

SPECIAL RELEASE

February 2009

Individual & Small Business Tax Breaks in the 2009 Stimulus Bill



COHEN, SMITH & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
133 EAST INDIANA AVENUE
DELAND, FLORIDA 32724-4329
(386) 738-3300
www.cohensmithcpas.com

Other helpful on-line services

www.IRS.gov

www.MyFlorida.com

www.Volusia.org

Small Business Tax Breaks in the Stimulus Bill

The American Recovery and Reinvestment Act of 2009, expected to become law, contains numerous tax provisions aimed at small businesses.

Bonus depreciation

IRC section 168(k) is amended to extend the 50% first-year bonus depreciation through 2009 (through 2010 for certain transportation property and aircraft).

Section 179 expensing

The increase in the section 179 expensing amount to \$250,000 and the increase in the phaseout threshold to \$800,000 are both extended through 2009. The amounts had originally been temporarily increased (for 2008) by the Economic Stimulus Act of 2008, P.L. 110-185.

Carryback of small business NOLs

Eligible small businesses are allowed to carry their 2008 net operating losses (NOLs) back for five years (section 172(b)(1)(H)). An eligible small business is one that has average gross receipts of \$15 million or less (using the gross receipts test from section 448(c)). Previously, only a two-year carryback period was allowed.

Small business estimated taxes

Qualified individuals are allowed (for 2009 only) to make estimated tax payments that equal only 90% of their preceding tax year liability instead of 100% (under section 6654(d)(1)). To be a qualified individual, the taxpayer must have adjusted gross income (AGI) of less than \$500,000 and more than 50% of the individual's gross income must come from a small business (a business with an average of fewer than 500 employees).

Work opportunity tax credit

The act creates two new targeted groups for the work opportunity tax credit, "disconnected youth" and unemployed veterans (section 51(d)(14)). Employers who hire members of these groups during 2009 or 2010 may be eligible to take the credit.

S corporations

The recognition period for assets subject to the built-in gains tax is reduced from ten years to seven years for S corporation tax years beginning in 2009 and 2010 (Section 1374(d)(7)).

Energy credits

The act also includes a number of energy incentives aimed at both individuals and businesses, including increases in the section 25C residential energy property credit, the section 25D residential energy efficiency property credit, and the energy investment credit under section 48.

Individual Tax Breaks in the Stimulus Bill

With its new and expanded tax benefits for individuals, the American Recovery and Reinvestment Act of 2009 seeks to get more money into the pockets of American consumers. College students and their families, homebuyers, and buyers of new cars are among the potential beneficiaries, but so too are low-income Americans, with the act's continuation and expansion of such tax breaks as a higher eligibility limit for the earned income tax credit. Here are some of the more prominent features:

Higher education

The American opportunity tax credit is a temporary (for tax years beginning in 2009 and 2010) increase and expansion of the Hope scholarship credit (IRC § 25A9i). It increases the maximum credit per student from \$1,800 to \$2,500 and extends its availability from the first two years of postsecondary education to four years. Nonrefundable under prior law, the credit now becomes 40% refundable. The phaseout range is increased from the current \$50,000-\$60,000 for single filers to \$80,000-\$90,000. The joint filer phaseout, currently \$100,000-\$120,000 increases to \$160,000-\$180,000. Expenses for course materials, such as textbooks, are added to the definition of qualified tuition and related expenses eligible for the credit.

Homebuyers credit

The act increases the amount of the IRC § 36 first-time homebuyer's credit from \$7,500 to \$8,000 and eliminates the repayment requirement for houses purchased in 2009. The credit, added by the Housing Assistance Act of 2008 P.L. 110-289, is refundable, but for homes purchased between April 9, 2008, and December 2008, it must be recaptured ratably over 15 years, or earlier if the home is sold. The stimulus act waives the recapture requirement for homes purchased after January 1, 2009, and extends the sunset of the credit from June 30, 2009, to December 1, 2009.

The amount of the credit remains 10% of the purchase price of a principal residence of a taxpayer who has not owned a U.S. principal residence in the previous three years. Recapture still applies if the taxpayer disposes of the home or no longer uses it as a principal residence within three years after purchase. The waive of recapture isn't retroactive to before 2009.

Making work pay credit

Intended to partially offset an employee's portion of Social Security payroll taxes, this temporary credit is 6.2% of the earned income up to a total credit of \$400 for individuals and \$800 for joint filers (IRC § 164 (b) (6)). It is retroactive to the beginning of 2009. It begins phasing out at a rate of 2% of modified adjusted gross income (MAGI) above \$75,000 for individuals and \$150,000 for joint filers.

