American Recovery and Reinvestment Act of 2009

(Enacted February 17, 2009)

Item	*Effective Date*	*New Law States*	*Prior Law States*
Individuals—Tax Credits			
American Opportunity Tax Credit (formerly the Hope Credit)	2009 & 2010	The Hope education credit is renamed the American Opportunity Tax credit and modified by: • Increasing the credit limit to $2,500 per eligible student per year (100% of first $2,000 and 25% of next $2,000 of eligible expenses). • Expanding the definition of eligible expenses to include course materials. • Allowing the credit for the first four years of the student's post-secondary education in a degree or certificate program. • Increasing the modified AGI phase-out range to $80,000–$90,000 ($160,000–$180,000 for MFJ). • Permitting the credit to be claimed against AMT. • Allowing 40% of the credit to be refundable (but not if subject to kiddie tax). [IRC §25A(i)]	For 2009, the Hope credit was limited to $1,800 (100% of the first $1,200 and 50% of the next $1,200 of eligible expenses) per eligible student for qualified tuition and related expenses paid for the first two years of the student's post-secondary education in a degree or certificate program. The credit phased out between modified AGI of $50,000–$60,000 ($100,000–$120,000 for MFJ).
Child Tax Credit	2009 and 2010	The earned income threshold for computing the refundable child tax credit is reduced to $3,000. Thus, the credit is refundable to the extent of 15% of the taxpayer's earned income in excess of $3,000. [IRC §24(d)(4)]	For 2009, the child tax credit was refundable to the extent of 15% of the taxpayer's earned income in excess of $12,550.
Earned Income Credit (EIC)	2009 and 2010	The EIC credit percentage for families with three or more qualifying children is increased to 45% (maximum credit is $5,656). In addition, the income threshold phase-out amount for MFJ filers is increased so it is $5,000 above the threshold phase-out amount for single, QW, and HOH filers. (*Note:* For 2009, this increases the MFJ phase-out range amounts by $1,880 from the pre-Act amounts.) [IRC §32(b)(3)]	For 2009, eligible families with two or more qualifying children could claim an EIC of 40% on up to $12,570 of earned income (maximum credit of $5,028). For MFJ filers, the EIC for 2009 was completely phased out when income exceeded $16,560 (no child); $38,583 (one child) or $43,415 (two or more children).
First-Time Homebuyer Credit	Principal residences purchased 4/9/08–11/30/09	The first-time homebuyer credit is extended and modified. • The refundable credit equals 10% of the purchase price, up to a maximum credit of $8,000 ($4,000 for MFS). • Taxpayers can elect to treat a home purchased 1/1/09–11/30/09 as purchased on 12/31/08. • The credit phases out for individuals with modified AGI between $75,000 and $95,000 ($150,000 and $170,000 for MFJ) for the year of purchase. • A credit claimed for a home purchased 4/9/08–12/31/08 must be recaptured (repaid) over a 15-year period beginning with the second year after the year the credit is claimed (this rule does not apply for homes purchased in 2009 that a taxpayer elects to treat as purchased on 12/31/08.). • Recapture applies to a credit claimed for a home purchased 1/1/09–11/30/09 only if the taxpayer disposes of the residence, or the residence ceases to be the taxpayer's (or spouse's) principal residence, during the 36-month period beginning on the date of purchase. (IRC §36)	A first-time homebuyer of a principal residence purchased 4/9/08–6/30/09 was allowed, subject to an income phase-out, a refundable tax credit for 10% of the purchase price, up to a maximum of $7,500 ($3,750 for MFS). A taxpayer could elect to treat a home purchased 1/1/09–6/30/09 as purchased on 12/31/08. The credit had to be recaptured (repaid) over a 15-year period beginning with the second year after the year the credit was claimed. Recapture was accelerated if the taxpayer disposed of the residence or it ceased to be the taxpayer's (or spouse's) principal residence during the 15-year period.

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Government Retirees—Special Credit	2009	Individuals receiving a government pension or annuity from work who are not covered by Social Security and weren't eligible to receive an economic recovery payment are allowed a $250 refundable tax credit. The credit is $500 for a joint return where both spouses are eligible individuals. If the individual is eligible for the Making Work Pay credit (see below), that credit is reduced by this credit for government retirees. (Act §2202)	None, but for 2008, individuals received a recovery rebate credit, which in most cases was paid via an advance rebate check received in 2008.
