



SummerNews

Understanding the New Economic Stimulus Law: How Does It Impact You?

"Making Work Pay" Credit

ARRA provides for an individual tax credit in the amount of 6.2% of earned income, not to exceed \$400 for single returns and \$800 for joint returns in 2009 and 2010. This credit phases out at adjusted gross income (AGI) in excess of \$75,000 (\$150,000 for married couples filing jointly). Eligible taxpayers can claim the credit as a reduction in the amount of income tax that is withheld from a paycheck, or through a credit on a tax return. Under the paycheck withholding option, workers can expect to see approximately \$13.00 per week less withheld from their paychecks starting around June. Next year, the extra take-home pay will be approximately \$7.70 per week.

Expanded Tax-Free Expenses and Credits for Students

For college and graduate school students, as well as their parents and grandparents, ARRA makes two important changes. First, in 2009 and 2010 only, ARRA authorizes you to make distributions from a 529 plan, free of income tax, for the purchase of computer technology or equipment. This includes computers, educational software, internet access, and related services. Prior to ARRA, only distributions for "qualified higher education expenses" were free of income tax. Qualified higher education expenses include tuition, fees, books, supplies, and a limited amount of room and board. Second, ARRA creates the "American Opportunity Credit," a tax credit for up to four years of college or higher education expenses. Applicable for 2009 and 2010 only, the maximum annual credit is \$2,500 per student and includes expenses for required course materials.

Planning Tip: The new American Opportunity credit is available for each college or higher-level student in the household. It is not limited to one credit per household.

Expanded and Increased "First-Time Homebuyer" Credit

Designed to stimulate the real estate market, ARRA provides for a refundable "first-time homebuyer" credit of up to \$8,000 (\$4,000 for unmarried or married filing separately). "First-time homebuyers" are those who have not owned a principal residence during the three-year period prior to the purchase. For married taxpayers, the law tests the homeownership history of both the homebuyer and his/her spouse.

Law Office of Meg Elizabeth Goblet, P.C.

301 W. South Ave., P.O. Box 5499, Woodland Park, CO 80866 ■ 631 N. Weber St., Suite 1, Colorado Springs, CO 80903

Phone: (719)686-9700 ■ Fax: (719)686-9701

www.epcolorado.com ■ meg@epcolorado.com

Sales Tax Deduction for Vehicle Purchases

For eligible taxpayers who buy a new car, light truck, motor home or motorcycle in 2009 and pay state and local sales and excise taxes, ARRA permits a deduction for some or all of this tax. This deduction applies regardless of whether the taxpayer itemizes deductions on their tax return. ARRA limits this deduction to the tax on up to \$49,500 of the purchase price of an eligible motor vehicle. The deduction phases out beginning at \$250,000 AGI for joint filers, \$125,000 for other taxpayers. Purchases before February 17, 2009, are not eligible for this deduction.

Energy Efficiency and Conservation Incentives

Designed to encourage energy efficiency, ARRA provides for a 30% credit (up from 10%) for 2009 and 2010 for the cost of replacing windows and doors with energy efficient ones, installing insulation and installing energy efficient heating and cooling equipment. It also increases the aggregate credit available from \$500 to \$1,500. There is no maximum credit on:

- Electric and solar water property
- Fuel cells (but the eligible expenditure is limited to \$500 [\$1,667 for property occupied by more than one person] for each half kilowatt of capacity installed)
- Small wind and geothermal heat pump property

Planning Tip: It appears that taxpayers who had used up their \$500 lifetime credit can now take an additional \$1,000 credit for qualifying expenditures made during 2009 and 2010. ARRA also provides for a credit equal to \$7,500 (no weight limit) for plug-in electric vehicles and a 10% credit (up to \$4,000) for converted plug-in vehicles. Low-speed vehicles receive a 10% credit (up to \$2,500).

Planning Tip: The energy efficiency, conservation and plug-in vehicle credits are not subject to AGI phase-outs. Therefore, all taxpayers are eligible for these credits.

Enhanced Child Tax Credits

ARRA increases eligibility for the child tax credit for many taxpayers by lowering the annual threshold to \$3,000 from \$8,300. This change to the child tax credit applies to 2009 and 2010 only.

Alternative Minimum Tax (AMT) Patch

ARRA provides for a relatively small, one-year "patch" or extension of the exemption from the Alternative Minimum Tax, but this patch will keep millions of taxpayers out of AMT. As a result of this patch, individuals earning approximately \$85,000-100,000 and married couples filing jointly earning approximately \$150,000-200,000 will be exempt from the AMT in 2009.