

## ARRA Provisions that Could Affect 2009 Tax Returns

The bulk of tax provisions in the American Recovery and Reinvestment Act affect tax year 2009 — individual tax returns due April 15, 2010 — and tax year 2010 — individual tax returns due April 15, 2011.

**Deduction for taxes paid on new vehicle purchase.** Taxpayers who buy a car, light truck, motor home or motorcycle in 2009 may be able to [deduct the state and local sales and excise taxes](#) they paid on their 2009 income tax returns. This deduction is limited to taxes paid on the first \$49,500 of the purchase price.

**Credit for higher education expenses.** The new [American Opportunity Credit](#) modifies the existing Hope Credit for tax years 2009 and 2010, making it available to a broader range of taxpayers, including many with higher incomes and those who owe no tax. It also adds required course materials to the list of qualifying expenses. Many of those eligible will qualify for the maximum annual credit of \$2,500 per student — \$500 more than the previous maximum credit.

**Section 529 plans cover computers.** Funds from section 529 college savings plans can be used to pay for a computer bought in 2009 or 2010, if the computer is used for college work.

**Some unemployment benefits tax exempt in 2009.** Normally, unemployment compensation is taxable. [But up to \\$2,400 in unemployment compensation received in 2009 will be exempt from taxes.](#)

**Health insurance continuation (COBRA) subsidy.** Workers who have lost their jobs may [qualify for a 65 percent subsidy from their former employers for COBRA continuation premiums](#) for themselves and their families for up to nine months. Eligible workers will have to pay the remaining 35 percent of the premium to their former employers. To qualify, a worker must have been involuntarily terminated between Sept. 1, 2008, and Dec. 31, 2009, and the former employer must still be in business and offer health benefit coverage.

Workers who lost their jobs between Sept. 1, 2008, and Feb. 16, 2009, but did not initially choose COBRA coverage or initially chose COBRA coverage and dropped it before Feb. 17, 2009, get an additional 60 days to elect COBRA and receive the subsidy.

The subsidy starts to phase out for individual taxpayers with adjusted gross income in excess of \$125,000 for individuals or \$250,000 for married couples filing jointly.

**Reduced Income Tax Withholding.** For 2009 and 2010, the [Making Work Pay](#) provision of ARRA provides a refundable tax credit of up to \$400 for working individuals and \$800 for married taxpayers filing joint returns.

For people who receive a paycheck and are subject to income tax withholding, the credit will typically be received through an automated reduction of income tax withholding by the employer beginning in early spring 2009. These changes may result in an increase in take-home pay.

This tax credit starts to phase out for individual taxpayers with adjusted gross income in excess of \$75,000, or \$150,000 in the case of married couples filing jointly.

A taxpayer who does not have taxes withheld by an employer during the year can claim the credit on his or her tax return.

It is not necessary to submit Form W-4 to get the automatic withholding change. However, an employee with multiple jobs or married couples whose combined incomes place them in a higher tax bracket may decide to submit a revised W-4 to ensure enough withholding is held to cover tax on the combined incomes. [Publication 919](#) provides additional guidance for adjusting your tax withholding. IRS also has a [withholding calculator](#) that could be helpful.

**Additional Child Tax Credit.** The child tax credit has been [amended to increase eligibility for the refundable portion of the child tax credit for 2009 and 2010](#). For both years, the refundable portion of the child tax credit is calculated based on 15 percent of the taxpayer's earned income in excess of \$3,000. In contrast, for 2008, the refundable portion of the child tax credit is calculated based on 15 percent of the taxpayer's earned income in excess of \$8,500.

**Earned Income Tax Credit.** ARRA provides a temporary increase in the [Earned Income Credit](#) for a taxpayer with three or more qualifying children, and provides additional marriage penalty relief for 2009 and 2010 tax returns.

**Economic Recovery Payment.** A [one-time payment of \\$250 will be made in 2009](#) to:

- Retirees, disabled individuals and Supplemental Security Income (SSI) recipients receiving benefits from the Social Security Administration
- Disabled veterans receiving benefits from the U.S. Department of Veterans Affairs
  - Railroad Retirement beneficiaries

Unlike last year under the economic stimulus program, recipients of the economic recovery payment will not receive it from the IRS. Individuals who may qualify for this year's economic recovery payment do not need to file a return to receive the payment and should contact their respective agency for more information.

The [Social Security Administration Web site](#) has a special section on the [Economic Recovery Payment](#).

The Economic Recovery Payment will reduce any Making Work Pay credit for which the recipient qualifies.

**Qualified Transportation Fringe Benefits.** The [monthly tax exclusion for employer-provided commuter highway vehicle transportation and transit pass benefits increased to \\$230](#), effective from March through December 2009.

Employees may exclude from income \$230 per month in transit benefits and \$230 per month in parking benefits — up to a maximum of \$460 per month. Employees may receive benefits for commuter transportation and transit passes and benefits for parking during the same month; they are not mutually exclusive.

These qualified transportation fringe benefits are excluded from an employee's gross income for income tax purposes and from an employee's wages for payroll tax purposes.