



www.rotzandstonesifer.com

1134 Kennebec Drive
Chambersburg, PA 17201
(717) 264-5961
Fax (717) 264-7377

190 Arsenal Road
York, PA 17404
(717) 854-3700
Fax (717) 854-3701

643A E. Baltimore Street
Greencastle, PA 17225
(717) 597-8724
Fax (717) 597-4043

104 Locust Street
East Berlin, PA 17316
(717) 259-0090
Fax (717) 259-0090

The American Recovery and Reinvestment Act of 2009 (ARRA) includes several brand new tax incentives, as well as changes to existing tax provisions. Some of the changes created as a result of this tax act are summarized below.

Making Work Pay Credit - The ARRA provides eligible individuals with a refundable income tax credit of 6.2% of their earned income up to \$400 (\$800 for married filing jointly) for 2009 and 2010 called the Making Work Pay Credit. The credit will be implemented through revised federal income tax withholding schedules, so most taxpayers with withholdings will see a reduction in their tax withheld, beginning April 1, 2009 at the latest. Taxpayers who have earned income, but are not subject to federal income tax withholding, will generally receive the credit on their 2009 tax return; estimated tax payments may be reduced to receive the credit in advance. This credit phases out for taxpayers with modified adjusted gross income over \$75,000 (\$150,000 for married filing jointly).

Economic Recovery Payment - In 2009, a \$250 one-time payment will be issued to qualifying recipients of social security, SSI, railroad retirement, or veteran's disability or pension benefits. To qualify for the one-time payment, an individual must have been eligible for one of the four benefit programs in November 2008, December 2008, or January 2009. Recovery payments will be distributed by each respective governmental agency (the Social Security Administration, Railroad Retirement Board, and Department of Veterans Affairs). Any allowable making work pay credit will be reduced by the one-time recovery payment. It is anticipated that economic recovery payments will be distributed in the spring of 2009.

First-time Homebuyer Credit - The First-Time Homebuyer credit has been increased to equal 10% of the purchase price of the principal residence, up to \$8,000 (\$4,000 for married filing separately) for homes purchased after December 31, 2008 and before December 1, 2009. Principal residences purchased after December 31, 2008, are not subject to any credit repayment if the home remains the principal residence of the taxpayer for 36 months. Homes purchased prior to January 1, 2009 remain subject to the requirements of the Housing Assistance Act of 2008.

New sales tax deduction for vehicle purchases - There is a new deduction for state and local sales taxes paid on the purchase of a new car, light truck, motor home or motorcycle after February 16, 2009 and before January 1, 2010. This deduction is generally available whether or not you itemize your deductions. The deduction begins to phase out at modified adjusted gross income over \$125,000 (\$250,000 married filing jointly).

Earned Income Credit Changes - For 2009 and 2010, the earned income credit is increased to 45% for families with three or more qualifying children. This increased percentage may result in up to an additional \$628.50 earned income credit for families with three or more qualifying children. The earned income credit for two children, one child, or no children remains at 40%,

34%, and 7.65%, respectively. The phase-out amounts for married couples filing jointly used to determine the allowable earned income credit increases from \$3,000 to \$5,000 for 2009 and 2010. This increase may result in a larger earned income credit for some jointly filed returns.

Refundable Child Tax Credit - The ARRA lowers the earned income threshold used to determine the refundable portion of the child tax credit from \$8,500 (for 2008 returns) to \$3,000 (for 2009 and 2010 returns). This decrease may result in increased credit availability for certain low-income individuals, as well as a larger credit for those already eligible for the credit.

Estimated Tax Payments for Small Businesses - ARRA reduces the required annual payment of estimated taxes for certain qualified individuals with small businesses to the lesser of (1) 90% of the tax shown on the return for 2009, or (2) 90% of the tax shown on the return for 2008. A qualified individual with a small business earns less than \$500,000 (\$250,000 if married filing separately) and at least half of the gross income on their 2008 return is from a small trade or business which employs no more than 500 people.

AMT relief - The exemption amounts for alternative minimum tax (AMT) calculations have been increased for 2009 to \$46,700, \$70,950 if married filing jointly or qualifying widow(er), or \$35,475 if married filing separately. Also extended for 2009 is the tax provision that allowed most nonrefundable personal credits to be claimed up to the sum of regular and AMT.

2008 net operating losses (NOLs) for small businesses eligible for special carryback periods - ARRA allows NOLs generated in 2008 to be carried back 3, 4, or 5 years for qualifying small businesses (gross receipts of \$15 million or less). Taxpayers must elect the special carryback treatment on the original tax return filed by the due date of the return, including extensions.

American Opportunity Tax (Hope Education) Credit - For 2009 and 2010, taxpayers can claim a tax credit up to \$2,500 of the cost of tuition and related expenses for the first four years of post-secondary education in a degree or certificate program. The credit is based on 100% of the first \$2,000 in qualified expenses and 25% of the next \$2,000. The definition of qualifying expenses is expanded to include textbooks and the credit is now available for up to four years instead of only the first two years of college. The phase-out range of this credit was expanded so more taxpayers are eligible. The phase-out range starts at modified adjusted gross income of \$80,000 (\$160,000 for married filing jointly). The Hope Credit was only available as a non-refundable in the past, but now families that don't owe taxes may receive a refundable credit of up to a maximum of \$1,000 per student.

Computers allowed as education expense - Beginning in 2009 and 2010 computers and related technology qualifies as a qualified education expenses in 529 education plans.

Tax break for the unemployed - Under ARRA, an individual does not have to pay tax on up to \$2,400 in unemployment benefits received in 2009.

Health Coverage Tax Credit - Under pre-Act law, the Health Coverage Tax Credit (HCTC) is equal to 65% of qualifying health insurance paid for eligible coverage months. The ARRA increases the amount of the HCTC to 80% of premiums paid for qualified health insurance, beginning in May 2009.

Effective tax planning requires a year-round effort each year, especially as your overall financial position changes. If you wish to discuss the provisions affecting you as well as the available tax strategies that would be appropriate to minimize your tax liability and maximize your tax savings, please give us a call at 717-264-5961 to set up an appointment.

Rotz & Stonesifer, P.C.