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You're about halfway through tax season now and suddenly you're faced with the new stimulus bill! Fortunately, most of its many provisions don't take effect until TY2009, which gives you plenty of time this summer and fall to really dig into the tax implications. And many of the changes will simply be incorporated into your professional tax compliance package, automatically performing the new calculations.

But for those who want some earlier insight into how the new changes will affect individual and business filers, and there are several, here's a rundown of the major tax-oriented provisions of the American Recovery and Reinvestment Tax Act of 2009, also known as the Stimulus Bill.

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## 1040 Clients

The Stimulus bill includes \$287 billion in tax changes, primarily through new or expanded credits and deductions. Among the most notable is the continued band-aid approach to "fixing" the **Alternative Minimum Tax**.

The new law increases the single exemption to \$46,700 and the joint filer exemption to \$70,950. This change is for TY2009.

The **Making Work Pay Tax Credit** has been likened to last year's rebate checks. But this credit won't result in a direct payment to any taxpayer, either by check or direct deposit. The \$400 credit for individuals and \$800 for joint filers will be automatically applied to wage earners via reduced payroll tax withholding (FICA), resulting in slightly higher paychecks. For non-W-4 individuals, the credit will be available on their return for TY 2009 and 2010. Income phase-outs start at \$75k/\$150k. The credit also applies

to self-employment earnings to the extent that they're considered in computing

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(or had 3+ years since last homeownership) between April 9, 2008 and Dec. 31, 2008. For 2009, this credit has been raised to \$8,000 for buyers of homes during calendar year 2009. If the home is sold within three years, the credit must be repaid. After three years, it becomes a true credit. Income phase-outs for this TY2009 credit start at \$75k/\$150k.

For tax years 2009 and 2010, the **Earned Income Tax Credit (EITC)** has been increased to 45% (from 40%) of the first \$12,750 of earned income for taxpayers who have three or more (used to be two) qualifying children. This results in a maximum net increase of about \$628. The 40% EITC rate is still effect for filers with two children. Additionally, the income phase-out for joint filers has been increased by \$1,880.

Also for tax years 2009 and 2010, the refundable part of the **Child Tax Credit** has been increased, and the income threshold has been decreased to \$3,000 from a 2008 amount of \$8,000. This credit is worth up to 15% of earned income exceeding \$3,000, up to \$1,000 per child under 17.

The Hope Credit has been increased, expanded to include more types of expenses, and renamed the **American Opportunity Tax Credit** for tax years 2009 and 2010. The credit has been raised to up to \$2,500 per year, per student, and can be used for up to four years of college. The credit is calculated based on educational expenses paid out, with 100% of the first \$2,000 being directly creditable, and 25% of the next \$2,000 in expenses. Up to 40% of the credit is also now refundable. Under the new guidelines, necessary course materials (including text books and computers) are now considered as qualifying expenses. Income phase-outs are increased to \$80k/\$160k.

The qualifying tax-free educational expenses for **Qualified Tuition Programs (529 Plans)** has also been expanded to include course materials

and computers for tax years 2009 and 2010.

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The **Residential Energy-Efficient Property Credit** no longer has individual dollar caps for solar hot water property, geothermal heat pumps, and wind energy property.

### **Business Clients, Including Sch. C**

The **50% Bonus Depreciation** rules set in last year's bill have been extended to be in effect for all of calendar year 2009. Additionally, an extra year of bonus depreciation is available for some fixed assets through 2010. As an alternative to the 50% bonus depreciation, businesses can monetize accumulated R&D and AMT credits. The option is available for property that qualifies for bonus depreciation and was placed in service through 2009.

The new law also offers **Increased Vehicle Depreciation Caps** for vehicles purchased in 2009. Caps are now set at \$10,960 for autos and \$11,160 for light trucks, SUVs and vans.

Last year's stimulus act increased the amount of qualifying **Sec. 179 Expenses** that businesses can claim from \$125,000 to \$250,000. The 2009 bill continues this level, with a cap of \$800,000.

Many Sch. C individuals will have **Reduced Estimated Taxes** for the remainder of TY 2009. Ordinarily, estimated quarterly payments are 25% of the whole of last year's tax burden or underpayment. For 2009, these payments will be adjusted to 25% of 90% of last year's return. It is not a credit, since any underpayment will still be due when filing, but no fees will be assessed for the 10% shortage. The reduced payments are available only to individuals with under \$500k adjusted gross income, and who realized more than 50% of their total gross income from a small business.

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longer, and be active with \$50 million or less in assets.

Businesses shouldn’t fear the **New COBRA Continuation** provisions, which have a former employer paying 65% of the COBRA coverage, since employers can receive a credit, through withholding and payroll taxes, equal to the actual cost increase.

The tax-free limit on transportation and **Transit Fringe Benefits** (mass transit, carpools, etc) that employers offer their employees is now increased to \$230 per month and will be pegged to inflation.

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Once again, don’t panic. Most of these tax law changes have no effect on business or individual filers for tax year 2008. So, there’s plenty of time to sign up for a CPE-eligible course somewhere near a beach. Now, stop daydreaming and get back to those 1040s.

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