

PetrowVincentKane

CERTIFIED PUBLIC ACCOUNTANTS

American Recovery & Reinvestment Tax Act 2009 Individual Tax Incentives

Recently, Congress passed the 2009 American Recovery and Reinvestment Tax Act (2009 Act) to stimulate the economy. The 2009 Act has several tax provisions of interest to individual taxpayers, including the expansion of existing credits relating to education and renewable energy, as well as new energy incentives, and tax benefits for major purchases. The following is a list of the possible provisions that might benefit you. We should discuss the specific provisions that apply to your circumstances.

Credits

1. **Making Work Pay Credit:** The Act allows a credit for the lesser of 6.2% of earned income or \$800 (\$400 for single taxpayers) for 2009 and 2010. The credit amount begins to reduce for taxpayers with adjusted gross incomes above \$75,000 (\$150,000 for joint returns). The credit is unavailable for those taxpayers who are claimed as a dependent on another taxpayer's return.
2. **Child Tax Credit:** The Act potentially increases the refundable portion of the child tax credit for 2009 and 2010. For those years, the refundable credit is amended to apply to 15% of earned income in excess of \$3,000, depending on your particular circumstances.
3. **AMT Relief:** The 2009 Act allows nonrefundable credits, such as the child tax credit and the credit for adoption expenses, to offset alternative minimum tax for the 2009 tax year.

Purchase Incentives

1. **Credit for First-Time Homebuyers:** This is a more generous one-time only credit for the home purchases made after December 31, 2008 and prior to December 1, 2009. It equals 10% of the purchase price limited to \$8,000 (\$4,000 for married filing separately). The credit begins to phase out at modified adjusted gross incomes of \$75,000 (\$150,000 for taxpayers filing a joint return). There is no repayment provision; however, recapture provisions apply to certain dispositions within three years of purchase.
2. **Deduction for Automobile Sales and Excise Taxes:** The Act allows a deduction for state and local sales and excise taxes imposed on the purchase of passenger automobiles, light trucks, motorcycles, and motor homes. The purchase must be made after February 17, 2009, and before January 1, 2010; and the deduction is limited to the taxes paid or incurred on a purchase price of up to a \$49,500 (\$24,750 for separate returns by married individuals). This deduction is available to non-itemizers, but it begins to phase out for taxpayer's with modified adjusted gross incomes of \$125,000 (\$250,000 for married filing jointly).

Education Benefits

1. American Opportunity Tax Credit: This is a credit of up to \$2,500 per eligible student per year for qualified tuition and related expenses, including related course materials, paid for each of the first four years of the student's post-secondary education. The credit is applicable for 2009 and 2010, applies against alternative minimum tax, and is partially refundable. The credit begins to phase out for taxpayers with modified adjusted gross incomes of \$80,000 (\$160,000 for married filing jointly), and is completely phased out at adjusted gross incomes of \$90,000 (\$180,000 for married filing jointly).
2. 529 Plans: Computer technology and equipment expenses can be paid for from 529 plans in 2009 and 2010.

Energy Provisions

1. The Nonbusiness Energy Property Credit percentage is increased to 30% (formerly 10%) for the cost of certain energy efficient improvements and residential energy property expenditures. This credit applies to expenditures for electric heat pumps, central air conditioners, water heaters, wood stoves, natural gas, propane, and oil furnaces and hot water heaters, exterior windows, doors, skylights, and insulation. These improvements must meet certain energy standards in order to qualify for the credit and must be placed in service in 2009 and 2010. Note that there is a lifetime maximum cap of \$1,500, which replaces the \$500 limitation previously in effect, as well as specific dollar limitations applicable various energy saving properties. For example, the \$200 limitation for windows no longer applies.
2. The Residential Energy Credit allows taxpayers to take a 30% credit for the cost of residential energy expenditures made in tax years after 2008 for solar electric generating property and solar water heaters, fuel cell property, wind turbine electric generating property, and geothermal heat pumps. The previous dollar caps are completely removed, except for the fuel cell property cap.
3. Certain Plug-In Electric Vehicles acquired after February 17, 2009 and before 2012, qualify for a new credit equal to 10% of the cost. The credit applies to certain two and three-wheeled electric vehicles and low-speed vehicles and is limited to \$2,500.
4. The Alternative Motor Vehicle Credit now includes a 10% credit up to a maximum of \$4,000 for the cost of converting the taxpayer's motor vehicle to a plug-in-electric drive motor vehicle. This credit is allowed in addition to any other available credits applicable to that particular motor vehicle. There is no recapture that applies to a vehicle which ceases to be a pre-existing alternative motor vehicle (for example, a hybrid) as a result of its conversion to a plug-in electric drive motor-vehicle. The credit applies to property placed in service after February 17, 2009, and before 2012.
5. The Alternative Fuel Vehicle Refueling Property Credit allows a credit for the cost of any qualified alternative fuel vehicle refueling property installed at the taxpayer's principal residence. The 2009 Act increased the credit to a maximum of \$2,000 for individuals, effective for property placed in service in 2009 and 2010.

As you can see, there are a several provisions that you may be of benefit to you. We should specifically discuss any planned expenditures before you incur the cost so as to maximize your available tax savings.