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The American Recovery and Reinvestment Act of 2009

The most recent tax and investment incentive legislation passed by Congress and the President is the *American Recovery and Reinvestment Act of 2009* (enacted February 17, 2009). Most of the provisions apply only to 2009 and 2010. The following is an overview of some of the provisions affecting individuals:

A. Partial credit for social security tax. This has been called the "Making Work Pay Credit" by the new law. This credit requires no action but merely the earning of income from a job. The credit will be phased into the income tax withholding tables beginning about June of this year. The result of the tax table reduction and the credit is that an individual is receiving the credit at the rate of approximately \$13 per week starting in June.

The new law provides an individual tax credit in the amount of 6.2% of earned income not to exceed \$400 for single returns and \$800 for joint returns in 2009 and 2010. The credit is phased out at income in excess of \$75,000 (\$150,000 for married couples filing jointly).

For planning purposes, note that Congress is reducing your income tax withholding even if you do not get the credit; therefore, it is likely that you will owe tax for 2009 and 2010 if your income exceeds the phase-out amounts.

B. Payment to \$250 to select individuals. The new law provides a one-time payment of \$250 to retirees, disabled individuals and Social Security beneficiaries, and SSI recipients receiving benefits from the Social Security Administration; and to Railroad Retirement beneficiaries, and veterans receiving disability compensation and pension benefits from the U.S. Department of Veteran's Affairs. The one-time payment is a reduction to any allowable Making Work Pay Credit.

To be entitled to the \$250 payment, an individual must have been eligible for one of the four benefit programs for any of the following three months: November 2008, December 2008, or January 2009. The payment will come as a check from the government.

C. Some unemployment is income tax free in 2009. A provision of the new law temporarily suspends federal income tax on the first \$2,400 of unemployment benefits received by a recipient in 2009.

D. Expanded and revised higher education tax credit. The new law creates a \$2,500 higher education tax credit that is available for the first four years of college. The credit is based on 100% of the first \$2,000 tuition and related expenses (including books) paid during the tax year and 25% of the next \$2,000 tuition and related expenses paid during the tax year, subject to a phase-out for AGI in excess of \$80,000 (\$160,000 for married couples filing jointly). 40% of the credit is refundable. The new credit temporarily replaces the Hope Credit. The new education credit is available for 2009 and 2010. The new credit is also available for the first four years of college rather than just the first two years of college; thus, the new credit can be used in 2009 and 2010 for the third and fourth years of college.

Under the 2009 Recovery Act, expenses paid or incurred in 2009 or 2010 for the purchase of any computer technology equipment, or Internet access and related services, are qualified higher education expenses.

E. Expanded credit for first-time home buyers. Last year, Congress provided taxpayers with a refundable tax credit that was equivalent to an interest-free loan equal to 10% of the purchase of a home (up to \$75,000) by first-time home buyers. The provision applied to homes purchased on or after April 9, 2008

and before July 1, 2009. Taxpayers receiving this tax credit were required to repay any amount received under this provision back to the government over 15 years in equal installments (or earlier if the home was sold). The credit phases out for taxpayers with adjusted gross income in excess of \$75,000 (\$150,000 in the case of a joint return).

The new law enhances the credit by eliminating the repayment requirement for taxpayers that purchase homes on or after January 1, 2009 and before December 1, 2009, and increases the maximum credit from \$7,500 to \$8,000.

F. Tax break for new car purchasers. The new law allows taxpayers who do not itemize to deduct state and local taxes paid on the purchase of a new automobile, including light trucks, SUVs, motorcycles, and motor homes. The tax break phases out starting with taxpayers earning \$125,000 per year (\$250,000 for joint returns).

G. Energy-efficient existing homes. The new law extends the tax credit for improvements to energy-efficient existing homes through 2010. For 2009 and 2010, the amount of the tax credit is increased from 10% to 30% of the amount paid or incurred by the taxpayer for qualified energy efficiency improvements during the tax year. The property-by-property dollar caps on the tax credit are also eliminated, and an aggregate \$1,500 cap applies to all property qualifying for the credit.

Individual taxpayers are allowed a personal tax credit, known as the non-business energy property credit, for energy-efficient improvements to a dwelling unit in the U.S. owned and used by the taxpayer as the taxpayer's principal residence. The credit is available for: (1) amounts paid or incurred for qualified energy

efficiency improvements (i.e., building envelope components meeting certain requirements) installed during the tax year; and (2) residential energy property expenditures.

The "building envelope components" for which the credit is allowed include:

- any insulation material or system specifically and primarily designed to reduce the dwelling unit's heat loss or gain when installed in or on the dwelling unit;
- exterior windows and skylights;
- exterior doors; and
- any metal roof or asphalt roof installed on a dwelling unit, but only if the roof has appropriate pigmented coatings or cooling granules that are specifically and primarily designed to reduce the dwelling unit's heat gain.

The most intelligent people we know are those who ask for advice.

There are only two basic ways to establish competitive advantage: do things better than others or do things differently.

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Referrals are greatly appreciated.



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