New car sales tax deduction

Buyers of new cars and light trucks may deduct the portion of state and local sales and excise taxes attributable to the first \$49,500 of the vehicle's purchase price (IRC § 164 (b)(6)). This is an above-the-line deduction and is allowed against alternative minimum tax (AMT). The deduction will be phased out for single taxpayers with MAGI in excess of \$125,000 for the tax year (\$250,000 for joint filers). Taxpayers who elect under section 164(b)(5) to take the state and local sales tax deduction in lieu of deducting state and local income tax cannot also take the new car sales tax deduction. Since Florida does not have state and local income taxes, Florida taxpayers who itemize their deductions may not benefit from this provision.

AMT patch

For 2009, the AMT exemption is increased to \$46,700 for singles and \$70,950 for joint filers (IRC §55(d)).

Child tax credit and other items

The act extends for 2009 and 2010 the lower, \$3,000 income threshold for refundability of the section 24 child credit, meaning more of it is refundable to low-income taxpayers. Other items directly benefiting less-affluent taxpayers or those in financial distress include a temporary increase in the earned income tax credit for 2009 and 2010, a one-time \$250 payment to persons on fixed incomes not eligible for making work pay credit and a temporary exclusion of \$2,400 of unemployment benefits from taxable income for 2009.

How the economic-stimulus plan might help individuals – questions and answers

So Congress has been debating ways to get the economy moving again, create jobs and put more money into American's hands. There has been a lot of political bickering and grandstanding. But if what the two houses agreed on sticks, and the measure is signed by the president, what could the plan mean for taxpayers, parents, seniors and job seekers?

Q. Will I receive a tax cut?

A. Yes, especially if you earn less than \$75,000 or \$150,000 for couples who file joint tax returns.

Q. What kind of tax credit am I or is my family likely to receive?

A. For 2009 and 2010, individuals and couples who work could get tax credits of up to \$400 and \$800, respectively. The credit will amount to 6.2 percent of earned income. It would apply to single taxpayers with incomes of up to \$75,000, and to married couples with incomes of up to \$150,000 who file jointly.

Q. How do the tax breaks help people who want to buy homes?

A. Last year (2008), a tax credit was created that was equal to an interest-free loan to first-time home buyers. The credit was equal to 10 percent of the purchase price, up to \$7,500, and it had to be repaid in installments, over 15 years. The credit applies to anyone who hasn't owned a residence for at least three years.

That tax credit still exists, but there is also a new credit that isn't a loan. Now, people who buy homes between January 1, 2009 and December 1, 2009 can get an \$8,000 credit and provided they remain in the home for at least three years, the credit is not recaptured.

Q. I'm in college, or my child is. Is there help for me?

A. Parents of college students could get a tax credit of up to \$2,500 for tuition and related expenses, depending on income. The amount of Pell Grants, which help low-income students pay for college, would be increase by \$500 to a maximum of \$5,350 in 2009 and \$5,550 in 2010.

Q. I'm buying a new car. What's the stimulus package doing for me?

A. The sales tax on new vehicles would now be tax deductible even for taxpayers who don't itemize their deductions. There would also be a tax credit starting a \$2,500 for people who buy plug-in electric vehicles.

Q. I'm out of a job. How does this help me?

A. Through the end of this year, the plan extends unemployment benefits by up to 33 weeks for people who have exhausted their benefits. In Florida, which now pays 59 weeks of jobless benefits, the unemployed could receive up to 92 weeks, or almost two years, worth of help.

- Unemployment benefits, now at a maximum of \$275 per week in Florida, would increase by up to \$25 a week.
- For 2009, federal income tax due on the first \$2,400 of unemployment benefits would be waived.
- Workers who've lost their jobs since September 1, through the end of this year are using COBRA to continue their health insurance benefits can have 65 percent of their premiums subsidized by the federal government. This is for individuals whose income does not exceed \$125,000 for single workers or \$250,000 for families.

Q. I'm on Social Security. I'm a disable veteran. I receive Supplemental Security Income. Is there something for me?

A. Yes. People in these categories will receive a one-time payment of \$250 this year, Schneier said.

Q. I work and have a family, but don't earn very much. How does this help me?

A. The Earned Income Tax Credit would be temporarily increased for working families with three or more children. The credit would be increased to 45 percent of the family's first \$12,570 of earned income for families with three or more children.

Q. Should I delay filing my 2008 tax return?

A. The tax credits and cuts appear to primarily apply to tax returns for 2009 and beyond, so probably not.