

Tax Relief Highlights

The American Recovery
and Reinvestment Act

2009



A sweeping \$787 billion stimulus package aimed at reviving the flagging U.S. economy was signed into law by President Barack Obama on February 17. The American Recovery and Reinvestment Act of 2009 was designed to create jobs, encourage consumer spending, improve essential infrastructure, and strengthen the safety net for Americans affected by the recession. The legislation includes nearly \$300 billion in tax cuts intended to promote additional spending by individuals and businesses, make higher education more affordable, and encourage both homeowners and business owners to invest in clean-energy technologies.

The following are some of the more significant tax provisions for individuals included in the package:

AMT Patch. To help shield middle-income taxpayers from the alternative minimum tax (AMT), the new law increases AMT exemption amounts for 2009 to \$70,950 (up from \$69,950 in 2008) for married couples filing jointly and to \$46,700 (up from \$46,200 in 2008) for single filers. Without the enactment of a patch, the exemptions for 2009 would have reverted back to \$45,000 for couples and \$33,750 for singles.

Making Work Pay credit. Under this provision, wage earners and the self-employed are permitted to claim a credit equal to the lesser of 6.2% of earned income or up to \$400 a year for single filers (\$800 a year for married couples) in 2009 and 2010. However, the credit phases out at a 2% rate for taxpayers with adjusted gross income (AGI) over \$75,000 for singles and \$150,000 for married couples filing jointly. Rather than sending out these rebates in the form of checks, workers

may adjust the amount withheld from each paycheck or claim the sum when filing their taxes.

One-time \$250 payments for individuals on fixed incomes. The new law includes a one-time payment of \$250 to certain groups of people who are not wage earners, including retirees receiving Social Security, veterans receiving pension and disability benefits from the Veterans Administration, and individuals with disabilities receiving Supplemental Security Income payments. Retired government workers will also receive a one-time payment of \$250.

Relief for the unemployed. Generally, unemployment benefits are considered taxable income. For 2009 only, the new law allows recipients to exclude from taxable income the first \$2,400 in unemployment benefits.

The new law also subsidizes the cost of health care coverage provided under COBRA, which allows individuals to remain enrolled in their company health plan for a period of time after leaving a job. Under the new law, workers who are involuntarily separated from employment between September 1, 2008, and January 1, 2010 are given the option of paying just 35% of the cost of COBRA coverage for up to nine months. The former employer will be required to pay the remaining 65%, but will be reimbursed by the government.

Enhanced credits for families with children. The new law increases the amount of the Earned Income Tax Credit (EITC) for 2009 and 2010 to 45% of the first \$12,750 of earned income for taxpayers with three or more children. The EITC phase-out has also been adjusted upward by \$1,880 for married couples filing jointly.

In addition, the new law makes the Child Tax Credit refundable to the extent of 15% of an individual's earned income in excess of \$3,000 in 2009 and 2010, down significantly from \$8,500 in 2008.

Incentives for new car purchases. Under the new law, buyers of new cars, light trucks, SUVs, motorcycles, or motor homes for the remainder of 2009 will be permitted to claim an above-the-line deduction for the state sales or excise tax paid on the first \$49,500 of the vehicle's price. This deduction starts to phase out for singles with AGI over \$125,000 and for married couples with AGI over \$250,000.

Incentives for first-time home buyers. The current \$7,500 credit for taxpayers buying their first homes is increased to \$8,000 for primary residences purchased between January 1, 2009, and November 30, 2009. Under the new legislation, the previous requirement that the credit be repaid is waived after 36 months in the home. The credit starts to phase out for taxpayers with AGI above \$75,000 for single filers and \$150,000 for joint filers.

