

# AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 (ARRA)

## Individual Provisions

Provision	Provision Defined	Who is Eligible?	When to Claim/Taxpayer Responsibility	Tips and Other Information
<b>Making Work Pay Credit</b>	A refundable credit of 6.2% of earned income, up to \$400 (\$800 MFJ) available through newly reduced federal income tax withholding implemented by employers.	Employed and self-employed persons with a valid SSN. Taxpayers filing jointly can qualify if at least one spouse has a valid SSN. Benefit starts to phase out at MAGI of \$75,000 (\$150,000 MFJ). Dependents, nonresident aliens, and illegal aliens do not qualify.	Qualifying taxpayers may claim this credit on their 2009 and 2010 tax returns. The benefit is a higher take-home pay in each paycheck due to a lower income tax withholding, starting spring 2009.	Individuals working two or more jobs, married couples who both work, and individuals who are ineligible for the credit should adjust their payroll withholding to avoid being "under-withheld" for the year, causing a reduced refund or possibly a balance due.
<b>Economic Recovery Payment</b>	A one-time payment of \$250 will be made to recipients of social security, SSI, Tier 1 railroad retirement, or VA pension or disability benefits.	Taxpayers must have been recipients of these benefits in November or December 2008 or January 2009.	Most recipients will automatically receive a check. However, government retirees may instead claim the credit on their 2009 tax return.	The Economic Recovery Payment reduces the Making Work Pay Credit.
<b>Unemployment Benefits for Involuntarily Separated</b>	In 2009, the first \$2,400 of unemployment benefits is non-taxable. Weekly unemployment benefits increased by \$25. Certain individuals will be eligible for an extended benefit period.	Involuntarily separated taxpayers who are receiving unemployment compensation.	Qualifying taxpayers receive this benefit sometime during 2009 and/or through filing a 2009 tax return.	Those paying for COBRA insurance from September 1, 2008 through December 31, 2009 may be eligible for a federal subsidy of 65% of COBRA premiums for up to nine months. Employers notify the individual of eligibility.
<b>Earned Income Credit (EITC)</b>	A new credit percentage of 45% is available for families with three or more children in 2009 and 2010. The maximum additional benefit is \$629.	Qualifying individuals and married filing jointly couples.	Qualifying taxpayers may claim this credit on their 2009 and 2010 tax returns.	Marriage penalty relief: the beginning of the phase-out range is further shifted for married couples filing a joint return (MFJ) regardless of family size.
<b>Additional Child Tax Credit (ACTC)</b>	Increased eligibility for ACTC means that many low-income families will be able to claim the Child Tax Credit for the first time.	The earnings threshold to qualify is lowered to \$3,000. (The 2008 threshold was \$8,500.)	Qualifying taxpayers may claim this credit on their 2009 and 2010 tax returns.	
<b>First-Time Homebuyer Credit</b>	First-time homebuyers who purchase a home in 2009 (before December 1st) may be eligible for an \$8,000 credit that does NOT have to be repaid (unless the home is sold or not used as the principal residence within 36 months of purchase).	Eligibility requirements for the credit are unchanged. Taxpayers who have not owned a principal residence in the past three years may qualify for this credit.	Qualifying taxpayers may claim this credit on their 2008 or 2009 tax returns.	Those who purchased a home January 1 through November 30, 2009 may claim the \$8,000 credit on their 2008 or 2009 tax return. Claiming the credit on your 2008 tax return will not cause the 2009 purchase to fall under the 2008 repayment provisions.
<b>American Opportunity Tax Credit (Enhanced Hope Credit)</b>	This enhanced Hope credit equals 100% of the first \$2,000 and 25% of the next \$2,000 qualified expenses (tuition, fees, etc.) for a maximum credit of \$2,500, of which 40% is refundable. The credit is allowed for AMT purposes.	The credit applies to the first four years of college. The phase-out range for the credit begins at MAGI of \$80,000 (\$160,000 MFJ) and ends at MAGI of \$90,000 (\$180,000 MFJ).	Qualifying taxpayers may claim this credit on their 2009 and 2010 tax returns.	Course materials (including textbooks) are now qualifying expenses. This credit is NOT refundable if claimed by a child who is subject to the "kiddie tax." Eligible Midwestern Disaster students may instead claim the doubled Hope or Lifetime Learning credits (maximum \$3,600 and \$4,000) in 2009.
<b>Section 529</b>	For 2009 and 2010, purchases of qualified computers and computer technology (such as Internet access) are qualified higher education expenses for purposes of tax-exempt section 529 distributions.	Individuals who use their Section 529 plan to purchase computer and related equipment for college.	In 2009 and 2010, taxpayers may withdraw money from their 529 plan for this use.	

