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Understanding and Taking Advantage of the American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 was passed to help stimulate the economy, in part, through increased consumer spending as a result of new and updated tax breaks and deductions. As you can imagine, the full Act is filled with complex equations and technical and legal jargon that only lawyers and CPAs can understand. For your convenience, the following overview will help to answer some of the more common questions that you may have about the Act – without all of the technical mumbo-jumbo.

Q What is the American Recovery and Reinvestment Act of 2009 ("the Act")?

A It's the $787 billion economic stimulus President Obama signed in February. It includes new tax breaks and improvements on existing tax deductions and credits, all of which add up to about $300 billion in tax relief for middle-class taxpayers.

Q What are some of the major tax savings opportunities that are available for families?

A Major tax saving opportunities for families include:

- **An improved First-Time Homebuyer Credit**—the initial First-Time Homebuyer Credit was rolled out in July 2008, and it included a $7,500 tax credit that worked like a loan. It had to be repaid over 15 years unless the home was sold or became a secondary residence. Now, for homes purchased before December 1, 2009, the credit has been increased to $8,000 and you don't have to repay it after you own your new home for three years. And, speaking of three years, calling it a "First-Time" credit really isn't entirely accurate. For purposes of this bill, the government defines a "first-time" home buyer as someone who hasn't owned a home in the past three years.
- **Tax deductions on new cars**— if you buy a new car, SUV, light truck or motorcycle anytime after February 17 until the end of the year, you can write off any state or local sales or excise tax as an itemized deduction on your taxes. If a vehicle costs less than $49,500 and weighs less than 8,000 pounds, you can write off the full amount of the sales tax. If you buy a car over $49,500, you can still write off a portion of the sales tax. The deduction is phased-out if adjusted gross income exceeds $125,000 ($250,000 if married filing jointly). The Act also modifies the existing credit for plug-in electric vehicles. The base credit is now between $2,500 and $7,500, depending on battery capacity of the vehicle.
- **Increased child tax credit**—the 2009-2010 child tax credit which is refundable now has the income threshold at $3,000.
- **College savings**—the Act contains several items that can help make college more affordable, including a $500 increase in the Pell Grant, for the 2009-10 academic year, an increase in the Hope credit from $1,800 to $2,500 for 2009 and 2010, and additional tax-free distributions for 529 plans. Now, students can use money from a 529 plan to pay for computers, computer technology and even internet services without paying taxes.

Q What are the benefits for businesses?

A The Act benefits businesses with:

- **Extended bonus depreciation—**in 2008, Congress temporarily allowed businesses to accelerate the costs of last year's capital expenditures by letting them immediately write off 50% of the cost of depreciable property purchased for business in this country. The new Act extends the temporary benefit until the end of 2009, retroactive to depreciable property purchased since January 1, 2009.

- **COBRA changes**—employees who lost their jobs between September 1, 2008 and January 1, 2010, may choose to pay only 35% of their COBRA payment. The former employer is required to pay the remaining 65% on the former employee's behalf. The employer will be reimbursed by taking credit from the income tax withholding and payroll taxes they are normally scheduled to pay to the government.
- **Expanded Net Operating Loss (NOL) rules**—businesses with less than $15M in annual gross receipts can now choose to carryback 2008 NOLs for three, four, or five years instead of the usual two years.
- **Better shareholder incentives and tax breaks**—previously, investors could exclude 50% of capital gains from the sale of certain small business stock they held for more than five years. Now, the Act raises the exclusion to 75% for stock acquired after February 17, 2009 and before January 1, 2011. (A small business must have less than $50 million in assets and be directly involved in an active trade or business.)

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