

Money Matters

Special Edition: 2009 Stimulus Act

When it comes to building your future...Money Matters!



President Obama signed the **American Recovery and Reinvestment Act of 2009** on February 17th.

While there has been lots of discussion of this legislation, the final document includes only a portion of what was initially proposed.

The major changes that affect individuals are mostly tax credits (a dollar for dollar reduction to tax) and deductions. Some are new, like the “making work pay” credit and some are updates to old rules like the increase to the Alternative Minimum Tax exemption.

Here’s how the changes may impact *your* pocketbook.

Tax Credits

“Making Work Pay” Credit

This is a new credit and is temporary, for 2009 and 2010 only. On the bright side, it is a refundable credit, which means you can get a larger refund than you paid in. The credit is equal to 6.2% of earned income, to a maximum of \$400 for individuals and \$800 for married couples filing jointly. If you make more than \$95,000 for singles and \$190,000 for married couples, this credit will phase out – which means go away in tax language.

“American Opportunity” Credit

This one sounds new, but it isn’t. The HOPE credit has been around awhile, but it gets an update for 2009 and 2010 here. Under the new rules, 100% of the first \$2,000 of tuition plus 25% of the next \$2,000 is eligible for credit. That offers a potential \$2,500 credit while old rules only offered a \$1,800 credit. The benefits begin to go away when singles earn \$80,000 and married couples earn \$160,000.

Child Credit

Changes to this credit allow more people to qualify for the \$1,000 refundable credit. The \$8,500 income threshold is reduced to \$3,000, which should put more money in the pockets of those with children under age 17.

Earned Income Credit (EIC)

The change here applies to 2009 and 2010 only. Larger families (those with 3 or more children) benefit from an increase in the percentage credit from 40% to 45%.

First-Time Homebuyer Credit

Although this credit was introduced recently, it got a few updates as well. The time frame for purchase was extended to November 30, 2009, the credit was increased for 2009 from \$7,500 to \$8,000 and the payback requirement is waived for homes purchased in 2009 if they are not sold within the first 36 months.

Alternative Minimum Tax

This one isn’t really a credit, but it is a direct reduction in tax so it acts like a credit. Touted as long overdue, the exemption amounts get a boost in 2009 to \$46,700 for singles (\$46,200 in 2008) and \$70,950 for married couples (\$69,950 in 2008).

(Continued on other side)

FINANCIAL EDUCATION BENEFITS AVAILABLE TO YOU

Visit our website for more financial articles and education

<http://www.californiacu.org/>

(Continued from other side)

Deductions & Exclusions

Car-buyer Incentive

This is brand new, but only good for 2009. It creates a deduction for state and local sales tax on the purchase of a new car. The best part about this deduction is that you don't have to itemize (file the long form) to get it. There are a few catches though. It is applicable on cars costing up to \$49,500, so a Hummer might not qualify, and starts to go away when singles earn \$125,000 and married couples earn \$250,000.

Tax-Free Transit

If your employer offers tax-free money to help with your commute or parking, that could go up in 2009. The amount excludable from income was increased to \$230 per month for 2009.

Unemployment Income

Excludes the first \$2,400 of income from taxation in 2009.

Section 529 Plans

The only changes to these plans is to clarify that computers, technology equipment and internet access are all allowed as qualified expenses. The change is good for 2009 and 2010 only.

COBRA Subsidy

For those employees who are separated from employment, they could be eligible for COBRA health insurance coverage. However, the cost of that coverage has been prohibitive for the people this provision is trying to help. Under the new law a subsidy equal to 65% of those premiums is available. The IRS makes the subsidy available through the employer, who receives "credit" for it through normal quarterly tax filings.



Helping You Achieve What Matters Most

Get out of debt, save for important goals, achieve the retirement of your dreams: we can help you make your way down the road to financial independence! All financial education services are unbiased and entirely confidential. No sales pitches...just the guidance you need to achieve your goals.

Unbiased financial education provided by:

