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The American Recovery and Reinvestment Act of 2009

Introduction

During the early part of 2009, the economy in the United States faced a dire situation. The scenario unfolding was one of high unemployment, tight credit, low consumer spending, bankruptcies, foreclosures, and health insurance issues. To work its way out of the problem, the United States Congress and the President, enacted The American Recovery and Reinvestment Act of 2009. Along with various spending provisions, the following tax incentives were enacted and are important to point out, because some of them expire soon.

First-Time Homebuyer Credit

In short, the house being purchased must be closed on by November 30, 2009, as it is set to expire. It applies to home purchasers who have not previously owned a home in the past 3 years. The credit is for up to \$8000, representing 10% of the purchase price. The \$8000 credit does not have to be paid back if the home is lived in for three years by the buyers. If the home is sold in the interim 3 years, the credit must be paid back.

New Vehicle Purchases

The Act allows buyers of new cars and light trucks to deduct the state and local sales taxes paid regardless of whether the taxpayer itemizes or not. For taxpayers in states with no sales taxes, the Act provides for other fees paid to be deducted. This provision expires December 31, 2009.

Education Benefits

To defray the costs of ever increasing higher education, the Act increases the amounts and income levels associated with the Lifetime Learning Credit and Hope Learning Credit.

Unemployment Benefits

Normally all unemployment benefits are taxable. Since 2009 was a hard year for the employment scene, the Act allows the first \$2400 of unemployment benefits to be tax free. This exemption applies only to benefits earned in 2009.

Energy Efficiency & Renewable Energy Incentives

The Act provides numerous opportunities for businesses and individuals to invest in and save money on energy through purchasing energy efficient property. Generally the deadlines have been extended for both businesses and individuals. Those looking to replace air conditioning units, heaters or other units as well as adding insulation, etcetera

are well advised to check specifications of the product they are buying to ensure the purchase is deductible.

Making Work Pay Tax Credit

This is a tax credit in the amount of \$400 for an individual or \$800 for a married couple. It reduces the amount of withholdings taken out of each paycheck meaning more take home pay and potentially less taxes being due at the end of the tax year. This credit applies during 2009 as well as 2010.

COBRA: Health Insurance Continuation Subsidy

Because of the health insurance and employment situation, relief for those who go unemployed is effectuated in the form of a tax credit. For those going on COBRA policies, employees can receive up to 65% of their premiums reimbursed by the government. To qualify, the employee must have been involuntarily separated from employment between September 1, 2008 and December 31, 2009.

Conclusion

While America is going through difficult financial and economic times, the government remains sensitive to the plight of its people. Many political analysts believe this is only round one of a series of new laws to come out of Congress to encourage recovery and uplift new policies to fight the recession / economic downturn. The Center closely follows tax laws, trends, and the economy that are vital to its clients. If you are looking to buy or sell a business, or are concerned how any of the above tax provisions affect your business, contact the professionals at The Center for all of your financial, legal, and tax concerns.

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Dr. Basi's Recently Published Articles:

The Internet & Sales Tax, Floor Covering News, Sept. 2009

On Arbitration, Distributor's Link, Fall 2009

Dr. Basi's Speaking Schedule:

November 4 – Tampa, Florida
Business Brokers of Florida

November 19-21 – Reno, Nevada
Speaking at IBBA

Basi, Basi & Associates at The Center for Financial, Legal & Tax Planning, Inc.

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