

## American Recovery and Reinvestment Act of 2009

### Question and Answers

**Q1: Will the tax credits and cuts in the 2009 economic stimulus package affect my 2008 tax return?**

**A1:** Generally no, the changes in the stimulus package will not affect your 2008 tax filing, with one possible exception: if you are a first-time homebuyer between Jan. 1, 2009 and Nov. 1, 2009, and want to take advantage of the first-time homebuyer credit on your 2008 return. First-time homeowners who already filed their 2008 return to claim a \$7,500 credit may amend their return for the balance of the \$8,000 credit. And, for those who have not yet filed, this may be an important provision to remember when filing.

**Q2: What action do I need to take to get these benefits?**

**A2:** If you are employed, for the Making Work Pay credit, you should wait for instruction from your employer on how to reduce your income tax withholding to get the additional dollars in your paycheck. Details on how to distribute this stimulus through paychecks is still being decided.

If you are receiving Social Security benefits, certain railroad retirement benefits, SSI benefits, or VA retirement or disability benefits, you will not need to do anything to receive the one-time payment of \$250. The payer of your benefits will determine your eligibility. This is the only group to get a check for the stimulus. Retired government workers who don't receive Social Security will claim the \$250 as a credit on their 2009 tax returns.

Unemployed taxpayers should follow instruction and understand their options for claiming the additional benefits (e.g., the first \$2,400 is nontaxable, the additional \$25 per week, the extension of the time period and the COBRA subsidy).

Also, taxpayers should determine what investments they could make in 2009 that would impact their filing in 2010, such as buying a new home, vehicle, investing in higher education or making energy-efficient improvements to their homes.

### Putting more money in the pocket of working, non-working and unemployed

**Q3: Does the Making Work Pay tax credit for workers affect me?**

**A3:** This credit affects 95 percent of workers, including those who don't earn enough to pay income taxes. In 2009 and 2010, this provision means up to \$400 for an individual or \$800 for couples. Workers who do not earn enough for this amount to be received through reduced federal income tax withholding will receive the remaining on a credit on their tax returns.

**Q4: How is the credit calculated?**

**A4:** The tax credit would be calculated at a rate of 6.2 percent of earned income and begins to phase out for taxpayers with modified adjusted gross income (MAGI) in excess of \$75,000 (\$150,000 for married couples filing jointly). The credit is phased out at \$95,000 for individuals and \$190,000 for couples.

**Q5: How will I get this tax credit?**

**A5:** Taxpayers can receive this benefit through an increase in their paycheck (in other words a reduction in the amount of income tax that is withheld from their paychecks) or through

claiming this credit on their tax return. Eligible workers may need to work with their employers to ensure any adjusted income tax withholding is appropriate for their situation. For example, if all working taxpayers are transferred automatically to the new reduced withholding amounts, certain taxpayers may actually owe more taxes when they file their 2009 and 2010 returns. How and when this credit is actually going to be administered is still unclear.

**Q6: I am not able to work. Is there any assistance for me?**

**A6:** The Act provides a one-time payment of \$250 for individuals receiving Social Security benefits, certain railroad retirement benefits, SSI benefits, or VA retirement or disability benefits. However, there's no double-dipping. Taxpayers who are eligible for this benefit and the Making Work Pay tax credit will not receive both benefits in full. The Making Work Pay credit will be reduced by the \$250 amount. Individuals retired on a federal or state retirement program who don't receive Social Security benefits will claim a \$250 credit on their 2009 returns.

**Q7: I lost my job, but am receiving unemployment. What's in it for me?**

**A7:** The Recovery Act benefits the unemployed in four ways:

1. Increases weekly payments by \$25.
2. Eliminates the federal tax on the first \$2,400 of unemployment benefits received in 2009.
3. Extends eligibility for unemployment benefit, which can vary by state
4. Provides a 65 percent federal subsidy on COBRA premiums

**Q8: I've been paying for health insurance through COBRA. Is there any relief in the plan that Congress passed?**

**A8:** The stimulus plan includes assistance for COBRA premiums for those eligible. COBRA allows workers who lose their jobs to keep their insurance if they pay the full premium. Under the stimulus package, the federal government would pay 65 percent of the tab up to nine months.

