

# American Recovery and Reinvestment Act of 2009

Small Business/Self-Employed Division

Date: October 29, 2009

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# “Making Work Pay” Tax Credit

- Will cut taxes for working families
- Up to \$400 (\$800 if MFJ)
- Refundable
- Phase out for taxpayers with modified AGI > \$75,000 (\$150,000 MFJ)
- Claim credit on 2009 tax return
- Tax withholding decrease (begin by 4/1/2009) to anticipate credit
- Revised Form W-4 not necessary for automatic withholding change



# “American Opportunity” Education Tax Credit

- Expands HOPE Credit – available for first 4 years of post-secondary education
- For 2009 and 2010 maximum credit is \$2,500
- 40% refundable
- Phase out for taxpayers with modified AGI > \$80,000 (\$160,000 MFJ)



# Sales Tax Deduction on New Vehicles

- State, local & excise taxes paid in 2009
- Cars, light trucks, motor homes, motorcycles
- Purchases after 2/16/2009
- Taxes paid on first \$49,500 of cost
- Phase out for taxpayers with modified AGI > \$125,000 (\$250,000 MFJ)
- Do not have to itemize to take deduction



# Portion of Unemployment Benefits are Nontaxable

- Temporary suspension of the federal income tax on first \$2,400 of unemployment compensation
- Unemployment compensation over \$2,400 will be subject to federal income tax
- Any requested withholding on unemployment compensation will continue to apply to the full amount paid.



# Work Opportunity Credit

- Unemployed veterans and disconnected youth added
  - Unemployed veteran is:
    - Discharged or released from active duty in the Armed Forces during the 5-year period ending on the hiring date
    - Receives unemployment compensation for not less than 4 weeks during the 1-year period ending on the hiring date
  - Disconnected Youth
    - At least age 16 but not age 25 or older on the hiring date
    - Not attending any high school, technical school or post-secondary school during the 6-month period ending on the hiring date
    - Not being regularly employed during that 6-month period, and
    - Not being readily employable due to a lack of having a sufficient number of basic skills
- For employees beginning work after 2008



# First-Time Homebuyer Credit Amended

- Increased to \$8,000
- Refundable
- Homes purchased from 1/1/2009 through 11/30/2009
- No repayment (must live in home 3 years)
- Can choose to claim on 2008 return
- Phase out for taxpayers with modified AGI > \$75,000 (\$150,000 MFJ)



# Differences between 2008 and 2009

- 2008 Credit requires repayment – 2009 Credit only repaid if home is disposed of in first 3 years.
- If home bought in 2008, credit can only be claimed on 2008 income tax return.
- Credit for 2009 purchase can be claimed on 2008 or 2009 income tax return.



# Resources

- Notice 2009-12 (Examples of Joint Tenant Purchases)
- IR 2008-106 (News Release)
- IR 2008-106 SP (News Release - Spanish)
- IR 2009 – 27 (News Release)
- [www.irs.gov](http://www.irs.gov)
  - Examples of purchases and qualifications
  - Updated information on the First Time Homebuyer Credit.



# Energy Conservation Incentives

## Federal Tax Credits for Energy Efficiency includes:

- Tax credits are available at 30% of the cost, up to \$1,500, in 2009 & 2010 (for existing homes only) for:
  - Windows and doors, insulation, roofs (metal and asphalt), HVAC, water heaters (non solar), biomass stoves



# *For Homeowners - Expanded Energy Efficient Property Tax Credit for Residences*

- Residential energy efficient property credit has expanded to include more alternate energy equipment.
- For 2009, there is no limitation on the credit.
- This law increases energy standards and also eliminates the cap on the 30 percent tax credit for alternative energy equipment.
- See **Notice 2009-41** for more information.



# What is COBRA?

- Consolidated Omnibus Budget Reconciliation Act of 1985.
- Provided for extended health care coverage for workers when they would have otherwise lost it.
- Covered individual was responsible for 100% of the insurance premiums due under the COBRA *continuation* coverage.



# COBRA:

## What's new in 2009?

- ARRA provides a COBRA *subsidy*
- For involuntarily separated employees
- Employee pays 35%
- Former Employer pays 65%
- Government subsidizes the Employer



# COBRA Premium Assistance

- The worker must pay 35% of the cost of the premium to their former employer
- A worker is no longer eligible if they begin a new job with employer-sponsored health care coverage, or they become eligible for Medicare



# Employer COBRA Subsidy Documentation

1. Receipt of 35%
2. Proof of payment of 65%
3. Attestation of Involuntary Termination
4. Proof of Eligibility of Individual
5. Record of SSNs of Covered Individuals
6. Other Documents Needed to Verify Eligibility



# A Few More Things

- No reporting requirements to individuals who received subsidy
- Credit recapture modified AGI limits:
  - 125,000 to 145,000 for single filers
  - 250,000 to 290,000 for married filers
- 110% Penalty



# More Information Available

- [www.irs.gov](http://www.irs.gov)
- [www.dol.gov](http://www.dol.gov)
- Notice 2009-27



# More Help for Small Business

- Reduction of estimated tax payments
- Extension of bonus depreciation deductions through 2009
- Capital gains tax break for investment in small business



# Section 179 Deduction

- Cost of certain property can be treated as an expense and can be deducted in the year the property is placed in service instead of depreciating it over several years.
- Under ARRA, qualifying businesses can continue to expense up to \$250,000 of section 179 property for tax years beginning in 2009.



# Estimated Tax Payments

For 2009:

- Self employed taxpayers
- Lowers estimated tax payment requirements to avoid the estimated tax penalty.
- 90% of tax shown on current year return or 90% of tax shown on prior year return



# Partial Exclusion of Gain from Small Business Stock

For 2009 and 2010 :

- Up to 75% of gain on the sale of small business stock can be excluded from income
- 5 year holding period still applies



# More Information

- Go to [www.irs.gov](http://www.irs.gov)
- Check Web site frequently for the latest updates



# Savings Initiative

- All of part of refund may be used to purchase U.S. Savings Bonds
- Denomination from \$50 to \$1,000
- Bonds issued in primary taxpayer's name or jointly
- Savings bonds are ordered and mailed after return is processed



# Questions?

