



## flash International Executive Alert

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### AMERICAN ECONOMIC RECOVERY ACT HAS SEVERAL PROVISIONS FOR INDIVIDUALS

by KPMG LLP's Washington  
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Washington, D.C. (KPMG LLP  
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H.R. 1, the *American Recovery and Reinvestment Act of 2009* ("the act") signed by President Obama on February 17, contains spending and tax provisions intended to boost the U.S. economy.<sup>1</sup> We highlight below the important individual tax provisions in the act.

**Making Work Pay Tax Credit:** A refundable tax credit is allowed in 2009 and 2010 for 6.2 percent of earned income, up to \$400/\$800 (single/joint filers). It can be claimed either as a reduction in withholding or as a credit on the tax return. The credit is equivalent to an offset of the OASDI (FICA) payroll tax. It phases out at a rate of 2 percent for taxpayers with AGI above \$75,000 (single filers) and \$150,000 (for married couples filing jointly). Nonresident aliens are excluded from the definition of eligible individual.

**Economic Recovery Payment:** The act provides a one-time payment of \$250 to retirees, disabled individuals, and Social Security Income (SSI) recipients receiving benefits from the Social Security Administration; disabled veterans receiving Veterans Administration benefits; Railroad Retirement beneficiaries; and certain federal and state retirees whose pensions or annuities do not include OASDI benefits and who are not otherwise eligible for the \$250 payment. The Economic Recovery Payment would reduce any applicable Making Work Pay credit.

#### Unemployment Benefits:

- **Temporary Suspension of Taxation of Unemployment Benefits** -- Under current law, all federal and state unemployment benefits are subject to taxation. Under the act, the first \$2,400 of unemployment benefits per recipient received in 2009 is not subject to tax.
- **Extension of Emergency Unemployment Compensation** -- Through December 31, 2009, the act continues the Emergency Unemployment Compensation program, which provides up to 33 weeks of extended unemployment benefits to workers exhausting their regular benefits.

**Extension of AMT Relief for 2009:** The act allows individuals to offset the entire 2009 regular tax liability and AMT liability with non-refundable personal credits. The act also increases the AMT exemption amount for 2009 to \$70,950 for joint filers, \$46,700 for unmarried individuals, and \$35,475 for married individuals filing separately.

**Sales Tax Deduction for Motor Vehicle Purchases:** The act adds sales and excise taxes paid or accrued on the purchase of qualified motor vehicles during calendar year 2009 to the list of taxes allowable as an itemized deduction. (It is allowed in addition to the deduction for state income tax paid.) In addition, taxpayers claiming the standard deduction also may claim the Motor Vehicle Sales Tax deduction. The deduction is phased out for taxpayers with AGI above \$125,000/\$250,000 (singles/joint filers). The deduction is not an adjustment for AMT purposes.

**Plug-In Electric Drive Vehicle Credit:** The act modifies the credit for plug-in electric drive motor vehicles created by the *Energy Improvement and Extension Act of 2008*. The act increases the number of vehicles that qualify for the credit from a total of 250,000 for the industry as a whole to 200,000 **per manufacturer**. It creates an alternative credit for low-speed and two- or three- wheel plug-in vehicles of up to \$2,500 (through 2010) and a credit for the purchase of a kit to convert hybrid automobiles to plug-in hybrid vehicles of up to \$4,000 (through 2011).

**Increase in Earned Income Tax Credit:** The act temporarily increases the earned income credit for working families with at least three children. Under current law, working families with at least two children qualify for a credit of 40 percent of the family's first \$12,570 of earned income. The act increases the credit to 45 percent for families with at least three children for 2009 and 2010. It increases the phase-out for all joint filers (regardless of the number of children) to \$5,000 above the amount for all other filers for 2009 and 2010 (the \$5,000 amount is indexed for inflation for tax years beginning in 2010).

**Refundable Child Tax Credit:** For 2008, the child tax credit is refundable to the extent of 15 percent of the taxpayer's earned income above \$8,500. Under the act, the floor falls to \$3,000 for 2009 and 2010.