## **Helping more of those who have less**

**Q9: Are there any changes to the child tax credit?**

**A9:** The Recovery Act expands the Child Tax Credit, allowing families to begin qualifying for the refundable portion of the credit with every dollar earned over \$3,000. That means a refundable credit of up to \$1,000 for each qualifying child under 17. A refundable credit means even if an individual has no tax liability, the credit is issued in the form of a refund.

This is the second year in a row the income threshold has been lowered. For 2008 it was lowered to \$8,500 from \$11,750.

**Q10: Were there changes to the Earned Income Tax Credit?**

**A10:** Yes, the plan would temporarily expand the Earned Income Tax Credit for working families with three or more children. (In prior years, families didn't get credit for more than two children.) The bill also increases the beginning of the phase out for married couples filing a joint return, regardless of the number of the children they have. These changes apply for 2009 and 2010.

## **Making homeownership more affordable**

**Q11: How does the Recovery Act affect homebuyers? If I buy a home in 2009, will I get a tax credit? What if I bought a home last year?**

**A11:** The Recovery Act includes an \$8,000 tax credit for first-time homebuyers. Unlike the credit passed last year, homebuyers will not have to repay the credit as long as they own and live in the house for three years. To qualify for the credit, homebuyers must make their purchase between Jan., 2009, and Nov. 30, 2009. First-time homebuyers in 2009 who have already filed their 2008 return and claimed the \$7,500 credit may amend their returns to claim the balance of the credit based on this change.

**Q12: Are there any credits for energy-efficient improvements?**

**A12:** Yes, the plan includes a tax credit through 2010 for energy-efficient improvements to existing homes, such as new furnaces, energy-efficient windows and doors, or insulation. The lifetime credit cap is increased from \$500 to \$1,500.

## **Increasing access to higher education**

**Q13: Is there any help for higher education?**

**A13:** Yes. More taxpayers will be able to qualify for the new American Opportunity Tax Credit, which provides a partially refundable \$2,500 tax credit for higher education expenses in 2009 and 2010. By making the credit partially refundable, nearly 4 million lower-income families with students attending college will now benefit from the credit. This can be a better alternative for taxpayers than the existing two other higher education credits.

**Q14: Can I include computers in my 529 education plans?**

**A14:** Yes. Computer and computer technology will now qualify in 2009 and 2010 under the Section 529 Education Plans, which are tax-exempt college saving plans. Previously eligible expenses were limited to tuition, room and board, and books, supplies and equipment that were required for attendance at the school.

## **Going green in the garage**

**Q15: Will I get a tax break if I buy a new car?**

**A15:** The package allows taxpayers to deduct the state and local sales and excise taxes paid on the purchase of a new cars, light trucks, recreational vehicles and motorcycles through 2009. The vehicles must be purchased on or after Feb. 17, 2009, and before Jan. 1, 2010. This new deduction can be claimed either as an itemized deduction or an additional standard deduction for non-itemizers. The deduction is subject to phase out for taxpayers with AGI in excess of \$125,000 (\$250,000 for joint filers).

**Q16: What about plug-in hybrids cars?**

**A16:** The Act also provides a tax credit of up to \$7,500 for individuals who purchase plug-in hybrid vehicles after 2009 or for plug-in conversions after the date of enactment and before 2012.

## **The AMT**

**Q17: What is the alternative minimum tax (AMT)?**

**A17:** In 1986, Congress created the AMT to ensure wealthy Americans did not avoid paying federal income tax by taking undue advantage of certain "preferential" tax benefits. But the AMT has not been adjusted for inflation over the years, so the AMT starts to affect middle-income tax filers unless Congress increases the AMT exemption.

**Q18: Who is impacted by the change in the AMT?**

**A18:** This is the typical AMT patch that's done every year. According to studies, 25 million middle income Americans are threatened by tax increases averaging \$2,300 in 2009 from the alternative minimum tax. Without a patch, the exemption amounts would have returned to \$33,750 for singles and \$45,000 for married couples. With the patch, the exemption amounts are \$46,900 and \$70,950, respectively.