

Frequently Asked Questions About Tax Provisions in the Economic Stimulus Bill

President Obama signed the American Recovery and Reinvestment Tax Act of 2009 into law on Feb. 17, 2009.

OVERVIEW

How much of the \$787.2 billion stimulus package is spending versus tax benefits?

Overall, the stimulus bill would increase federal budget deficits by \$185 billion over the remaining months of fiscal year 2009, by \$399 billion in 2010, by \$134 billion in 2011, and by \$787 billion over the 2009-2019 period, according to the Congressional Budget Office. Over the 10-year period, tax provisions would reduce federal revenues by a projected \$211 billion, or 27 percent of the total stimulus package.

What is your calculus of how quickly the stimulus will get out and into the economy?

Consumers should see some benefits as soon as early April. That's when the Making Work Pay Credit described below kicks in. Most of the other benefits first appear on taxpayers' 2009 returns. But that doesn't mean they can't take advantage of them before April 15 of 2010. Individuals and businesses should review how the new law affects them and then adjust their withholdings or estimated payments now to reflect the benefits they will receive this year.

INDIVIDUAL PROVISIONS

How quickly will people see a change in their paychecks as a result of the "Making Work Pay" provision?

The IRS released new withholding tables reflecting the Making Work Pay credit on Feb. 21 and said most taxpayers will see the credit in their paychecks this spring. The IRS asked employers to begin using the new withholding tables no later than April 1. The \$400 credit will show up as about an extra \$10 a week in the paychecks of eligible individuals. The average person isn't going to notice that very much, so it is likely to be spent. When consumers get lump sums, they tend to save the money or use it to retire debt. Small amounts get spent. *The Joint Committee on Taxation estimates the provision will cost \$116.199 billion over 10 years.*

Who is Eligible for the First-Time Home Buyer Credit?

The law provides an \$8,000 tax credit for first-time homebuyers who buy a principal residence before Dec. 1. The credit is available to home buyers who haven't owned their own primary residence for the past three years with incomes up to \$75,000 for individuals and \$150,000 for married couples. Unlike the \$7,500 credit enacted last year, it doesn't have to be repaid unless you sell your home within three years. *Estimated cost is \$6.638 billion over 10 years.*

Who Qualifies for the Auto Sales Tax Credit?

Buyers of new cars or light trucks can deduct the portion of state and local sales and excise taxes attributable to the first \$49,500 of the vehicle's purchase price. The deduction is "above the line," which means taxpayers don't have to itemize deductions to claim it, and can be taken against the alternative minimum tax. The deduction is available to taxpayers with adjusted gross income of up to \$125,000 for individuals and \$250,000 for married couples. The deduction is good for purchases made from Feb. 17, 2009 through Dec. 31, 2009. The deduction can amount to \$1,000 to \$2,000 depending on the price of the car and the applicable tax rate in your state. *Estimated cost is \$1.684 billion over 10 years.*

How Does the Law Help Families with College Costs?

Parents can claim a tax credit of up to \$2,500 a year for college expenses for any year of college. The credit is limited to taxpayers with adjusted gross incomes up to \$80,000 for individuals and \$160,000 for married couples. The change is only for 2009 and 2010. *Estimated cost is \$13.907 billion over 10 years.*

How does the new law change the Earned Income Tax Credit?

Working families with three or more children may be eligible for an increased credit. For 2009 and 2010, the Earned Income Tax Credit increase will be available for families with three or more children. The credit is 45 percent of the family's first \$12,570 of earned income, and the credit phase-out now begins at adjusted gross income of \$21,420, \$1,880 higher than under prior law. *Estimated cost is \$4.663 billion over 10 years.*

Are Unemployment Benefits Still Taxed?

With more people out of work, Congress exempted the first \$2,400 in unemployment benefits from taxes in 2009. The law also provides a 65 percent subsidy for health insurance premiums maintained by laid-off workers under Cobra for up to 9 months. *Estimated cost is \$4.740 billion over 10 years for unemployment provision and \$24.7 billion for Cobra.*

How do Users of Public Transit Benefit?

Congress expanded the amount employees can have deducted tax free from their paychecks for public transit to \$230 from \$120. That means workers can have employers set aside up to \$230 a month for public transportation. *Estimated cost is \$192 million over 10 years.*

Is the AMT Exemption Increased?