Making Work Pay Credit	2009 and 2010	Individuals other than nonresident aliens and dependents can claim a refundable tax credit equal to the lesser of: 1. 6.2% of the individual's earned income, or 2 $400 ($800 for a joint return). The individual must have a social security number. The credit phases out at a rate of 2% of modified adjusted gross income (AGI) above $75,000 ($150,000 for joint returns). To accelerate the credit's impact, IRS will revise the 2009 income tax withholding schedules so that the full annual benefit of the credit is reflected in income tax withheld during the remainder of 2009. **Note:** Under the phase out provision, the $400 credit is completely phased out at modified AGI of $95,000. For MFJ, the $800 credit is completely phased out at modified AGI of $190,000. (IRC §36A)	None, but for 2008, individuals received a recovery rebate credit, which in most cases was paid via an advance rebate check received in 2008.
Personal Energy Property Credit	2009 and 2010	A nonrefundable credit equal to 30% of the cost of personal energy property (certain energy saving improvements such as insulation, doors, windows, electric heat pumps, etc. to a principal residence) is available. The credit is limited to a total of $1,500 for 2009 and 2010. Expenditures from subsidized energy financing can be considered for the credit. (IRC §25C)	A 10% credit was generally allowed, but the credit for certain types of property was subject to additional caps. A $500 ($200 for windows) lifetime limit applied. The credit was scheduled to expire after 2009. Expenditures from subsidized energy financing could not be considered for the credit.
Plug-In Electric Vehicle Conversion Credit	Conversions after 2/17/09 and before 2012	The alternative motor vehicle credit is expanded to include a credit for converting a motor vehicle to a qualified plug-in electric drive motor vehicle. The credit equals 10% of the cost of converting the vehicle, up to a $4,000 maximum credit. [IRC §30B(i)].	No provision.
Plug-In Electric Vehicle Credit	Vehicles acquired after 2009	A credit is available for 4-wheeled vehicles propelled to a significant extent by an electric motor that draws electricity from a battery that has a capacity of at least 4 kilowatt hours, and is capable of being recharged from an external electricity source. The credit equals $2,500 plus, for vehicles that draw propulsion energy from a battery with at least 5 kilowatt hours of capacity, $417 for each kilowatt hour of capacity in excess of 5 kilowatt hours up to a total of $5,000. The credit is phased out on a per-manufacturer basis after the 200,000th qualifying vehicle is sold by that manufacturer after 2009. (IRC §30D)	The credit was $2,500 for vehicles powered by a 4-kilowatt-hour battery, with an additional $417 for each kilowatt hour of battery power beyond that, up to a total limit of $7,500 for light-duty vehicles ($15,000 for vehicles weighing more than 26,000 pounds). The credit phased out after the 250,000th plug-in electric vehicle was sold by all manufacturers combined.

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Item	*Effective Date*	*New Law States*	*Prior Law States*
Plug-In Electric Vehicle Credit—Low-Speed and 2- and 3-Wheeled Vehicles	Vehicles acquired after 2/17/09 and before 2012	A credit is available equal to 10% of the cost of a specified vehicle (up to a maximum credit of $2,500 per vehicle) that is propelled to a significant extent by an electric motor that draws electricity from a battery with a capacity of at least 4 kilowatt hours (2.5 kilowatt hours in the case of a 2- or 3-wheeled vehicle) and that can be recharged from an external source of electricity. A specified vehicle is (1) a 4-wheeled vehicle weighing 3,000 pounds or less with a capability of attaining speeds of 20–25 miles per hour or (2) a 2- or 3-wheeled vehicle weighing less than 14,000 pounds. **Observation:** A 4-wheeled vehicle placed in service during 2009 that qualifies for the plug-in vehicle credit under Section 30D does not qualify for this credit. (IRC §30)	No provision
Residential Energy Efficient Property Credit	2009–2016	A nonrefundable credit equal to 30% of the cost of residential energy efficient property (qualified solar water heating, geothermal heat pump, fuel cell, small wind energy, and solar electric property). For qualified fuel cell property, the credit is limited to $500 for each 0.5 kilowatt of capacity. Expenditures from subsidized energy financing can be considered for the credit. (IRC §25D)	The credit was limited to $2,000 for qualified solar water heating property; $2,000 for qualified geothermal heat pump property; $500 for each 0.5 kilowatt of capacity (not to exceed $4,000) of qualified small wind energy property; and $500 for each 0.5 kilowatt of capacity of qualified fuel cell property. Expenditures from subsidized energy financing could not be considered for the credit.
Individuals—Other Provisions			
AMT—Credits Allowed	2009 and later	**For 2009**, the following nonrefundable credits are allowed against both regular tax and AMT: • Adoption expense credit. • Alternative motor vehicle credit (non-business portion). • Child and dependent care credit. • Child tax credit. • Education [American Opportunity (formerly Hope) and Lifetime Learning] credits. • Elderly or disabled credit. • First-time D.C. homebuyer credit. • Mortgage interest credit (homeowners issued government mortgage credit certificates). • Personal energy property credit. • Plug-in electric vehicle credit (non-business portion). • Residential energy efficient property credit. • Retirement saver's credit. [IRC §26(a)(2)] **For 2010 and later**, the following nonrefundable credits will be allowed against both regular tax and AMT: • Adoption expense credit. • Alternative motor vehicle credit (non-business portion). • American Opportunity (formerly Hope) education credit. • Child tax credit. • Plug-in electric vehicle credit (non-business portion). • Plug-in electric vehicle credit—low speed and 2- and 3-wheeled vehicles (non-business portion). • Retirement saver's credit. • Residential energy efficient property credit. [IRC §26(a)(1)]	Nonrefundable credits allowed against both regular tax and AMT were limited to: • Adoption expense credit. • Child tax credit. • Retirement saver's credit.

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Item	*Effective Date*	*New Law States*	*Prior Law States*
AMT Exemption	2009	For 2009, the AMT exemption amounts are: $46,700 for Single and HOH; $70,950 for MFJ and $35,475 for MFS. [IRC §55(d)]	The 2009 AMT exemption amounts were: $33,750 for Single and HOH; $45,000 for MFJ and $22,500 for MFS.
AMT—Private Activity Bond Interest	Bonds issued in 2009 and 2010	Tax-exempt interest on private activity bonds issued in 2009 and 2010 is not subject to AMT. Refunding bonds generally are treated as issued on the date of the refunded bond, unless the refunded bond was issued during 2004–2008. [IRC §57(a)(5)]	Tax-exempt interest on a private activity bond was included in alternative minimum taxable income.
COBRA Premium Assistance	COBRA premiums provided for periods of coverage beginning 2/17/09	An “assistance eligible individual” (AEI) who elects COBRA coverage under an employer's group health plan is required to pay no more than 35% of the applicable premium and the IRS will provide a “subsidy” for the remaining 65%. The period of the premium subsidy is limited to a maximum of 9 months of coverage. • Any premium reduction subsidy is excluded from the AEI’s gross income. (IRC §139C) • A taxpayer receiving the premium reduction subsidy is not eligible for the Health Coverage Tax Credit or the advance payment of the credit. [IRC §35(g)] • If a premium reduction subsidy is provided to any taxpayer whose modified AGI for the year exceeds $125,000 ($250,000 for MFJ), the taxpayer's income tax for the tax year is increased by the amount of the premium assistance. [Act §3001(b)] • The entity (plan, employer, or insurer) to which the COBRA premiums are payable will be reimbursed for the premium reduction subsidy, generally by being allowed a credit against its payroll tax liability. (IRC §6432) **Note:** Generally, an AEI is a person who is eligible for COBRA coverage between 9/1/08–12/31/09, elects such coverage, and whose employment was involuntarily terminated during such period.	No provision
Economic Recovery Payment	2/17/09	The following individuals will receive a one-time $250 economic recovery payment if they were eligible for the benefit program shown at any time during the period 11/08–1/09: • Adults eligible for social security benefits, railroad retirement benefits, or veterans compensation or pension benefits. • Individuals of any age eligible for supplemental security income (SSI) benefits, other than individuals who receive SSI while in a Medicaid institution. If the individual is eligible for the Making Work Pay credit, that credit must be reduced by the economic recovery payment. Payments will be made by the Social Security Administration (see www.ssa.gov for details) as soon as practical but no later than 6/17/09. (Act §2201)	None, but for 2008, individuals received a recovery rebate credit, which in most cases was paid via an advance rebate check received in 2008.

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Estimated Tax Payments—Small Business Owners	2009	In computing 2009 estimated tax payments, a "qualified individual's" required annual payment is the lesser of (1) 90% of the tax shown on the individual's 2009 return or (2) 90% of the tax shown on the individual's 2008 return. A qualified individual is one (1) whose 2008 AGI was less than $500,000 ($250,000 if MFS) and (2) who certifies that more than 50% of 2008 gross income was income from a small business (that is, a business with less than 500 employees). [IRC §6654(d)(1)]	The required annual payment for individual estimated income tax is the lesser of (1) 90% of the tax shown on the current year return or (2) 100% of the tax shown on the prior year return (110% if prior year AGI exceeded $150,000).
