

The American Recovery and Reinvestment Act of 2009: Impact on Personal Income Tax

The American Recovery and Reinvestment Act of 2009 includes critical provisions to help families with low and moderate incomes. Organizations serving these households should be aware of how new tax credits and reforms to existing tax credits can help their clients maximize their incomes. Most provisions in the legislation do not impact individuals preparing their 2008 tax returns (due April 15, 2009), but take effect for Tax Year (TY) 2009.¹ The credits are designed to help workers weather tough economic times and encourage asset building through investments in education, homes, and cars.

Current, Retired, and Unemployed Workers

Making Work Pay Tax Credit

- **Definition:** The Making Work Pay Credit is a refundable tax credit of 6.2% of wages. The maximum credit is \$400 for individuals and \$800 for married couples.
- **Eligibility:** A valid Social Security Number is required to claim the credit. For married couples filing jointly, only one spouse is required to have a valid Social Security Number. Benefits start to become reduced for tax filers with adjusted gross incomes (AGI) of \$75,000 for individuals and \$150,000 for joint filers. The credit is not available for individuals with incomes above \$100,000 or couples with greater than \$200,000 in income.
- **How to claim:** This credit can be received either as a reduction in income tax withheld from paychecks or by claiming it on TY 2009 and TY 2010 tax returns. For everyone who receives a paycheck, the decrease in income tax withholdings starts April 1, 2009. Workers should receive an extra \$10.26 per week during the last nine months of 2009 and an extra \$7.69 per week in 2010 (since the credit amount is spread over the entire year). Self-employed individuals or those who do not have taxes withheld by their employers may claim the credit on their 2009 tax return.
- **Special Note:** Taxpayers should look at their withholding situation during the year to avoid underwithholding. Taxpayers with multiple jobs at the same time, who are married with both spouses working, who receive the Economic Recovery Payment (see *below*), or who receive pension benefits with no earned income may be underwithheld due to the payroll deductions. The IRS Online Withholding Calculator and Publication 919 (“How Do I Adjust My Withholding”) are helpful tools for taxpayers to determine if withholding adjustments are needed.
- **More information:**
www.irs.gov/newsroom/article/0,,id=204447,00.html
www.irs.gov/individuals/article/0,,id=96196,00.htm (Online Withholding Calculator)
www.irs.gov/pub/irs-pdf/p919.pdf (Publication 919)

¹ For more information on provisions affecting TY 2008 returns and on detailed eligibility requirements, see www.irs.gov.

The Economic Recovery Payment

- **Definition:** The recovery plan provides for a one-time payment of \$250 to beneficiaries of certain disability and retirement plans. The Economic Recovery Payment will be a reduction to any Making Work Pay Credit if the recipient qualifies.
- **Eligibility:** Retirees, disabled individuals, and Supplemental Security Income (SSI) recipients receiving benefits from the Social Security Administration, disabled veterans receiving benefits from the U.S. Department of Veterans Affairs, and Railroad Retirement beneficiaries are eligible for the payment.
- **How to claim:** The IRS will not make this payment. Individuals who may qualify for the Economic Recovery Payment should contact their respective agency for more information. For Social Security beneficiaries, no action is required and payments are expected to be issued by late May 2009.
- **More information:**
www.irs.gov/newsroom/article/0,,id=204468,00.html
www.socialsecurity.gov/payment/

Earned Income Tax Credit (EITC)

- **Definition:** The EITC is a refundable credit for workers of low and moderate income. The new law temporarily increases the EITC for working families with three or more children from 40% to 45% of the family's first \$12,570 of earned income. The 2009 maximum credit for these families will increase to \$5,657 from \$5,028 and the 2009 maximum AGI will increase to \$48,279 from \$43,415. In addition, the maximum income for married couples who file jointly (regardless of the number of children) increases to \$5,000 above the thresholds for unmarried filers, reducing the "marriage penalty." The maximum income was previously set at \$3,120 above the limit for unmarried filers.
- **Eligibility:** To qualify for the EITC, a tax filer must meet the following requirements:
 - Be between the ages of 25 and 64 if the filer has no children
 - Have a valid Social Security Number
 - Have earned income (can be from full-time, part-time, or self-employment work)
 - File a tax return
 - Meet the maximum income eligibility requirements, which can be found on the IRS website
- **How to claim:** The changes to the EITC will apply to TY 2009 and TY 2010 returns.
- **More information:**
www.irs.gov/individuals/article/0,,id=96406,00.html

