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# AVIATOR TAX TALK<sup>SM</sup>

CATERING TO THE UNIQUE TAX NEEDS OF THE AVIATION PROFESSIONAL



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## SPECIAL EDITION

### Summary of the American Recovery and Reinvestment Tax Act of 2009

President Obama signed into law on February 17, 2009 a massive, historic ‘stimulus’ bill aimed to curtail the downward economic spiral. Tax cuts are a large part of the overall stimulus package, comprising over 35 percent of its roughly \$800 billion price tag. In all, the new law makes over 300 changes to the Internal Revenue Code in more than 50 major provisions. The tax provisions add many new tax breaks and significant enhancements to existing deductions and credits.

### Highlights of the Stimulus Bill

- A new Making Work Pay credit
- A 2009 alternative minimum tax (AMT) patch
- Taxpayer-friendly additions to many energy incentives
- New automobile sales tax deduction
- Education expense benefits
- Enhancements to the child tax credit and first-time home buyer credit



President Obama signs the Stimulus Bill

### Making Work Pay Credit

The Making Work Pay credit allows a credit against income tax in an amount equal to the lesser of 6.2 percent of the individual’s earned income or \$400 (\$800 for married couples filing jointly). The credit applies retroactively to the start of 2009 and will be repeated again in 2010. The credit applies in full for individuals whose modified adjusted gross income (MAGI) does not exceed \$75,000 or \$150,000 in the case of married couples filing jointly. The credit is phased out at a two percent rate above that limit. Qualified taxpayers will take this credit through a reduction in wage withholding or in a lump sum when filing their returns for the tax year.

***Only individuals with earned income would qualify for the Making Work Pay credit, which would effectively offset an individual’s share of FICA (social security) payroll taxes for the first \$6,452 in earnings (\$12,904 for couples).***

For retired individuals without earned income, there is still something for you. The “***\$250 Economic Recovery Payment***” law provides a one-time payment of \$250—for 2009 only—to individuals on fixed incomes (primarily Social Security recipients, railroad retirees, and disabled veterans). Retired government workers, who generally are ineligible for Social Security, also will receive one-time payments of \$250. These payments will reduce any Making Work Pay credit to which the individual would otherwise be entitled. The logistics of this payment have not been announced.

### AMT Patch

The new law includes an AMT patch designed to insulate approximately 26 million middle-income taxpayers from the reach of the AMT. The AMT patch costs roughly \$70 billion, and is only effective for the 2009 tax year. The AMT patch for 2009 raises exemption amounts slightly above the 2008 patch levels. The 2009 AMT exemption amounts are: \$70,950 for joint filers and surviving spouses (up from \$69,950 in 2008); and \$46,700 for singles and heads of households (up from \$46,200).

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All topics provide general information only. Contact a tax professional to see how they may apply to your tax situation.

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## New Car Deduction

A surprise provision arriving late in drafting the stimulus package allows purchasers of new vehicles for the rest of 2009 an above-the-line deduction for state and local sales taxes or excise taxes paid on the purchase. The new law puts two limits on this new deduction: (1) Deductible sales or excise taxes cannot exceed the portion of the tax attributable to the first \$49,500 of the purchase price of any one vehicle; and (2) Any deduction will be phased out to the extent the purchaser has adjusted gross income exceeding \$125,000 (\$250,000 for joint returns).



For those of you living in states with no income tax, this law is superior to the deduction already taken for sales tax paid as an itemized deduction. Because it is considered “above-the-line”, it means you can deduct it whether or not you itemize, and it also lowers your adjusted gross income which might lead to other tax benefits.

This law is not retroactive, so the car purchase must take place between February 17 and December 31, 2009. Any new car, foreign or domestic, is included, as well as motorcycles and motor homes. If the car weighs more than 8500 pounds, or is used, it will not qualify for the deduction.

## Education Incentives



The HOPE credit (renamed the “American Opportunity Tax Credit”) is significantly expanded in phase-out level, scope and amount. It is now available for higher income families (phase-out level increased to \$80,000/\$160,000 joint filers). It is extended to all four years of college and adds course materials to qualifying expenses. The amount of credit increased as well – from a maximum \$1,800 to \$2,500 per year. The maximum \$2,500 per year credit would be allowed on \$4,000 in qualifying payments (100 percent of the first \$2,000 and 25 percent of the next \$2,000).

For 2009 and 2010 the new law allows beneficiaries of qualified tuition programs (aka “529 Plan”) to use tax-free distributions to pay for computers and computer technology, including internet access. Formerly, the tax-free distributions could only pay for qualified tuition and fees.

## New Homebuyer Credit

The new law raises the current maximum \$7,500 first-time homebuyer tax credit to \$8,000, and extends it at that level through November 30, 2009. It also eliminates any required repayment to the IRS after 36 months in the home. These enhancements apply to purchases of a principal residence by a first-time homebuyer after December 31, 2008. Purchases on or after April 9, 2008, and before January 1, 2009, continue to be governed by the original first-time homebuyer credit enacted last year (which has a pay-back provision). The credit phase-outs that start for taxpayers with AGI in excess of \$75,000 (\$150,000 for joint filers) continue to apply to both years.

## Energy Credits

Existing homeowners can get a tax credit of up to \$1,500 by making their homes more energy-efficient in 2009 or 2010. Numerous projects qualify, such as installing energy-efficient windows, doors, furnaces, and air conditioners, or adding insulation. Homeowners can get back 30 percent of their expenses, up to \$1,500. The \$500 lifetime cap is eliminated, and the changes are effective for property placed in service after December 31, 2008, and before January 1, 2011.



## Other Highlights

- Tax-free unemployment benefits up to \$2,400. Required Cobra payments just 35% if separated from service between September 1, 2008, and January 1, 2010.
- Increase to the refundable portion of the child tax credit for 2009 and 2010 by setting the income threshold at \$3,000. “Refundable” means you may be eligible for the credit, even if you don't pay income taxes.
- The earned income credit (one of the government's largest anti-poverty programs) is increased in amount for qualifying low income families with three or more children that pay no income taxes.
- Decrease in required estimated tax payments for those earning over 50% of income as self-employed.

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