Qualified Tuition Programs—Eligible Expenses	2009 and 2010	The definition of qualified higher education expenses is expanded to include the purchase of any computer technology or equipment and Internet access and related services for use by the designated beneficiary and the beneficiary's family. **Caution:** Software designed for sports, games, or hobbies does not qualify unless the software is predominantly educational in nature. IRC§529(e)(3)(A)]	Qualified higher education expenses included the cost of the designated beneficiary's tuition as well as required fees, books, supplies, and equipment, plus room and board if attending at least half time.
Sales Tax Deduction—New Vehicles	New vehicles purchased 2/17/09–12/31/09	Individuals who claim the standard deduction or who itemize and deduct state and local income taxes (rather than state and local sales taxes) also can deduct state or local sales or excise tax paid on the purchase of a new passenger automobile, light truck, motorcycle or motor home. The deduction is limited to the amount of taxes attributable to the first $49,500 of the purchase price and is phased out for taxpayers with modified AGI between $125,000 and $135,000 ($250,000 and $260,000 for MFJ). [IRC §63(c) and 164(a)(6)]	Only individuals who itemize deductions and deduct state sales tax in lieu of state and local income taxes can deduct sales taxes paid on a vehicle and then only to the extent the tax rate does not exceed the general sales tax rate.
Unemployment Compensation	2009	Up to $2,400 of unemployment compensation is excludable from the recipient's gross income. [IRC §85(c)]	Individuals had to include unemployment compensation benefits in gross income.
Businesses and Self-Employed			
Alternative Fuel Vehicle Refueling Property Credit	Property placed in service in tax years beginning in 2009 and 2010	The credit for refueling property not related to hydrogen is increased to 50% of the property's cost, with a maximum credit of $50,000 for depreciable property ($2,000 for non-depreciable property installed on property used as a principal residence). If the refueling property is related to hydrogen, the credit is 30% of the cost of the refueling property, with a maximum credit of $200,000. [IRC §30C(e)(6)]	The credit was equal to 30% of the property's cost up to a maximum credit of $30,000 for depreciable property ($1,000 for non-depreciable property installed on property used as a principal residence).
AMT—Corporate Adjustment for Tax-Exempt Interest	Bonds issued in 2009 and 2010	Tax-exempt interest on bonds issued during 2009 and 2010 is not included in a corporation's accumulated current earnings (ACE) adjustment for computing AMT. Refunding bonds generally are treated as issued on the date of the refunded bond, unless the refunded bond was issued during 2004–2008. [IRC §56(g)(4)]	Tax-exempt interest (other than interest on certain housing bonds) was included in a corporation's ACE adjustment when computing AMT.
Business Energy Property Credit	2009–2016	For qualified small wind energy property placed in service during the year, a nonrefundable business energy credit equal to 30% of the basis in the property is allowed, without any annual limit. Such property is defined as property that generates electricity using a wind turbine that has a nameplate capacity of not more than 100 kilowatts. [IRC §48(c)(4)]	A 30% credit was allowed for such property; however, the credit was limited to $4,000 per year with respect to all of a taxpayer's wind energy property.

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Item	*Effective Date*	*New Law States*	*Prior Law States*
Cancellation of Debt—Reacquired Business Debt	Reacquisitions during 2009 and 2010	For cancellation of debt (COD) income that results from reacquiring a business debt instrument at less than its issue price, a taxpayer can elect to include the income ratably over five tax years, beginning in 2014. A reacquisition includes the complete forgiveness of the debt by the holder. [IRC §108(i)]	No special provision. Such COD income was included in gross income in the year the debt was reacquired, unless one of the exceptions to recognizing COD income applied.
Fringe Benefits—Employer-Provided Transportation Benefits	3/1/09–12/31/10	The monthly exclusion limitation for employer-provided transit and vanpooling benefits is increased so it's the same as for employer-provided parking ($230/month for 2009). IRC§132(f)]	For 2009, an employer may exclude from an employee's income up to $120 a month for employer provided transit passes and vanpooling benefits and up to $230 a month for employer-provided parking.
