

THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009
As Signed February 17, 2009

PARTIAL SUMMARY OF PROVISIONS FROM SENATE FINANCE, HOUSE WAYS & MEANS COMMITTEES

TAX RELIEF FOR INDIVIDUALS AND FAMILIES

“Making Work Pay” Tax Credit. This provision cuts taxes for more than 95% of working families in the United States. For 2009 and 2010, the bill would provide a refundable 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.

Economic Recovery Payment to Recipients of Social Security, SSI, Railroad Retirement and Veterans Disability Compensation Benefits. This provision provides a one-time payment of \$250 to retirees, disabled individuals and SSI recipients receiving benefits from the Social Security Administration, Railroad Retirement beneficiaries, and disabled veterans receiving benefits from the U.S. Department of Veterans Affairs. The one-time payment is a reduction to any allowable Making Work Pay credit.

Refundable Credit for Certain Federal and State Pensioners. This provision provides a one-time refundable tax credit of \$250 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.

Increase in Earned Income Tax Credit. This provision temporarily increases the earned income tax credit for working families with three or more children. Under current law, working families with two or more children currently qualify for an earned income tax credit equal to forty percent (40%) of the family’s first \$12,570 of earned income. This credit is subject to a phase-out for working families with adjusted gross income in excess of \$16,420 (\$19,540 for married couples filing jointly). This provision increases the earned income tax credit to forty-five percent (45%) of the family’s first \$12,570 of earned income for families with three or more children and would increase the beginning point of the phase-out range for all married couples filing a joint return (regardless of the number of children) by \$1,880.

Increase Eligibility for the Refundable Portion of Child Credit. This provision increases the eligibility for the refundable child tax credit in 2009 and 2010. For 2008, the child tax credit is refundable to the extent of 15 percent of the taxpayer’s earned income in excess of \$8,500. This provision reduces this floor for 2009 and 2010 to \$3,000.

“American Opportunity” Education Tax Credit. This provision provides financial assistance for individuals seeking a college education. For 2009 and 2010, the provision provides 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. Forty percent (40%) of the credit would be refundable. 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).

Computers as Qualified Education Expenses in 529 Education Plans. Section 529 Education Plans are tax-advantaged savings plans that cover all qualified education expenses, including: tuition, room & board, mandatory fees and books. This provision provides that computers and computer technology qualify as qualified education expenses.

Refundable First-time Home Buyer Credit. Last year, Congress provided taxpayers with a refundable tax credit that was equivalent to an interest-free loan equal to 10 percent of the purchase of a home (up to \$7,500) by first-time home buyers. The provision applies to homes purchased on or after April 9, 2008 and before July 1, 2009. Taxpayers receiving this tax credit are currently required to repay any amount received under this provision back to the government over 15 years in equal installments, or, if earlier, when the home is sold. The credit phases out for taxpayers with adjusted gross income in excess of \$75,000 (\$150,000 in the case of a joint return). This provision eliminates the repayment obligation for taxpayers that purchase homes after January 1, 2009, increases the maximum value of the credit to \$8,000, and removes the prohibition on financing by mortgage revenue bonds, and extends the availability of the credit for homes purchased before December 1, 2009. The provision retains the credit recapture if the house is sold within three years of purchase.

Sales Tax Deduction for Vehicle Purchases. This provision provides all taxpayers with a deduction for State and local sales and excise taxes paid on the purchase of new cars, light truck, 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 in the case of a joint return).

Temporary suspension of taxation of unemployment benefits. Under current law, all federal unemployment benefits are subject to taxation. The average unemployment benefit is approximately \$300 per month. This provision temporarily suspends federal income tax on the first \$2,400 of unemployment benefits per recipient. Any unemployment benefits over \$2,400 will be subject to federal income tax. This provision is in effect for taxable year 2009.

Extension of AMT relief for 2009. This provision provides more than 26 million families with tax relief in 2009 by extending AMT relief for nonrefundable personal

credits and increasing the AMT exemption amount to \$70,950 for joint filers and \$46,700 for individuals.

TAX INCENTIVES FOR BUSINESSES

Extension of Bonus Depreciation. Businesses are allowed to recover the cost of capital expenditures over time according to a depreciation schedule. Last year, Congress temporarily allowed businesses 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 fifty percent of the cost of depreciable property (e.g., equipment, tractors, wind turbines, solar panels, and computers) acquired in 2008 for use in the United States. The act extends this temporary benefit for capital expenditures incurred in 2009.

