

The American Recovery and Reinvestment Act of 2009

By: Darlene E. Dubs, Senior Support Professional

Reviewed by: William F. Hoffmeyer, Esquire

We are all aware of the economic issues which have been causing great difficulties and concerns for our country. In an effort to provide relief, stimulate the economy and speed economic recovery, the government enacted The American Recovery and Reinvestment Act of 2009. Below is a brief summary of changes to tax provisions as well as new tax incentives which are designed to decrease tax liability and increase tax savings.

First-time home buyers are entitled to receive a credit equal to 10% of the purchase price, up to \$8,000.00, for a principal residence purchased between January 1, 2009 and November 30, 2009. The property must remain the principal residence of the purchaser for 36 months or the individual may be subject to repayment of the credit.

The purchase of a new car, motorcycle, light truck or motor home between February 17, 2009 and December 31, 2009, provides the taxpayer with a deduction for federal income tax purposes of the total amount of state and local sales taxes paid for the purchase of the new vehicle. This deduction will typically be available whether or not the taxpayer itemizes deductions. There is a phase out of the deduction for adjusted gross incomes over \$125,000.00 or \$250,000.00 married filing jointly.

Most working taxpayers noticed the effect of the Making Work Pay Credit which was implemented April 1, 2009 with the changes to the federal income tax withholding schedules. The amount of federal tax withheld from paychecks was reduced, thereby increasing the net pay received for taxpayers. The credit is 6.2% of earned income up to \$400.00 for individuals or \$800.00 if married filing jointly. Again, there is a phase out for individuals with adjusted gross income over \$75,000.00 or \$150,000.00 married filing jointly.

In addition to providing working individuals with an increase in available funds, the government also provided a one-time payment of \$250.00 in the spring of 2009 to those individuals who, as of November, 2008, were receiving social security, veterans disability or pension or railroad retirement. Further, individuals receiving unemployment compensation will not pay tax on up to \$2,400.00 in unemployment benefits received in 2009.

An increase to 45% has been made to the earned income credit for families with 3 or more qualifying children, which may result in up to approximately \$625.00. As with many tax credits, there is a phase out depending upon adjusted gross income, however, that has also been increased for 2009 and 2010. The earned income level to determine the child tax credit has been lowered to \$3,000.00, which will increase the credit availability amount.

Individuals operating small businesses will also benefit from reductions in the required annual payment of estimated taxes in certain circumstances as well as changes in the rules regarding net operating losses.

Tax credits for education costs have been added so that individuals may claim tuition and related expenses, including textbooks, up to \$2,500.00 for the first 4 years of post-secondary education. There is a phase out beginning with adjusted gross income of \$80,000.00 or \$160,000.00 for married filing jointly. Computers and other technology may now qualify as education expenses for 529 education plans.

Increases have also been made to the alternate minimum tax exemption amounts and the health insurance coverage tax credit for paid premiums.