**American Opportunity Education Tax Credit:** The act modifies the Hope Credit for 2009 and 2010 by allowing a credit of up to \$2,500 for qualified tuition and related expenses per eligible student per year for the first four years of post-secondary school education – 100 percent of the first \$2,000 and 25 percent of the next \$2,000 of tuition and related expenses paid during the tax year. The credit phases out for taxpayers with AGI between \$80,000 and \$90,000 for single filers (\$160,000-\$180,000 for joint filers). The credit is 40 percent refundable (except in the case of some dependent children filing their own returns), and can be claimed against the Alternative Minimum Tax.

#### **KPMG Note**

The American Opportunity Education Tax Credit not only increases the dollar value of the Hope Credit but also extends the credit for two additional years in the case of individuals who have not completed the first four years of post-secondary education before the beginning of the fourth taxable year.

**Computers as Qualified Education Expenses in 529 Education Plans:** The act broadens qualified education expenses for purposes of a section 529 plan to include expenses on computers and computer technology for 2009 and 2010.

**Refundable First-Time Home Buyer Tax Credit:** *The Emergency Economic Stabilization Act of 2008* created I.R.C. section 36, which provides first-time home buyers with a refundable tax credit equal to 10 percent of the purchase price of a home (up to \$7,500). Although the credit had to be repaid over 15 years (or less if the property was sold or ceased to be used as the taxpayer's principal residence), no interest was due on the repayment. Thus, the credit was equivalent to an interest-free loan. It is available for homes purchased between April 9, 2008, and June 30, 2009. The credit phases out for taxpayers with adjusted gross income above \$75,000/\$150,000 (single/joint filers).

The act extends the eligible purchase period through November 30, 2009, and eliminates the repayment obligation for taxpayers who purchase homes after December 31, 2008<sup>2</sup>. If the home is disposed of or ceases to be used as the taxpayer's principal residence within three years of purchase, the original section 36 recapture rules apply. The act also increases the maximum value of the credit to \$8,000 and removes the prohibition on financing with the proceeds of mortgage revenue bonds and extends the availability of the credit for homes purchased before December 1, 2009. The provision retains the credit recapture if the house were sold within three years of purchase.

**Tax Credit for Energy-Efficient Improvements to Existing Homes:** The act extends the tax credits for energy-efficient improvements to homes through 2010. Prior law allowed individuals a tax credit equal to 10 percent of the amount paid or incurred for qualified energy-efficiency improvements installed during the taxable year. The credit varied depending on the item or improvement. For 2009 and 2010, the act increases the tax credit to 30 percent of the amount paid or incurred by the taxpayer for qualified energy-efficiency improvements during the taxable year. The act eliminates the separate dollar caps applicable to different types of improvements (except fuel cell property) and provides an aggregate \$1,500 cap on all property placed in service in 2009 and 2010 (regardless of claims in prior years). The act updates the energy-efficiency standards of the property qualifying for the credit.

**Parity for Transit Benefits:** Prior law provides that certain transit and parking fringe benefits provided by employers are not taxable. The ceilings on the tax-free amounts differed depending on the fringe benefit. The act equalizes the tax-free benefit employers can provide for transit and parking. It sets the tax-free limit for both the parking and transit benefits at \$230 per month for 2009, indexes them equally for 2010, and clarifies that certain transit benefits apply to federal employees. The provision is effective for April 2009 through 2010.

*Footnotes:*

1 For the text and status of H.R. 1, the *American Recovery and Reinvestment Act of 2009*, see the Library of Congress's Thomas Web site at: <http://thomas.loc.gov/> . See the announcement of the act's signing by the president on the White House Blog Web page at: <http://www.whitehouse.gov/blog/09/02/17/Signed-sealed-delivered-ARRA/>

2 If the election under I.R.C. section 36(g) to treat a purchase in 2009 as having been made December 31, 2008, the property will still qualify for the new non-repayment provisions.

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