



ADVISORY BULLETIN

April 22, 2009

Top 10 Tax Provisions in the Stimulus Bill that Every Individual Should Know

The American Recovery and Reinvestment Act of 2009, more commonly referred to as the Stimulus Bill, was signed into law on February 17, 2009. The Bill was passed with the intention of providing a stimulus to the economy to counteract the economic downturn. The following are ten (10) tax changes included in the Stimulus Bill that we believe every individual should know:

1. Extension of the AMT Patch.

Alternative Minimum Tax ("AMT") rates are applied to individual income that exceeds a certain set exemption amount. Previously, the exemption amounts were temporarily increased so that the 2008 tax year exemption amounts were \$69,950 for those filing as married filing jointly or as surviving spouses, and \$46,200 for other individuals. The temporary increases were applicable only to tax year 2008, and the tax year 2009 AMT exemption amounts were to be \$45,000 and \$33,750, respectively.

The Stimulus has extended the temporary raise on the AMT exemption amounts so that the 2009 tax year exemption amounts are now \$70,950 for those filing as married filing jointly or as surviving spouses, and \$46,700 for all others. These exemption amounts phase out at a rate of 25% of the amount by which the taxpayer's AMT income exceeds \$150,000, for married filing jointly or for surviving spouses, or \$112,500, for all other individuals.

Also, for 2009 only, the Stimulus Bill extends the allowance of numerous personal credits in computing the AMT, allowing certain nonrefundable credits to be claimed against AMT.

2. Making Work Pay Credit.

The Stimulus Bill has created a refundable income tax credit which is available in both 2009 and 2010 to eligible individuals. The amount of the credit is the lesser of: (i) 6.2% of an individual's earned income or (ii) \$400 (\$800 for joint returns).

This credit uses the same definition of "earned income" as the Earned Income Credit, except that the Making Work Pay Credit's definition of earned income does not include net earnings from self-employment which are not taken into account in computing taxable income, but does include combat pay excluded from gross income.

The credit will be received by taxpayers in increments over the year through the adjustment of the withholding tables. The credit is phased-out for higher income taxpayers by reducing the amount of the credit by an amount equal to 2% of the amount by which the taxpayer's gross income exceeds \$75,000 (or \$150,000 for joint filers). As a result of this phase-out, the credit is not available to individuals whose gross income exceeds \$95,000 (\$190,000 for joint filers).

3. Deduction for State Sales or Excise Tax on Motor Vehicle Purchase.

The Stimulus Bill creates a deduction for state and local sales and excise taxes paid on the purchase of *new* cars, light trucks, recreational vehicles and motorcycles in 2009. The deduction is an above-the-line deduction, so it is available to all taxpayers, whether they take the standard deduction or itemized deductions on their tax returns.

The deduction is limited in that only the tax paid on the first \$49,500 of the vehicle's cost may be deducted. The deduction also phases out quickly for taxpayers with adjusted gross income in excess of \$125,000 (\$250,000 for joint filers). Once the taxpayer's adjusted gross income reaches \$135,000 (\$260,000 for joint filers) the deduction is no longer available.

In order to qualify for this deduction, the new automobile must be purchased after February 16, 2009, and before January 1, 2010.

4. Extension and Increase of the First-Time Homebuyer's Credit.

Before the Stimulus Bill was enacted, first-time homebuyers were allowed a refundable tax credit equal to the lesser of \$7,500 (\$3,750 if married filing separately) or 10% of the purchase price of a principal residence. The credit was allowed for qualifying home purchases made on or after April 9, 2008, and before July 1, 2009, and was shown on the tax return for the tax year in which the home was purchased. This credit was essentially an interest-free loan which would be repaid ratably over 15 years, beginning in the second taxable year after the year in which the credit was taken. The loan was repaid through the recapture of the ratable amount on each tax return filed during the 15-year repayment period. This credit phased out for taxpayers with modified adjusted gross incomes between \$75,000 and \$95,000 (\$150,000 and \$170,000 for joint filers) in the year of purchase.

The Stimulus Bill extended the availability of this credit to home purchases made before December 1, 2009. In addition, for homes purchased between January 1, 2009, and December 1, 2009, the Bill increased the maximum credit amount to \$8,000 (\$4,000 for married filing separately) and waived the recapture of the credit (provided the home remains the taxpayer's main home for 36 months after the purchase date).