Enhanced higher education tax breaks. The new legislation renames the HOPE credit for higher education costs as the American Opportunity Tax Credit. The maximum credit amount is also increased to \$2,500 for 2009 and 2010, up from \$1,800 previously. This covers 100% of the first \$2,000 of qualifying tuition and related expenses per year and 25% of the next \$2,000 of qualifying expenses. Under the new law, the credit is made available for all four years of college and may also be used to cover the cost of course materials. Income phase-out levels for the credit are

also raised to \$80,000 of AGI for single filers and \$160,000 of AGI for married couples filing jointly. In addition, 40% of the credit becomes refundable, which could enable lower-income taxpayers to get money back from the IRS.

The new law also allows beneficiaries of Section 529 savings plans to use tax-free distributions to cover the cost of computer equipment and Internet access.

Enhanced mass transit benefits. Starting in March 2009, the new law increases the amount that may be excluded from taxable income by employees who pay for qualified mass transit and van pools to \$230 per month, up from \$120 previously.

Incentives for energy-saving home improvements. Under the new law, the tax credit for energy-saving home improvements is raised to 30% and is extended through 2010. The lifetime cap of \$500 is eliminated and has been replaced with a single aggregate amount of \$1,500 for improvements on all qualifying properties for 2009 and 2010.

The legislation also provides a number of tax cuts aimed at small businesses, including the following:

Extension of enhanced Section 179 expensing rules. The new law extends through 2009 the increased Section 179 limits set up by the Economic Stimulus Act of 2008. In 2009, small businesses may expense up to \$250,000 of Section 179 property, equal to the amount permitted in 2008, and up from \$125,000 in 2007. The amount that may be expensed is reduced once the qualifying purchases exceed \$800,000 in 2009.

Bonus depreciation. For qualifying property bought and placed in service in 2009, small businesses have the option of depreciating 50% of the adjusted basis of the property, in addition to the usual depreciation that may be claimed for year one. This is an extension of the 50% bonus depreciation provision of the Economic Stimulus Act of 2008, which expired at the end of last year.

Credits in lieu of bonus depreciation. Companies that do not claim bonus depreciation are permitted to accelerate a portion of their AMT and research and development (R&D) credit carryovers for qualifying property placed in service in 2009. The amount of credit that may be accelerated is capped at the lesser of \$30 million or a company's historic accumulated AMT and R&D credits.

Net operating loss carrybacks of up to five years. Businesses are generally permitted to "carry back" net operating losses to the previous two tax years, which may generate a tax refund for a preceding year. Small businesses, defined as those that averaged less than \$15 million in average gross receipts, will be permitted under the new law to carry back 2008 losses for up to five years. The normal carryback period of two years will apply to losses incurred in 2009.

Discharge of indebtedness. Under the new law, certain companies that buy back their qualifying debt at a discount in 2009 and 2010 will be allowed to defer taxes until 2014 and then recognize the deferred debt in income ratably over the next five years.

Enhanced breaks on sales of small business stock. Under the new law, investors are permitted to exclude 75% of the gain from the sale of

certain small business stock acquired and held for more than five years, up from 50% previously. To qualify, the stock must be purchased after the date of enactment and before January 1, 2011.

Expansion of the Work Opportunity Tax Credit (WOTC). The new law broadens the WOTC, which provides businesses that hire members of certain “targeted groups” with a tax credit, to include unemployed veterans and “disconnected youth,” or young people between the ages of 16 and 25 who have not been regularly employed or in school over the previous six months. The new categories apply to individuals who are hired and begin work in 2009 or 2010.

Extension of green energy credits. Among other energy provisions, the legislation extends the existing renewable energy production tax credits for solar, biomass, geothermal, and certain other alternative energy forms through 2013 (through 2012 for wind facilities). The law also removes the credit cap for investment in qualified small wind energy property and allows taxpayers to treat certain qualified alternative energy facilities as energy property eligible for a 30% investment credit, instead of taking the production tax credit.

The American Recovery and Reinvestment Act of 2009 offers a number of tax breaks for both individuals and businesses. However, many of the opportunities are temporary. We can help you make the most of the current tax breaks available to you. Give us a call for more information.



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