Congress raised the exemption for the alternative minimum tax for 2009 so it would not catch millions more taxpayers. It was bumped from \$69,950 in 2008 to \$70,950 in 2009. The AMT generally applies to people in high-tax states and people with large families. It's expensive to fix this problem. The revenue estimate for this one-year patch was \$70 billion over 10 years. *Estimated cost is \$69.759 billion over 10 years.*

What Are Some of the Energy Incentives?

The law raises the residential energy property tax credit from 10 percent to 30 percent. That's a nice write-off for taxpayers who are already planning on investing in more efficient energy equipment, but it may not push people to make more purchases than they would have otherwise. Dollar caps are removed for the residential energy efficient property credit for solar hot water

and wind energy property and heat pumps. Plug-in electric vehicles now qualify for a \$2,500 tax credit that will phase out after the manufacturer sells 200,000 vehicles.

BUSINESS PROVISIONS

Which 2008 Business Tax Stimulus Provisions Were Extended by the Law?

- **Fifty Percent Bonus Depreciation** is extended for expenditures made in 2009. Businesses' costs for eligible property can be recovered over time based on an established depreciation schedule. The Economic Stimulus Act of 2008 allowed businesses to immediately write off 50 percent of the cost of eligible property purchased in 2008. *Estimated cost is \$5.074 billion over 10 years.*
- **Election to accelerate AMT or R&D Credits.** The 2008 stimulus legislation allowed businesses to elect to accelerate the recognition of a portion of refundable AMT credits or R&D credits in lieu of bonus depreciation. The amount that may be accelerated is based on the amount that each taxpayer invests in property that would otherwise qualify for bonus depreciation. The amount is capped at the lesser of 6 percent of historic AMT and R&D credits or \$30 million. This election is primarily of benefit to businesses currently in a loss position and therefore would not receive an immediate benefit from the accelerated depreciation provisions of the stimulus. This election is extended for qualifying property placed in service through 2009. *Estimated cost is \$805 million over 10 years.*
- **Small Business Expensing Rules.** In the 2008 stimulus legislation, Congress increased the expensing provisions for small business to \$250,000 for assets purchased in 2008, and phased out the limitation for businesses that purchased more than \$800,000 in assets. This rule is extended for 2009 and is a great benefit for businesses. Most businesses will be able to deduct \$250,000 right off the top. It's not going to help GM. But it is going to help mid-size companies. *Estimated cost is \$41 million over 10 years.*

What Are the New Business Provisions?

- **Five Year Carryback of Net Operating Losses for Small Businesses with Less than \$15 million in Revenues.** This is an important provision for small businesses, which are often cash flow intensive, and there was a lot of advance publicity about congressional debate over this feature. Congress ended up allowing a small business with gross receipts of \$15 million or less to carry back a 2008 Net Operating Loss (NOL) for as many as five years. (Without this provision current law allows an NOL to be carried back two taxable years and carried forward for twenty years.) NOL carryback elections made in previous years can be changed, but only once and must be made on a timely basis. *Estimated cost is \$947 million over 10 years.*
- **Temporary Estimated Tax Relief for Small Businesses.** In 2009, an individual will not incur a penalty for underestimating taxes if the payments are equal to at least 90 percent of the liability, so long as the tax year begins in 2009, the individual's adjusted gross income is below \$500,000, and more than 50 percent of the income is from a small business. *Estimated cost is zero over 10 years.*
- **Small Business Capital Gains Provision.** If an individual invests in the stock of a small business and holds that investment for at least five years, the investor may exclude up to 75 percent of the gain, if all other qualifications are met. This provision is effective for investments made after the date of enactment and before January 1, 2011. *Estimated cost is \$829 million over 10 years.*
- **Temporary Reduction of S Corporation Built in Gains Tax from 10 to 7 years.** If a C corporation decides to change to S corporation status there is no "double" tax on any

built-in gains if the assets are held for ten years. The law reduces the threshold to seven years, but only for sales occurring in 2009 and 2010. *Estimated cost is \$415 million over 10 years.*

- **Enhanced Work Opportunity Credit.** Unemployed veterans and disconnected youth were added to the categories of out-of-work individuals an employer can hire in order to be eligible for the Work Opportunity Credit. There are specific eligibility criteria for each. This credit is available for 2009 and 2010, and for any employee who started work after December 31, 2008. *Estimated cost is \$231 million over 10 years.*
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