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THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

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The American Recovery and Reinvestment Act of 2009 (Recovery Act) was signed into law by President Obama on February 17, 2009. It contains tax relief for low and moderate-income wage earners, families with college expenses, first-time homebuyers, and car purchasers.

Refundable Tax Credit for Workers. The Recovery Act includes a “Making Work Pay Credit” of up to \$400 per worker (\$800 per couple filing jointly). It is phased out when adjusted gross income (AGI) exceeds \$75,000 (\$150,000 for a joint return).

Economic recovery payment. The Act provides a one-time payment of \$250 to retirees, disabled individuals, Social Security beneficiaries, SSI recipients, and veterans receiving disability and pension benefits. This one-time payment is a reduction to any “Making Work Pay Credit” for workers.

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

Expanded earned income tax credit. The Act expands tax relief to families with three or more children. It also provides more marriage penalty relief. The changes apply for 2009 and 2010.

Expanded child tax credit. The Act increases the eligibility for the refundable child tax credit in 2009 and 2010 by lowering the threshold from \$8,500 in 2008 to \$3,000 in 2009.

Expanded and revised higher education tax credit. The new law creates a \$2,500 higher education tax credit for the first four years of college. The credit is based on 100% of the first \$2,000 of tuition and related expenses (including books) and 25% of the next \$2,000 of tuition and related expenses. Forty percent of the credit is refundable. The new credit temporarily replaces the Hope credit. It is subject to a phase-out for AGI in excess of \$80,000 (\$160,000 for a joint return).

Computers as an education expense. The Act permits computers and computer technology to qualify as qualified education expenses in 529 education plans for 2009 and 2010.

Expanded first-time credit for first-time home buyers. Last year, Congress provided taxpayers with a refundable tax credit (actually a 15-year interest-free loan) equal to 10% of the purchase price (up to \$75,000) by first-time home buyers. The provision applied to homes purchased from April 9, 2008 to June 30, 2009. The credit is recaptured if the house is sold within three years. It is phased out if your adjusted gross income exceeds \$75,000 (\$150,000 for a joint return). The new law enhances the credit by eliminating the repayment obligation for homes purchased between January 1, 2009 and November 30, 2009. It also increases the maximum credit from \$7,500 to \$8,000.

Tax break for new car purchasers. You can continue to deduct State and local sales taxes paid on the purchase of a new automobile, light trucks, SUVs, motorcycles, and motor homes. The deduction is allowed even if you don't itemize. The tax break phases out when your earnings reach \$125,000 per year (\$250,000 for joint returns).

Refundable credit for certain federal and state pensioners. The new law 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.

Alternative minimum tax (AMT) patch. The new law increases the AMT exemption amounts for 2009 to \$46,700 for single filers and \$70,950 for joint returns. It also allows personal income tax credits against the AMT.

Tax breaks for business. These include extended bonus depreciation and increased expensing for 2009, longer NOL carrybacks, deferral on debt discharge income from reacquisitions of debt, reduced capital gains tax for holders of qualified small business stock, and a shortened S corporation built-in gain holding period.

Energy incentives. The Act extends through 2010 and expands tax credits for home energy efficiency for purchases such as new furnaces, energy-efficient windows and doors, or insulation. It extends a tax credit of up to \$5,000 for families that purchase plug-in hybrid vehicles. It provides a new manufacturing investment tax credit for investment in advanced energy facilities that manufacture components for the production of renewable energy, advanced battery technology, and other innovative next-generation green technologies. It also extends the production tax credit (PTC) for electricity derived from wind and for electricity derived from biomass, geothermal, hydropower, landfill gas, waste-to-energy, and marine facilities.

The **California Franchise Tax Board** (FTB) announced that July 2, 2009, is the last day that the FTB will be accepting applications for the **personal income tax credit for new home purchases**. As previously reported (see [TAXDAY, 2009/07/01, S.5](#)), the FTB had stated that it would stop accepting any new credit applications once it had received 12,000 applications and it anticipates that the 12,000 limit will have been reached at the end of the day on July 2.