



### "STIMULUS BILL" INDIVIDUAL INCOME TAX IMPACT

On February 13, the House of Representatives, by a vote of 246-183, and the Senate, by a vote of 60–38, passed H.R. 1, the American Recovery and Reinvestment Act of 2009 (the Recovery Act). The Recovery Act contains a wide-ranging tax package that includes tax relief for individuals and families as follows:

**1. "Making Work Pay" Credit.** For 2009 and 2010, the goal of this tax credit is to provide you with a refund equal to part of your required Social Security tax payments. The tax credit is equal to 6.2 percent of earned income (not to exceed \$400 for single filers and \$800 for joint filers). The credit is phased out for taxpayers with adjusted gross income ("AGI") in excess of \$75,000 (\$150,000 for joint filers). The credit can be claimed either through reduced paycheck withholding, or a credit on your tax return. In essence, you can expect to see approximately \$13 a week less withheld from your paycheck beginning in June, 2009. In 2010, the extra take-home pay will decrease to approximately \$9 per week.

**2. Economic Recovery Payment.** The Recovery Act provides for a one-time \$250 payment to retirees, disabled individuals, Social Security beneficiaries, SSI recipients receiving benefits from the Social Security Administration and veterans receiving disability compensation and pension benefits from the U.S. Department of Veterans' Affairs. The one-time payment is a reduction against any allowable "Making Work Pay" credit.

**3. Refundable Credit for Certain Federal and State Pensioners.** The Recovery Act provides a one-time \$250 refundable tax credit to certain government retirees who are not eligible for Social Security benefits. This one-time credit is a reduction against any allowable "Making Work Pay" credit.

The Closely Held Business Team attorneys at Harrang Long Gary Rudnick are committed to serving the needs of business owners in a responsive and proactive manner. They understand the challenges and the opportunities provided by the law in today's business climate, and are focused on the advancement of each client's success in business.

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**4. Unemployment compensation exclusion.** The Recovery Act temporarily suspends federal income tax on the first \$2,400 of unemployment benefits received during 2009.

**5. Expanded and Revised Higher Education Tax Credit.** The Recovery Act provides, for any taxable year beginning in 2009 or 2010, an increase in the Hope scholarship credit to equal the sum of 100% of qualified tuition and related expenses paid by a taxpayer during the taxable year (for education furnished to an eligible student during any academic period commencing in 2009 and 2010) not to exceed \$2,000, plus 25% of such expenses paid in excess of \$2,000, but not to exceed \$4,000. The credit is allowed for the first four years of post-secondary education for qualified tuition and related expenses, including required course materials. The credit is also allowed against AMT. If you are unable to utilize the entire credit against income tax, up to 40% of the credit is refundable. However, please note that the credit is non-refundable in the case of a child subject to the “kiddie” tax.

**6. Computers as an Education Expense.** The Recovery Act permits you to withdraw funds from a 529 college savings plan to purchase a computer and/or computer-related technology for the student-beneficiary as such purchases are now deemed “qualified education expenses.”

**7. Expanded First Time Credit for First Time Home Buyers.** Pre-Act law provided a \$7,500 tax credit for first time home buyers purchasing a home on or after April 9, 2008, and prior to July 1, 2009. It was designed to be repaid to the IRS without interest over a 15-year period. This credit phased out for taxpayers with AGI in excess of \$75,000 (\$150,000 for joint filers).

The Recovery Act enhances this credit by: (i) eliminating the repayment obligation; (ii) extending the credit through November 30, 2009; and (iii) bumps up the maximum credit value from \$7,500 to \$8,000.

**8. Tax Break for New Car Purchasers.** The Recovery Act allows taxpayers to deduct state and local sales taxes paid on the purchase of a new automobile, including light trucks, SUVs, motorcycles, and motor homes. The tax break phases out starting with taxpayers earning \$125,000 per year (\$250,000 for joint returns). The deduction is allowed to both itemizers and non-itemizers. 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.

**9. Alternative Minimum Tax (“AMT”) Patch.** To limit the number of taxpayers subject to AMT, the Recovery Act increases the 2009 AMT exemption amounts to \$46,700 for individuals and \$70,950 for joint returns. The Recovery Act also extends AMT relief for personal tax credits through 2009.

**10. Bike Commuter Tax Benefit.** This particular piece of the Recovery Act, which was sponsored by Oregon representative Earl Blumenauer, provides a \$20 per month tax credit to any employee of participating firms who make at least a “substantial portion of their commute by bicycle.” In essence, this is \$240 a year that can be used towards the purchase, maintenance, repairs and storage of a bicycle used for commuting.

**11. Transit Accounts.** If you commute to work via public transportation your employer may allow you to set aside pre-tax money from each paycheck to pay for the bus, train or parking permit as a fringe benefit. Pre-Act law only allowed a \$120-per-month set-aside for mass transit, while those who “drive and park” could set \$230 aside per month. For 2009 and 2010, the Recovery Act equalizes this discrepancy and allows individuals who commute by mass transit to set aside \$230 per month.

If you have questions whether you qualify for any of these individual income tax benefits, or how you can structure your affairs to maximize these benefits, please contact Randall L. Duncan or Jonathan D. Mishkin at (503) 242-0000, and we will be glad to assist you.



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