For the purposes of this credit, a taxpayer is considered to be a first-time homebuyer if they, and their spouse if they are married, did not own any other main home during the 3-year period ending on the date of purchase.

5. "Economic Recovery" Payments to Certain Individuals.

The Stimulus Bill provides for a one-time payment of \$250 to taxpayers that were eligible for any of the following benefits during November or December 2008 or January 2009: social security, railroad retirement, veterans' disability compensation or pension, and supplemental security income.

These payments will be sent to eligible individuals throughout the month of May 2009. It is not necessary for eligible individuals to take any action to claim this payment; they will be sent out automatically, separate from recipients usual benefit checks.

Receipt of this payment will reduce any Make Work Pay Credit received by the same taxpayer.

6. Refundable Credit for Government Retirees.

The Stimulus Bill also provides for a refundable tax credit available to retirees who receive a government pension or annuity from work not covered by Social Security and who are not eligible to receive the one-time “Economic Recovery” Payment. This credit is available for the 2009 tax year only, and is in the amount of \$250 (\$500 for married persons filing jointly if both spouses are otherwise eligible).

7. Temporary Expanded Definition of “Qualified Higher Expenses” for 529 Plans.

A 529 Plan is an education savings plan operated by a state or educational institution and designed to help families set aside funds for future college costs. Families invest after-tax dollars in 529 Plans because amounts (including earnings) may be later distributed from such Plans for “qualified higher expenses” without being subject to additional federal tax.

The Stimulus Bill expands the definition of “qualified higher expenses” with regard to 529 Plans to include expenses that are paid or incurred in 2009 or 2010 for the purchase of computer technology or equipment or Internet access and related services if the technology, equipment or services are to be use by the beneficiary of the Plan and the beneficiary’s family during any of the years the beneficiary is enrolled at an eligible institution.

8. American Opportunity Tax Credit (Improvement of Hope Scholarship Credit).

The Hope Scholarship Credit is available to taxpayers as a method of offsetting the costs of post-secondary education; however it cannot be used by a child unless the child provides greater than 50% of their own support. It is available for up to 4 years of post-secondary study per student. In 2008, the maximum Hope Scholarship Credit available was \$1,800.

The Stimulus Bill created the American Opportunity Tax Credit (“AOTC”) which effectively replaces the Hope Scholarship Credit for any taxable year beginning in 2009 or 2010. Under the AOTC, the benefit of the Hope Scholarship Credit is expanded by increasing its maximum benefit to \$2,500 – calculated as 100% of eligible expenses up to \$2,000 plus 25% of up to the next \$2,000 of eligible expenses. The AOTC also expands the definition of “eligible expenses” by allowing “course materials” to be included.

The phase out limits applicable to the AOTC are also higher than those for the Hope Scholarship Credit - the AOTC phases out for taxpayers with modified adjusted gross income between \$80,000 and \$90,000 for single filers, or \$160,000 and \$180,000 for those filing jointly. Finally, the AOTC is 40% refundable; meaning that this portion may be applied against a taxpayer's alternative minimum tax liability.

9. Suspension of Tax on a Portion of Unemployment Compensation.

Generally, unemployment compensation is subject to income tax, just as though it had been earned by the recipient through employment.

Under the Stimulus Bill, in 2009 only, the first \$2,400 of unemployment compensation received by an individual will be excluded from that individual's gross income for federal tax purposes. As a result, that \$2,400 of unemployment compensation will be received by the individual free of federal tax.

10. Energy-efficient improvements to existing homes.

Before the Stimulus Bill, individuals were allowed a tax credit equal to 10% of the amount paid or incurred for qualified energy efficiency improvements installed during the taxable year. This credit was capped at \$50 for any advanced main air circulating fan, \$150 for any qualified natural gas, propane, oil furnace or hot water boiler, and \$300 for any item of energy-efficient building property.

Under the Stimulus Bill, for 2009 and 2010 only, the credit percentage is increased to 30% of the amount paid or incurred for qualified energy efficiency improvements installed during the taxable year. In addition, for those years, the Bill eliminates the property-by-property dollar caps on the credit and instead provides for an aggregate \$1,500 cap on all property qualifying for the credit. The Bill also updates the energy-efficiency standards for property qualifying for the credit.

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