Extension of Enhanced Small Business Expensing. 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 these expenses in the year of acquisition in lieu of recovering these costs over time through depreciation. Until the end of 2010, small business taxpayers are allowed to write-off up to \$125,000 (indexed for inflation) of capital expenditures subject to a phase-out once capital expenditures exceed \$500,000 (indexed for inflation). 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 act extends these temporary increases for capital expenditures incurred in 2009.

5-Year Carryback of Net Operating Losses for Small Businesses. Under current law, net operating losses (“NOLs”) may be carried back to the two taxable years before the year that the loss arises (the “NOL carryback period”) and carried forward to each of the succeeding twenty taxable years after the year that the loss arises. For 2008, the act extends the maximum NOL carryback period from two years to five years for small businesses with gross receipts of \$15 million or less.

Temporary Small Business Estimated Tax Payment Relief. The act reduces the 2009 required estimated tax payments for certain small businesses.

- Note- the provision states that the required annual estimated tax payments of a ***qualified individual*** for tax years beginning in 2009 is not greater than 90% of the tax liability shown on the tax return for the preceding taxable year. A qualified individual means any individual if the adjusted gross income shown on the tax return for the preceding taxable year is less than \$500,000 (\$250,000 if married filing separately) and the individual certifies that at least 50% of the gross income shown on the return for the preceding taxable year was income from a “small trade or business”. A “small trade or business” means any trade or business that employed no more than 500 persons on average during the calendar year ending in or with the preceding taxable year.

Temporary Reduction of S Corporation Built-In Gains Holding Period from 10 Years to 7 Years. Under current law, if a taxable corporation converts into an S corporation, the conversion is not a taxable event. However, following such a conversion, an S corporation must hold its assets for ten years in order to avoid a tax on any built-in gains that existed at the time of the conversion. The act temporarily reduces this holding period from ten years to seven years for sales occurring in 2009 and 2010.

TAX INCENTIVES FOR ENERGY REINVESTMENT

Tax Credits for Energy-Efficient Improvements to Existing Homes. This provision extends the tax credits for improvements to energy-efficient existing homes through 2010. Under current law, individuals are allowed a tax credit equal to ten percent (10%) of the amount paid or incurred by the taxpayer for qualified energy efficiency improvements installed during the taxable year. This tax credit is 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. For 2009 and 2010, the bill would increase the amount of the tax credit to thirty percent (30%) of the amount paid or incurred by the taxpayer for qualified energy efficiency improvements during the taxable year. This provision also eliminates the property-by-property dollar caps on this tax credit and provide an aggregate \$1,500 cap on all property qualifying for the credit. The act updates the energy-efficiency standards of the property qualifying for the credit.

ASSISTANCE FOR FAMILIES & UNEMPLOYED WORKERS

Extension of Emergency Unemployment Compensation. Through December 31, 2009, the act continues the Emergency Unemployment Compensation program, which provides up to 33 weeks of extended unemployment benefits to workers exhausting their regular benefits.

Increase in Unemployment Compensation Benefits. The act increases unemployment weekly benefits by an additional \$25 through 2009.

HEALTH INSURANCE ASSISTANCE

Premium Subsidies for COBRA Continuation Coverage for Unemployed Workers.

Recession-related job loss threatens health coverage for many families. To help people maintain coverage, this provision provides a 65% subsidy for COBRA continuation premiums for up to 9 months for workers who have been involuntarily terminated, and for their families. This subsidy also applies to health care continuation coverage if required by states for small employers. With COBRA premiums averaging more than \$1000 a month, this assistance is vitally important. To qualify for premium assistance, a worker must be involuntarily terminated between September 1, 2008 and December 31, 2009. The subsidy would terminate upon offer of any new employer-sponsored health care coverage or Medicare eligibility. Workers who were involuntarily terminated between September 1, 2008 and enactment, but failed to initially elect COBRA because it was unaffordable, would be given an additional 60 days to elect COBRA and receive the subsidy. To ensure that this assistance is targeted at workers who are most in need, participants must attest that their same year income will not exceed \$125,000 for individuals and \$250,000 for families.

DEBT LIMIT

Debt Limit Increase. The act increases the statutory limit on the public debt by \$789 billion, from \$11.315 billion to \$12.104 billion.