



The Professional Tax Solution

Incentives for Individuals

Tax breaks and credit enhancements for individuals include a refundable “making work pay” credit, an increased first-time homebuyer credit, enhanced earned income and child tax credits, a deduction for taxes paid on new vehicles, and an improved education credit. Also included in the Recovery Act is a one-year AMT patch.

Making Work Pay

The Making Work Pay Credit is a refundable income tax credit for tax years beginning in 2009 and 2010. The credit is the lesser of (1) 6.2% of the individual’s earned income, or (2) \$400 (\$800 for MFJ). This credit is available, in full, to workers with a modified AGI of \$75,000 (\$150,000 for MFJ) or less. Above that amount, the credit will be phased out at a rate of 2%. **Note:** The credit does not apply to any individual whose tax return does not include a Social Security Number.

An employee can take the credit through reduced wage withholdings or in a lump sum when filing his or her annual income tax return. An employer’s share of FICA (or its 6.2% equivalent) would remain unchanged.

The credit applies to self-employment earnings to the extent that they’re considered in computing taxable income.

Economic Recovery Payment

Under the Recovery Act, certain fixed-income individuals (such as disabled veterans, railroad retirees, Social Security recipients, and certain government workers) will receive a one-time recovery payment of \$250 in 2009. For individuals who receive both this payment and the Making Work Pay Credit, the Making Work Pay credit will be reduced by the \$250 payment.

First-Time Homebuyer Credit

For home purchases made after December 31, 2008, the new law raises the first-time homebuyer tax credit to \$8,000 (from \$7,500) and extends that credit to November 30, 2009. Any required repayments to IRS are eliminated after 36 months in the home. Phase-outs begin for individuals with AGI greater than \$75,000 (\$150,000 for MFJ) for the year of purchase. (Phase-outs apply for both 2008 and 2009.)

A taxpayer who bought a home on or after April 9, 2008, and before January 1, 2009, will not qualify for the new homebuyer credit; the purchase will continue to be governed by the original 2008 first-time homebuyer credit.

Temporary Tax Deduction on Car Purchases

Purchasers of new vehicles will get an above-the-line deduction for the state sales taxes, local sales taxes, and excise taxes paid. To qualify, a vehicle must be newly purchased for first use by the taxpayer and must (1) be a passenger vehicle, light truck, or motorcycle with a gross weight of no more than 8,500 pounds, or (2) be a motor home.

Deductible taxes cannot exceed the portion attributable to the first \$49,500 of the price paid for any single vehicle. Phase-outs start for individuals with AGI greater than \$125,000 (\$250,000 for MFJ).

American Opportunity Tax Credit (Hope Credit)

The Hope Credit, which is being renamed to the American Opportunity Tax Credit, has been enhanced in the following ways under the new law:

- Amount increased to a maximum of \$2,500 (from \$1,800) per eligible student per year
- Modified rate of 100% of the first \$2,000; 25% of the next \$2,000, with a maximum \$2,500 per year allowed on \$4,000 in qualifying payments
- Forty percent of the credit will be refundable for 2009 and 2010
- Credit will now apply for all four years of college
- Qualifying expenses will now include course materials
- Phase-out level increased to \$80,000 AGI (\$160,000 for MFJ)

Qualified Tuition Programs (“529 Plans”)

For 2009 and 2010, a beneficiary of a qualified tuition program can use distributions to pay for computers and computer technology (including internet). Distributions will be tax-free. Previously, these expenses were not tax-free and were included in the beneficiary’s income and subject to penalty.

Earned Income Tax Credit

For 2009 and 2010, EITC percentage will be increased to 45% of the first \$12,750 of earned income for taxpayers who have three or more qualifying children. (Prior to the new law, the credit percentage was 40% of the first \$12,750 for taxpayers with two or more qualifying children.) In addition, the EITC phase-out range has been adjusted upward by \$1,880 to eliminate any marriage penalty for joint filers.

Child Tax Credit

For 2009 and 2010, the refundable part of the child tax credit will be increased. The income threshold will now be set at \$3,000.

Unemployment Compensation

Generally, a taxpayer’s gross income must include all unemployment compensation benefits received. Under the new law, in 2009 only, up to \$2,400 of unemployment compensation will be excluded from gross income for federal income tax purposes.

Transit Benefits Parity

Transit passes, van pooling, qualified parking, and other qualified transportation fringe benefits are not typically included employee income up to a certain dollar amount. Under the new law, this dollar amount will be increased to \$230 per month (up from \$120) for transit passes and van pooling. This increased exclusion goes into effect in March 2009. It will continue through 2010 with adjustments made for inflation.

AMT Patch

The new law provides for an alternative minimum tax (AMT) patch for 2009. The following table shows the differences in exemption from 2008 to 2009.

	MT Patch Exemption Amounts	
	2008	2009
Joint filers and surviving spouses	69,950	70,950 (up \$1,000)
Singles and heads of households	46,200	46,700 (up \$500)