

TAX TALK
BY JEFFREY D. SKOLNICK, CPA, M.S. TAXATION

2009 STIMULUS PACKAGE – WHAT’S IN IT FOR ME?

It seems like only yesterday when I was writing an article on the 2008 Stimulus Package, but it has actually been a year and unfortunately the economic climate has continued to decline and thus we have a new stimulus package. There seems to be only one question that unites both republicans and democrats...What’s in it for me? This is an enormous piece of legislation with many provisions. I will outline just a few.

Benefits to Individuals

There are many provisions that have been put in place for individuals including changes to Alternative Minimum Tax (AMT) exemption amounts, education credits, child tax credits, the way unemployment compensation is taxed and more liberal use of Section 529 plan distributions. The three areas that I will address however are the “Making Work Pay Credit”, “New Car Deduction” and “First-Time Homebuyer Credit”.

Making Work Pay Credit

In 2009 and 2010 this provision will provide a refundable tax credit the amount of which is the lesser of 6.2% of earned income or \$400 for working individuals and \$800 for married taxpayers filing jointly. The credit is phased out at a rate of 2% in excess of \$75,000 for individuals and \$150,000 for married taxpayers filing jointly. Most people will receive the credit through a reduction of their withholding tax. Taxpayers may also reduce their estimated tax payments if they are self employed or claim the credit when filing their 2009 tax return. One thing to keep in mind, if you reduce your withholding expecting the credit and then exceed the income threshold you will have to pay the money back with your 2009 tax return. There is a onetime \$250 payment in 2009 for individuals receiving social security or railroad retirement benefits and retired government workers.

New Car Deduction

The new deduction is allowed for state and local sales and excise taxes on qualified vehicles. Qualified vehicles are defined as (1) passenger automobiles, light trucks or motorcycles with a gross vehicle rating of not more than 8,500 pounds and (2) motor homes. Vehicles must be purchased between February 17, 2009 and December 31, 2009 and must be new vehicles. The taxes can only be deducted on the first \$49,500 of the purchase price of a vehicle. A vehicle with a purchase price exceeding \$49,500 is still eligible however the deduction is limited to the sales or excise tax percentage

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multiplied by \$49,500. The deduction phases out for single taxpayers with income between \$125,000 and \$135,000 (\$250,000 - \$260,000 for joint filers). The deduction may also be taken by taxpayers that do not itemize their return. Taxpayers that itemize have the option of taking the deduction as an itemized deduction or an above-the-line deduction depending on their particular situation.

First-Time Homebuyer Tax Credit

This credit is allowed for first time buyers and applies only to principal residences. The credit is calculated as 10% of the purchase price of a home up to a maximum of \$8,000. Unlike the credit instituted by the 2008 stimulus package, this credit does not have to be repaid as long as the home is not sold for 36 months.

Conclusion

This article addresses only a few of the many provisions of the 2009 Stimulus Package. The package, as I mentioned earlier, is huge and as always if you're not sure of the rules, then check with a tax professional.