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Certified Public Accountants

The American Recovery and Reinvestment Tax Act of 2009 (2009 Recovery Act) provides billions of dollars of tax relief for individuals, businesses, and state and local governments. The good news is you may qualify for one of these tax cutting provisions. The bad news is there are a great many changes, deadlines, and qualifying thresholds. We send you this update to help you realize as many benefits as possible. As always, Heinold-Banwart, Ltd. stands ready to help you maneuver this 647 page, \$787 billion Act and its impact on you.

Individuals

Making work pay credit

A new credit of up to \$400 for working individuals and \$800 for working families appears in the new act. The credit is calculated at 6.2% of earned income, and phases out for taxpayers with modified adjusted gross income in excess of \$75,000 (or \$150,000 for married couples filing jointly). Nonresident aliens and individuals who can be claimed as a dependent do not qualify for the credit. Taxpayers can receive this benefit by reducing the amount of income tax that is withheld from their paychecks, or through claiming the credit on their 2009 tax returns. However, recipients of social security benefits and other pensioners will receive a one-time \$250 check.

First-time homebuyer tax credit

In 2008, Congress enacted a first-time homebuyer credit of up to \$7,500 that was required to be repaid over 15 years. The 2009 Recovery Act provides for an increased credit to first-time homebuyers for purchases before December 1, 2009 of up to \$8,000 which is not required to be repaid unless the property is sold or ceases to be the primary residence within 36 months. Included in the definition of first-time homebuyer are individuals who have not owned a principal residence in three years.

Enhanced Education credit

In lieu of the Hope Credit, the 2009 Recovery Act provides an “American Opportunity” tax credit for 2009 and 2010. Eligible taxpayers may claim an American Opportunity tax credit up to \$2,500. The credit is determined as 100% of the first \$2,000, and 25% of the next \$2,000 of tuition and related expenses paid during the year. Forty percent of the credit is refundable. Unlike the Hope credit, the American Opportunity credit applies to four years of post-secondary education and it covers “course materials” such as books. This credit phases out for taxpayers with adjusted gross income in excess of \$80,000 (\$160,000 for married couples filing jointly).

Residential energy credits

The 2009 Recovery Act provides benefits to homeowners by reinstating the Credit for Nonbusiness Energy Property (CNEP) for 2009 and 2010, and enhancing the Residential Energy Efficient Property (REEP) credit. The CNEP can be taken when qualified energy efficient improvements or expenditures are made for your principal residence, including new insulation; replacement windows, skylights and doors; central air conditioners; certain water heaters, furnaces or boilers; and a new metal or asphalt roof specifically treated to reduce heat loss. The CNEP, which was not available for the 2008 tax year, has been reinstated for eligible property placed in service after December 31, 2008, and before January 1, 2011. The REEP credit is allowed for qualified expenditures that produce energy for home use, such as for solar energy and fuel cell energy property. The REEP was previously extended through the 2016 tax year, and applies not only to your principal residence, but also to your vacation home.

Reduced tax estimate payments

Individuals with AGI of less than \$500,000 for couples and \$250,000 for individuals and who receive more than half of their gross income from a business with less than 500 workers can pay 2009 estimated tax payments based on the lesser of 90% of 2008 or 2009 tax liability. The usual 100% or 110% of prior year tax liability doesn't apply.

Alternative minimum tax patch

Included in the 2009 Recovery Act is an annual "patch" to the alternative minimum tax increasing the AMT exemption amounts for 2009 to \$70,950 for married couples filing jointly and surviving spouses, \$46,700 for single taxpayers and heads of households, and \$35,475 for married couples filing separately.

Other individual provisions

In addition to those mentioned above, the 2009 Recovery Act provides for an "above-the-line" deduction for sales tax on new cars purchased in 2009, an exclusion from tax for the first \$2,400 of unemployment benefits, enhancement of the earned income credit, and an increase in the refundable portion of the child tax credit.

Businesses

COBRA reductions

Employees who were involuntarily terminated after August 31, 2008 and before January 1, 2010 and elect to retain their health insurance through COBRA will receive a 65% break on their COBRA payments. Employers pay for the subsidized part of the payments and are reimbursed by taking a credit on their payroll tax returns. Firms with terminated employees must contact them and their qualified beneficiaries to notify them that they are eligible for reduced COBRA premiums retroactively. There are individual income limitations to this benefit.

Bonus depreciation/Small business expensing

The 2009 Recovery Act extends the 50% bonus depreciation to qualified assets placed in service in calendar years 2008 and 2009. It also extends the higher limits of Section 179 expensing of up to \$250,000 to tax years beginning in 2009. The higher limit phase-out threshold of qualified asset purchases of \$800,000 has also been extended.

NOL carryback

The 2009 Recovery Act enables certain small businesses to elect to carry back net operating losses for up to 5 years (instead of the current 2-year carry back). This is a one-year election for tax years ending or beginning in 2008.

Qualified small business stock

The 2009 Recovery Act increases to 75%, the exclusion of gain from the sale of certain small business stock acquired at original issue and held for at least five years. Eligible stock must be issued after February 18, 2009 through the end of 2010.

S-corporation built-in-gains holding period

The 2009 Recovery Act reduces the holding period to avoid S corporation built-in-gains tax from 10 years to 7 years for years beginning in 2009 and 2010.

Other business provisions

Among other provisions included in the 2009 Recovery Act pertaining to businesses are extensions of production tax credits to certain producers of renewable energy, expansion of the Work Opportunity Tax Credit and deferral of certain income from the discharge of indebtedness.

Heinold-Banwart, Ltd., the largest locally owned accounting firm in Central Illinois, is pleased to provide this overview information and to discuss how these provisions may affect you. Please call your Heinold-Banwart, Ltd. accounting professional for additional questions.



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