Child Tax Credit

- **Definition:** The Child Tax Credit provides tax relief for low to moderate income workers with children. Eligibility for the refundable portion of the credit is extended to increase the number of working families that can receive additional funds. Previously, filers had to make at least \$8,500 to qualify for the 15% credit. For TY 2009 and TY 2010, the minimum incomes threshold will be \$3,000, allowing lower wage workers to take advantage of the credit.
- **Eligibility:** Families with children under 17 can claim the Child Tax Credit of up to \$1,000 per child. The maximum income to receive the credit is \$110,000 for married couples filing jointly, \$55,000 for married individuals filing separately, and \$75,000 for unmarried filers.
- **How to claim:** The changes to the Child Tax Credit apply to TY 2009 and TY 2010 returns.
- **More information:**
www.irs.gov/publications/p972/ar02.html#en_US_publink100012080

Temporary Suspension of Taxation of Unemployment Benefits

- **Definition:** Federal income tax on the first \$2,400 of unemployment benefits per recipient is temporarily suspended.
- **Eligibility:** Any person collecting unemployment benefits during TY 2009.

Education

American Opportunity Tax Credit

- **Definition:** The American Opportunity Tax Credit is a tax credit to help pay for a college education. It increases the existing credit from \$1,800 to \$2,500 and allows students to claim the credit for four years instead of two. Up to 40% of the credit will be refundable, meaning that students who have no tax liability can still benefit. Taxpayers will receive a credit based on 100% of the first \$2,000 in tuition and other educational expenses (including books), and 25% of the next \$2,000.
- **Eligibility:** Individuals with incomes of up to \$80,000 for individuals (and \$160,000 for joint filers) are eligible for the full credit. The credit is not available for those individuals with incomes above \$90,000 or couples with incomes about \$180,000.
- **How to claim:** This credit may be claimed on TY 2009 and TY 2010 tax returns.

Home Purchase

First-Time Homebuyers Credit

- **Changes:** The maximum credit for first-time homebuyers is increased to \$8,000, up from \$7,500, and taxpayers who purchased homes after January 1, 2009 will not have to repay the credit. (Previously, homebuyers had to repay the credit over 15 years.) The new law also extends eligibility for the credit to homes purchased before December 1, 2009. (The original credit applied only to homes purchased before July 1, 2009.)
- **Eligibility:** The credit applies to first-time homebuyers who purchased homes on or after April 9, 2008 and before December 1, 2009. Taxpayers who purchased homes after January 1, 2009 and before December 1, 2009 are not obligated to repay the credit. The credit starts to become reduced for tax filers with modified AGIs of \$75,000 and \$95,000 for individuals and between \$150,000 and \$170,000 for joint filers. The credit is forfeited if the home is sold within three years of purchase. Only the purchase of a main home located in the United States qualifies. Vacation homes and rental property are not eligible. For a home that the filer constructs, the purchase date is the occupation date.
- **How to claim:** Taxpayers will claim the credit on IRS Form 5405 as the First-Time Homebuyer Credit. This year, qualifying taxpayers who buy a home before December 1, 2009 can claim the credit on either their 2008 or 2009 tax returns.
- **More information:**
www.irs.gov/newsroom/article/0,,id=204672,00.html
www.federalhousingtaxcredit.com/

Car Purchase

Auto Sales and Excise Tax Deduction

- **Definition:** The Auto Sales and Excise Tax Deduction provides taxpayers with a deduction for state and local sales and excise taxes paid on the purchase of new cars, light trucks, recreational vehicles, and motorcycles from February 17, 2009 through December 31, 2009.
- **Eligibility:** This deduction is limited to the sales and excise taxes on the first \$49,500 of the purchase price of new cars, light trucks, recreational vehicles, and motorcycles. The deduction begins to become reduced for tax filers with modified AGIs in excess of \$125,000 for individuals and \$250,000 for joint filers.
- **How to claim:** The deduction may be claimed on TY 2009 returns and is available regardless of whether a taxpayer itemizes deductions on Schedule A.
- **More information:**
www.irs.gov/newsroom/article/0,,id=204519,00.html

Resources

- **IRS - Tax Provisions of the American Reinvestment and Recovery Act of 2009**
www.irs.gov/newsroom/article/0,,id=204335,00.html?portlet=6
- **White House Economic Stimulus Information Page**
www.recovery.gov/
- **National Community Tax Coalition**
www.tax-coalition.org/

Sources: IRS, Center for Economic Progress, Congressional Quarterly, Tax Policy Center, and report by Senate Finance and House Ways and Means Committees