

TALK POINTS for SPEC Employees and Partners

American Recovery and Reinvestment Act of 2009 (ARRA)



Key Messages:

- On 2/17/09 the American Recovery and Reinvestment Act of 2009 (ARRA) was signed by the President. (P.L. 111-5)
- **Making Work Pay Credit:** Payroll checks may increase this Spring with new withholding tables taking effect soon. Employees who have more than one job or married couples filing jointly may need to submit a revised Form W-4 to their employer to avoid underwithholding.
- **\$250 Economic Recovery Payment will be paid directly to recipients of certain benefits from SSA, Dept of Veterans Affairs, or Railroad Retirement Board.** The IRS will not be making this payment. Those with no filing requirement do not have to file a tax return for this payment.
- **First-time Homebuyer Credit was amended for purchases in 2009. Now qualifying homebuyers can claim a credit up to \$8,000 with no repayment requirement.**
- **Sales Tax paid for certain new cars purchased in 2009 may be deducted by taxpayers.**

March 2009

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These talking points were developed to assist SPEC employees and Partners in explaining the key provisions of the American Recovery and Reinvestment Act of 2009.

American Recovery and Reinvestment Act of 2009

On Tuesday, February 17, 2009, P.L. 111-5 (H.R.1), the *American Recovery and Reinvestment Act of 2009* (ARRA), was signed into law by the President. ARRA includes key provisions that impact individuals and families. ***In general the provisions do not impact tax returns for 2008.*** The exception is the First-time Homebuyers Credit that is outlined later in these talk points.

Making Work Pay Credit

For 2009 and 2010, the Making Work Pay provision of ARRA will provide a refundable tax credit of up to \$400 for working individuals and \$800 for married taxpayers filing joint returns. This tax credit will be calculated at a rate of 6.2 percent of earned income and will phase out for taxpayers with adjusted gross income in excess of \$75,000, or \$150,000 for married couples filing jointly.

For taxpayers who receive a paycheck and are subject to income tax withholding, the benefit of the credit will typically be received through an automated reduction of income tax withholding by the employer, beginning in early Spring. IRS has issued updated withholding tables (revised Publication 15-T available on IRS.gov) to implement these withholding adjustments. These changes may result in an increase in take-home pay. However, the amount of the credit still must be claimed on the employee's income tax return (e.g., on the 2009 return filed in 2010). Taxpayers who do not have taxes withheld by an employer during the year can claim the credit on their tax return.

Caution: Employees do not have to submit a Form W-4, Employee Withholding Certificate, to get the automatic withholding change. *However, some employees may not want their withholding reduced. Taxpayers who have more than one job or married couples whose combined income place them in a higher tax bracket may elect to submit a revised Form W-4 to make sure they have enough income tax withheld. For example:*

1. John works two jobs all year earning approximately the same income for each job. When John files his return he may owe additional taxes because his withholding was reduced at each of his jobs for a combined amount greater than the credit.

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2. Mary and Tom are married and both work. Their combined income puts them in a higher tax bracket and they may owe additional taxes when they file their return.

With the economic downturn more taxpayers may have multiple jobs and potential underwithholding. These taxpayers may be facing a balance due on their 2009 tax return because of the underwithholding. Taxpayers may not realize they could be underwithheld or may not know they can submit a revised Form W-4 to their employer.

To avoid underwithholding, these employees may claim fewer withholding allowances on Form W-4, line 5 or request additional amount to be withheld on line 6. For additional help, employees can obtain Publication 919, How Do I Adjust My Tax Withholding? or visit the IRS website at www.irs.gov and use the "Withholding Calculator."

The new withholding tables also apply to certain pension payments unless the recipient has elected no withholding. As noted, the new tables incorporate the benefits of the credit which is based on earned income. Pension payments are not considered earned income for purposes of the credit. Therefore, a pension recipient with no earned income would not be eligible for the credit (see exception for Government pensioners below) and may not have enough tax withheld from his or her pension benefits to cover his or her tax liability on those payments. Therefore, it is recommended that pension recipients evaluate their expected tax liability for the year and consider whether they need to make estimated tax payments or adjust their withholding on Form W-4P.

Social Security Recipients, Veterans and Railroad Retirees

The Economic Recovery Payment is a one-time payment in 2009 of \$250 which will be paid to recipients of certain benefits administered by the Social Security Administration, Department of Veterans Affairs and the Railroad Retirement Board. Individuals *do not* have to file a tax return to get this payment. The IRS will not make this payment. Individuals who may qualify for the economic recovery payment should contact their respective agency for more information. This one-time payment is a reduction to any Making Work Pay credit.

Special Credit for Certain Government Retirees

There will be a one-time refundable \$250 credit in 2009 for certain government retirees who are receiving a pension from work not covered by Social Security and are not eligible for the economic recovery payment. This one-time credit is taken on the 2009 return filed in 2010 and is a reduction to any Making Work Pay credit.

First-time Homebuyer Credit Amended for 2009

This provision extends the existing homebuyer credit for qualifying home purchases before December 1, 2009. For purchases in 2009 taxpayers can qualify for a refundable credit of up to \$8,000 (\$4,000 for married filing separately) and generally do not have to repay the credit for qualifying home purchases after December 31, 2008, and before December 1, 2009.

Important note for 2008 Tax Returns:

For qualified home purchases after **12/31/2008 and before 12/1/2009**, taxpayers can elect to take the credit on their 2008 tax return. The Form 5405, First-time Homebuyer Credit, has been revised to reflect the provisions of the new legislation. Form 5405 is available on IRS.gov. *Homes purchased 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. The 2008 law includes the repayment requirement and is limited to \$7,500.*

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Sales Tax For Purchase of a New Vehicle

For 2009 there will be an additional deduction for state and local sales and excise tax on the purchase of certain new vehicles. A qualified motor vehicle must be new (original use must commence with taxpayer) and includes a passenger automobile or light truck, a motorcycle, or a motor home. Purchases before Feb. 17, 2009, are not eligible for this special deduction.

Deductible sales and excise taxes cannot exceed the portion of the tax attributable to the first \$49,500 of the purchase price on any one vehicle and the deduction phases out with income of \$125,000 (\$250,000 on a joint return). The deduction is allowed for nonitemizers.

Other Provisions of ARRA

The following are highlights of some of the other provisions of this new law.

- Temporary increase in earned income credit.
- Temporary increase in refundable portion of child tax credit.
- American Opportunity Tax Credit which makes temporary changes to the education credits (also known as Hope Credit). A portion will be refundable.
- A portion of unemployment compensation (\$2,400) can be excluded on a taxpayer's 2009 tax return.
- Energy conservation incentives
- Alternative Minimum Tax (AMT) relief extended for 2009
- A 65 percent subsidy for COBRA continuation coverage for up to nine months for certain workers who are involuntarily terminated from their jobs

More Details on IRS.gov

These talk points outline the major provisions of the new legislation that recently have been publicized. For more information you can go to www.irs.gov. Updates are posted as additional information becomes available, so review the website often for the latest information.

ARRA provisions will also be included in **Publication 553, Highlights of 2008 Tax Changes**. Look for this publication scheduled to be available during the month of April. IRS forms and publications are available on IRS.gov.