

# Accountability

## American Recovery and Reinvestment Act of 2009



May 2009

### President's Message

*Spring has finally arrived! Hopefully, it will be just what we need to stir up a little optimism among us in the aftermath of one very long winter- not to mention the stress the economy has put on us all.*

*It may take until the end of the year before we see signs of improvement in the economy, but hopefully some of the aspects of the American Recovery and Reinvestment Act of 2009 will come to our aid. There are credits for buying your first home or improving your existing one; there is money coming to those of you on social security; there is tax relief for those of you receiving unemployment benefits and tax relief to others of you with paychecks. There appears to be something for everyone for a change.*

*Julie A Huth*

### Highlights of the "American Recovery and Reinvestment Act of 2009"

On February 17, 2009, effective immediately, numerous tax incentives became law. Here are some of the highlights:

#### 1. Tax Credit for Home Energy Efficiency Improvements:

The home energy credit has increased to a maximum amount of \$1500 for 2009 and 2010 installations, with the same type of lifetime cap used in previous years. In other words, you cannot receive a credit of more than \$1500 over the two-year period. If you get a credit of \$500 in 2009, then you can get a credit of \$1000 in 2010.

In order to get the full credit, you must spend \$5000 on qualified improvements because the credit is equal to 30% of the cost. If you spend \$1000, then your credit would be \$300.

The credit is based on qualified building insulation, exterior windows, doors, skylights, central air conditioners, and water heaters (propane, natural gas, or oil) for **existing homes**. The new law has increased the energy performance standards for items placed in service after February 19, 2009; at this time, the U-factor and Solar Gain Coefficient (SHGC) became important. The National Fenestration Rating Council (NFRC) is providing labels for these ratings. Luckily a safe harbor has been provided and homeowners can rely on the old performance standards, energy star ratings and manufacturers certifications before June 1, 2009.

The IRS requires that you keep your receipts and Energy Star, Manufacture's certificates or NFRC labels pertaining to your qualified home improvements, but you **do not** submit copies of them with the tax return.

Another change is a tax credit of 30% on the total cost of solar water heaters, geothermal heat pumps and small wind turbines installed in **new or existing homes** for alternative energy.

For more information, visit [www.energystar.gov](http://www.energystar.gov). If you search "Federal Tax Credits" you will be brought to a page that gives a lot of specific product information.

#### 2. First-Time Homebuyer Credit:

This credit can be very confusing. Our September 2008 newsletter defined the 2008 "first-time homebuyer" as a person that had not had an ownership interest in a

principal residence for a 3-year period before the purchase. The 2008 credit specified that the \$7500 credit was really a no-interest loan that had to be paid back. **This credit still applies to qualified homes purchased from April 9, 2008 to December 31, 2008. At this time, the credit must be paid back in equal installments as previously stated.**

For 2009, the new law offers an expanded First-Time Homebuyer Credit for homes purchased by qualified individuals in 2009. The credit has been increased to \$8000, and it does not have to be paid back unless the home "ceases to be the taxpayer's main residence within a three-year period following the purchase." The credit cannot be claimed before the closing date of the purchase, but taxpayers can claim the credit on their 2008 or 2009 (due April 15, 2010) tax returns. The same definitions apply for the first-time homebuyer. Keep in mind, the credit begins phasing out for single taxpayers who have an adjusted gross income (AGI) greater than \$75,000 and married taxpayers who have an AGI greater than \$150,000.

### **3. First \$2400 of Unemployment Benefits Tax-Free for 2009**

This exclusion applies to every person who receives unemployment benefits for 2009, it does not apply to unemployment benefits received in 2008.

### **4. New Vehicle Sales Tax Deduction**

This deduction applies to vehicles purchased after February 16, 2009. The vehicle must be new, domestic or foreign, and cannot weigh more than 8500 pounds. A deduction allowed on the tax return is equal to the state and local sales tax of the vehicle (with a \$49,500 limit on the purchase price) and will be claimed as an itemized deduction for those who file Schedule A's or will be an addition to the standard deduction for those who do not itemize their deductions. Motor homes can qualify, but sales tax on lease agreements do not qualify.

### **5. Making Work Pay Credit**

For 2009 only, this is a credit against income tax and equals the lesser of 6.2% of earned income or \$400 for single taxpayers, \$800 for married filing joint. This credit phases out for single taxpayers with AGI above \$75,000 and married taxpayers with AGI of \$150,000.

The new withholding tables reflect this credit. If the credit is not taken through wage withholding,

taxpayers within the AGI limits will receive the credit on their 2009 tax return.

**Warning:** You may want to make sure that you are not withholding too much with the new tax tables. If you have more than one job, or are married and both work, you may have too much withheld from your paycheck; in that case you may want to change your W-4. Please check with your payroll department or call us if you have questions about this.

### **6. Cobra Benefits**

If your employment is lost involuntarily between September 1, 2008 and January 1, 2010 and you are entitled to Cobra benefits, you can elect to pay 35% of the coverage and be treated as paying the full amount. The employer providing the Cobra benefits will pay the remaining 65%. The employer will then receive a credit against payroll taxes. Cobra restrictions apply.

### **7. American Opportunity Credit**

The HOPE education credit has been enhanced for 2009 and 2010. It can be used during all four years of college (instead of two) and more taxpayers will be able to claim the credit because the AGI phase-out levels have increased to \$80,000 (single) and \$160,000 (MFJ). The new maximum credit is \$2500 and is based on 100% of the first \$2000 spent and 25% of the next \$2000 spent on college education. Tuition must be paid in 2009 and 2010.

### **8. Social Security Recipients**

A one-time \$250 payment will be received by those receiving 2009 social security or railroad retirement benefits.

## **Important Reminders for 2009 Tax Preparation**

#### **Mileage Rates per mile:**

Business...55.0 cents	Medical....24.0 cents
Charity.....14.0 cents	Moving.... 24.0 cents

#### **Health Savings Accounts:**

Maximum deductible contribution 2009:	
Individual...\$3000	Family...\$5950

#### **Retirement Limits:**

IRA's .....\$5000	over 50.....\$6000
Simple.....\$11,500	over 50....\$14,000
401K..... \$16,500	over 50....\$22,000