full amount. The former employer is required to pay the remaining 65% and will be credited for this amount against income tax withholding and payroll taxes otherwise payable to the federal government. Income and other limitations on COBRA coverage apply.

The new law is a massive 1,000 page document, so this quick review by no means covers all the provisions that may affect you. For guidance in your personal and business tax planning under this latest law, contact our office.

Regards,

*Mary Ann Carlson, E.A.*