

Tax News

February 2009

The American Recovery and Reinvestment Tax Act of '09

The American Recovery and Reinvestment Tax Act of 2009 (the "Act") was enacted on February 17, 2009, and contains several federal tax provisions aimed at stimulating the economy and providing job creation. Both individual taxpayers and businesses stand to benefit from the tax-relief measures in the Act.

Many of the Act's individual income-tax provisions contain income phaseouts that limit the benefits available to higher-income taxpayers. The Act is designed to provide temporary tax relief in an effort to spur spending. Following is a summary of the law's provisions.

Individual Tax Relief

- **"Making Work Pay" Credit.** This refundable tax credit (up to \$400 for individuals, \$800 for couples filing a joint return) seeks to stimulate spending by generally providing an increase in take-home pay through the reduction of income taxes withheld.
- **Economic Recovery Payment.** A one-time payment of \$250 is available to adults who are eligible for Social Security, Railroad Retirement, veterans' disability compensation or pension benefits, or Supplemental Security Income benefits.
- **First-time Homebuyer's Credit.** Increased to \$8,000 for couples filing jointly, the Act provides a credit for qualifying principal residence purchases. The Act also eliminates the prior law's requirement that the credit be paid back to the government, as long as certain conditions are met.
- **Child Tax Credit.** The Act expands the Child Tax Credit (\$1,000 for 2009 and 2010) for each qualifying child under age 17 by reducing the income "floor" that applies when determining the refundability of the credit from \$8,500 in 2008 to \$3,000 in 2009 and 2010.
- **AMT Exemption Increase.** The Act increases the Alternative Minimum Tax exemption amounts for

2009 and provides for the use of various nonrefundable tax credits to offset both regular tax and AMT.

- **Private Activity Bond Interest and AMT.** Tax-exempt interest on private activity bonds issued in 2009 or 2010 is not deemed an AMT preference item.
- **Deduction for Taxes on Car Purchases.** The Act provides for an income-tax deduction for state and local sales taxes paid on up to \$49,500 of the cost of a qualified vehicle.
- **American Opportunity Tax Credit.** The Hope Scholarship credit is modified and replaced with the American Opportunity Tax Credit, which equals up to \$2,500 for the cost of qualifying tuition and related expenses (per year, per student).
- **529 Plans and Computer Costs.** The Act expands the definition of qualified higher education expenses to encompass certain computer technology for 529 college savings plan distribution purposes.
- **Transportation Fringe Benefits.** Employees can exclude from income an increased amount of certain qualified transportation fringe benefits under the Act.
- **COBRA Insurance Continuation.** Under the Act, an individual who has been involuntarily terminated on or after September 1, 2008, through the end of 2009 is required to pay only 35% of the group health insurance premium to secure COBRA continuation coverage (for up to nine months).

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- ***Income Exclusion for Unemployment Compensation.***

Federal and state unemployment benefits received (up to \$2,400) in 2009 may be excluded from gross income.

Business Tax Relief

- ***Section 179 Expensing.*** The Act extends the enhanced Section 179 expensing limit (\$250,000) for qualifying property placed in service in tax years beginning in 2009.
- ***“Bonus” First-Year Depreciation.*** The additional first-year depreciation deduction of 50% available for certain types of depreciable property is generally extended for another year.
- ***Net Operating Loss (NOL) Carryback.*** Smaller business taxpayers may elect to increase the NOL carryback period from two to five years for an NOL for the tax year ending in 2008 (or, at the taxpayer’s election, the tax year beginning in 2008).
- ***Work Opportunity Tax Credit (WOTC).*** Two new targeted groups have been included for purposes of the WOTC: disconnected youths and unemployed veterans. The amount of the credit that an employer may claim is based on first-year wages.
- ***Small Business Estimated Tax Payment Relief.*** Generally, for tax years beginning in 2009, the Act eases the annual estimated tax payment requirements for certain small business owners.
- ***Qualified Small Business Stock (QSBS).*** The Act generally increases to 75% the percentage of capital gain that a non-corporate taxpayer can exclude upon the disposition of QSBS acquired after February 17, 2009, and prior to 2011.
- ***S Corporation Built-In Gains.*** The Act temporarily reduces the recognition period for a converted C corporation on built-in gains from ten to seven years for tax years beginning in 2009 and 2010.

We Can Help

The American Recovery and Reinvestment Tax Act of 2009 provides a number of tax-planning opportunities for individuals and businesses. This summary covers only the tip of the iceberg as to the new law. Call the professionals at Doeren Mayhew today at (248) 244-3000 for help determining how the Act’s measures relate to your specific tax situation.



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