

Summary of The 2009 Stimulus Act

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It has been announced that the New Tax and Benefits Provisions of the American Recovery and Reinvestment Act of 2009 (2009 Stimulus Act) has passed. There is a lot of information in this new act, so I picked out five topics that may apply to you and provided a brief summary of each topic below so you can see if, and how, it may affect you.

Making Work Pay

The centerpiece of the 2009 Stimulus Act package—and at \$115 billion its single largest component—is a “Making Work Pay” tax credit of up to \$400 per year for individuals, or \$800 per year for couples. Here are the details of this new credit:

- Eligible individuals will receive an income tax credit for two years (tax years beginning in 2009 and 2010). The new credit, like other tax credits, will reduce a person's tax liability on a dollar-for-dollar basis. Wage earners who don't earn enough to pay income taxes will be able to claim the difference as a tax refund.
- The new credit is the lesser of (1) 6.2% of an individual's earned income or (2) \$400 (\$800 in the case of a joint return). In other words, for individuals with earned income above roughly \$6,451 (\$12,902 for couples), the credit maxes out at \$400 (\$800 for couples). For the last half of 2009, workers can expect to see perhaps \$13 a week less withheld from their paychecks starting around June. That reduction goes down to about \$9 per week next year.
- Nonresident aliens do not qualify for this credit. Neither do estates, trusts, or individuals who can be claimed as a dependent on someone else's return.
- The credit is available in full only if AGI doesn't exceed \$75,000 for an individual (\$150,000 if you file a joint return). The credit is phased out at a rate of two percent of the eligible individual's AGI above \$75,000 (\$150,000 in the case of a joint return). So no credit is allowed for individuals with AGI of \$100,000 or more, or for joint filers with AGI of \$200,000 or more.
- Unlike the \$600 per worker lump-sum rebates issued last year, the credit can be received as a reduction in the amount of income tax that is withheld from a paycheck, or through a credit on a tax return.

- Since the credit is based on taxable wages and thus unavailable to many retired people and other whose income does not come from wages, the new law includes a one-time payment of \$250 to retirees, disabled individuals and SSI recipients receiving benefits from the Social Security Administration, and Railroad Retirement beneficiaries, and to veterans receiving disability compensation and pension benefits from the U.S Department of Veterans' Affairs. A one-time refundable tax credit of \$250 is provided in 2009 to certain government retirees who are not eligible for Social Security benefits. This one-time credit is a reduction to any allowable making Work Pay credit.

Car Purchases

In hopes of spurring the overall economy in general and the automobile industry in particular, the stimulus act includes a new tax break for purchasers of new cars: a deduction for state and local sales and excise taxes paid on new vehicle purchases. Key details of this new tax incentive include:

- Purchases of passenger cars, minivans, light trucks, motorcycles, and motor homes, but it only applies on \$49,500 of the vehicle's price and it only applies to new vehicles.
- The tax break covers new vehicles purchased between the date of enactment of the 2009 economic stimulus legislation and the end of 2009.
- You do not have to itemize your deductions to be able to claim the deduction. However, the deduction cannot be taken by a taxpayer who elects to deduct state and local sales taxes in lieu of state and local income taxes.
- Only couples making less than \$250,000 a year, or individuals making less than \$125,000 annually, qualify for the full deduction.

Extension of Bonus Depreciation

Last year, Congress temporarily allowed business to recover the costs of capital expenditures made in 2008 faster than the ordinary depreciation schedule would allow by permitting these businesses to immediately write off 50% of the cost of depreciable property acquired in 2008 for use in the United States. The new law extends this temporary benefit for qualifying property purchased and placed into service in 2009.

Extension of Enhanced Small Business Expensing (Section 179)

In order to help small businesses quickly recover the cost of certain capital expenses, small business taxpayers may elect to write off the cost of this expense in the year of acquisition in lieu of recovering

these costs over time through depreciation. Last year, Congress temporarily increased the amount that small businesses could write off for capital expenditures incurred in 2008 to \$250,000 and increased the phase-out threshold for 2008 to \$800,000. The new law extends these temporary increases for capital expenditures incurred in 2009.

Alternative Minimum Tax (AMT) Patch

To hold the number of taxpayers subject to the AMT at bay, the new law increases the AMT exemption amounts for 2009 to \$46,700 for individuals and \$70,950 for joint returns, and allows the personal credits against the AMT.

I hope you found the summary of the 2009 economic stimulus act to be helpful. If you have any questions or would like more details don't hesitate to contact your Henry & Horne, LLP professional.

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