



American Recovery and Reinvestment Tax Act of 2009

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The American Recovery and Reinvestment Tax Act (ARRTA) that was recently signed into legislation provides tax relief for many individuals during a very difficult financial time. Below are some of the highlights of ARRTA.

Under the new law, for 2009 and 2010, the Act provides a "Making Work Pay" tax credit of up to \$400 for working individuals and \$800 for working families. This tax credit would be calculated at a rate of 6.2% of earned income, and would phase out for taxpayers with adjusted gross income in excess of \$75,000 (\$150,000 for married couples filing jointly). Taxpayers can receive this benefit through a reduction in the amount of income tax that is withheld from their paychecks or through claiming the credit on their tax returns. The new law will also provide a one-time payment of \$250, for 2009, to individuals on a fixed income, including Social Security recipients, railroad retirees, disabled veterans and retired government workers.

The Act also modifies the Hope credit for financial assistance for individuals seeking a college education. For 2009 and 2010, ARRTA provide taxpayers with a new "American Opportunity Tax Credit" of up to \$2,500 of the cost of tuition and related expenses paid during the taxable year. Under this new tax credit, taxpayers will receive a tax credit based on one-hundred percent (100%) of the first \$2,000 of tuition and related expenses (including books) paid during the taxable year, and twenty-five percent (25%) of the next \$2,000 of tuition and related expenses paid during the taxable year. This tax credit will be subject to a phase-out for taxpayers with adjusted gross income in excess of \$80,000 (\$160,000 for married couples filing jointly). Additionally, for college students, the purchase of any computer technology or Internet access service will now qualify as a qualified expense from a tax-advantaged 529 education account.

In order to stimulate the real estate markets, ARRTA expands on the refundable "First-Time Home Buyer Credit" that was put into place last year. The new law raises the current maximum \$7,500 first-time home buyer tax credit to \$8,000, and extends it at that level through homes purchases through November 30, 2009. It also eliminates any required repayment of the credit to the IRS after living in the home for more than 36 months. These enhancements apply to purchases of a principal residence by a first-time home buyer after December 31, 2008. Purchases on or after April 9, 2008, and before January 1, 2009, continue to be governed by the original credit enacted last year. This credit is phased out with taxpayers with adjusted gross income in excess of \$75,000 (\$150,000 for married couples filing jointly).

ARRTA also provides taxpayers with a deduction for state and local sales and excise taxes paid on the purchase of new cars, light trucks, recreational vehicles and motorcycles through 2009. This deduction is subject to a phase-out for taxpayers with adjusted gross income in excess of \$125,000 (\$250,000 for married couples filing jointly). It is also allowed for those claiming the standard deduction.

For tax years beginning in 2009, ARRTA provides more than 26 million families with tax relief for this year by extending Alternative Minimum Tax (AMT) relief for nonrefundable personal credits and increasing the AMT exemption amount to \$70,950 for joint filers and \$46,700 for individuals. Once again, only a patch and not a long-term solution to the outdated AMT tax system.

Lastly, for those less fortunate who may have experienced a disruption in employment, ARRTA has provided some relief by temporarily suspending taxation of unemployment benefits. For 2009, up to \$2,400 of unemployment benefits received this year are excluded from gross income. In addition, the Act has provided a limited-time 65% subsidy for COBRA continuation premium coverage of unemployed workers who were involuntarily terminated between September 1, 2008, and December 31, 2009. The subsidy is not taxable.