NOL Carryback Period for Small Businesses	2008 NOLs	A business (including a sole proprietorship) with average annual gross receipts of $15 million or less can elect to carry back a 2008 NOL for three, four or five years. Generally, the 2008 NOL is the NOL for the tax year ended in 2008. But, taxpayers can instead elect to treat an NOL for their tax year beginning in 2008 as the 2008 NOL. [IRC §172(b)(1)(H)]	The carryback period for an NOL was generally two years.
Qualified Small Business Stock (QSBS)—Gain Exclusion	QSBS acquired 2/18/09–12/31/10	For noncorporate taxpayers, the QSBS gain exclusion rules are modified as follows: • The 50% gain exclusion is increased to 75%. • None of the 60% gain exclusion rules for qualified business entity (QBE) QSBS apply. **Observation:** As a result of the increased exclusion, gain from the sale of QSBS acquired during the applicable time period is taxed at effective rates of 7% under the regular tax and 12.88% under the AMT. [IRC §1202(a)(3)]	Noncorporate taxpayers could exclude 50% of any gain realized on the sale or exchange of QSBS held for more than five years (a 60% exclusion applies to QSBS in a corporation that is a QBE). Because a 28% maximum rate applies to gains on QSBS, this results in an effective tax rate of 14% (11.2% for stock in a QBE).
S Corporation—Built-in Gains	Tax years beginning in 2009 and 2010	A C corporation that elects to be taxed as an S corporation is taxed at the highest corporate rate (currently 35%) on all gains that were built-in at the time of the election if the gains are recognized during the recognition period. The recognition period is reduced from the corporation's first 10 years as an S corporation to its first 7 years. [IRC §1374(d)(7)]	The built-in gains tax applies during the first 10 years following a conversion from a C corporation to an S corporation.
Section 179 Deduction	Tax years beginning in 2009	The Section 179 deduction limit is $250,000 and the qualifying property limit is $800,000. [IRC§179(b)(7)]	For 2009, the Section 179 limits were scheduled to be $133,000 and $530,000, respectively.
Special (Bonus) Depreciation	Qualified property acquired & placed in service in 2009 (or 2010 if long-production-period property)	A special depreciation allowance equal to 50% of the adjusted basis of qualified property is allowed for both regular tax and AMT. (As under prior law, qualified property generally includes new tangible property with a MACRS recovery period of 20 years or less, computer software, and certain leasehold improvements.) If the special depreciation allowance is taken, there are no AMT adjustments for depreciation for that asset for the remainder of its recovery period. The amount of the special depreciation allowance is not affected by a short tax year. Taxpayers may elect out of special depreciation for any class of property for any tax year. The limit on depreciation deductions for certain passenger automobiles (the Section 280F limit) is increased in the first year by $8,000 for automobiles that qualify for the special depreciation allowance (if the taxpayer does not elect out). [IRC §168(k)(2)]	Special depreciation was not available for property placed in service after 2008.

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Special Depreciation — Claiming R & D redit and MTC Instead	Property placed in service during 2009 (or 2010 **in** some case	Corporations can elect to forgo the 50% special (bonus) depreciation allowance and instead use research and development (R&D) and minimum tax credit (MTC) carryovers equal to 20% of the foregone depreciation (subject to limits). This election is available for qualified assets (1) purchased after 3/31/08 (provided there was no binding purchase contract in effect before 4/1/08) and (2) placed in service by 12/31/09 (12/31/10 for certain long-production property and aircraft). The assets to which the election applies must be depreciated using the straight-line method. If the election was not made for the first tax year ending after 3/31/08, it can be made for the next tax year, but only for property placed in service in 2009 (2010 for certain long-production period property and aircraft). [IRC §168(k)(4)(H)]	The election was available for assets placed in service after 3/31/08 and before 12/31/08 (12/31/09 for certain long-lived assets and transportation property). The election had to be made for the first tax year ending after 03/31/08.
Work Opportunity Tax Credit (WOTC)	Workers who began work during 2009 or 2010	Under the WOTC, an employer can claim a tax credit for wages paid to members of certain "targeted groups." Generally, the maximum credit is $2,400 per employee (40% of up to a maximum of $6,000 of qualified first-year wages). The following are added to the list of targeted groups for the WOTC: • Unemployed veterans. • Disconnected youths (certain individuals age 16–24 who are not regularly attending school and who are not readily employable because they lack a sufficient number of skills). [IRC§51(d)(14)]	WOTC applied to 9 targeted work groups.