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<b>Motor Vehicle Sales and Excise Tax Deduction</b>	State and local sales and excise taxes paid for qualified new motor vehicles purchased February 17 - December 31, 2009 are deductible (and allowed for AMT), limited to the lower of (1) sales and excise taxes paid, or (2) what would have been paid on a vehicle purchase of \$49,500.	Individuals who purchase new vehicles after 2/16/09 and before 2010. Phase-out of the deduction begins at MAGI of \$125,000 (\$250,000 MFJ), and is fully phased out at MAGI of \$135,000 (\$260,000 MFJ).	Qualifying taxpayers may claim as an itemized deduction or additional standard deduction on their 2009 tax return.	
<b>Residential Energy-Efficient Property Credit</b>	The credit cap for small wind energy property (currently \$4,000), solar water heating property, and geothermal heat pumps (currently \$2,000) has been removed for qualifying property placed in service after 2008.	Taxpayers who invest in such energy improvements to their residential property.	Qualifying taxpayers may claim this credit when they file their 2009-2016 tax returns.	
<b>Nonbusiness Energy Property Credit</b>	Revised standards for energy-efficient building property, oil furnaces, hot water boilers, exterior windows, exterior doors, and skylights. The lifetime credit cap is increased to \$1,500 (from \$500) for qualifying 2009 and 2010 expenses. The credit percentage is increased from 10% to 30% of the total cost. The dollar caps on the various types of property were removed.	Taxpayers who invest in such energy improvements to their residential property.	Qualifying taxpayers may claim this credit on their 2009 or 2010 tax returns.	
<b>Plug-in Electric Vehicles Credit</b>	For vehicles purchased after 2009, the credit is limited to \$7,500 for all vehicles (10% of the cost up to \$2,500 plus up to \$5,000 based on the battery capacity). The law also adds a credit of up to \$4,000 for plug-in conversion kits and 10% of the cost of qualified two- or three-wheeled vehicles purchased after February 17, 2008.	Individuals who purchase a qualified plug-in electric motor vehicle after 2009.	Qualifying taxpayers should ask the dealer about the available credit and may claim this on their 2010-2014 tax returns.	The amount of the credit begins to phase out after the manufacturer produces its 200,000th vehicle (was 250,000th vehicle under prior law).
<b>Alternative Minimum Tax (AMT) Patch</b>	Similar to the prior year patch, the exemption amounts are increased slightly over the 2008 amounts and the nonrefundable personal credits are allowed against AMT. The affected credits are: Child and Dependent Care Credit, Hope and Lifetime Learning credits, and Home Energy credits.	For 2009, the AMT exemptions are: <ul style="list-style-type: none"> <li>• \$46,700 for unmarried individuals</li> <li>• \$70,950 for MFJ filers and surviving spouses</li> <li>• \$34,475 for MFS filers</li> </ul>	Taxpayers should compute their alternative minimum tax by following the 2009 form 6251 instructions carefully.	

## Business Provisions

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<b>Depreciation</b>	Bonus depreciation for most types of depreciable property has been extended one year through 2009.
<b>Section 179 Expense Election</b>	Small businesses can expense up to \$250,000 of eligible property placed in service in 2009.  The phase-out threshold begins when the eligible property that is placed in service during the year exceeds \$800,000.
<b>NOL Carryback Period</b>	Small businesses can elect a five-year, four-year, or three-year carryback period for NOLs arising in 2008. Eligible small businesses include corporations, partnerships, and sole proprietors with average annual gross receipts for the 2006-2008 time periods of not more than \$15 million. If no election is made, the regular two-year or three-year carryback rules apply. The election is irrevocable and must be made by the due date (with extensions) for filing the return.
<b>Sale of Small Business Stock</b>	Individuals are allowed to exclude 75% of the gain from the sale of qualified small business stock held for more than five years. This revision applies only to stock issued after the date of enactment and before January 1, 2011. The taxable portion of the gain is taxed as ordinary income.
<b>S Corp Built-In Gains</b>	For S corporation tax years beginning in 2009 and 2010, the 10-year built-in-gains recognition period is reduced to seven years. This means entities who convert from C to S corporation status may sell property subject to the built-in-gains tax after the seventh tax year (i.e., when 2009 or 2010 is at least the 8th year after the S election) without negative tax consequences.