

Subject: Information on the Stimulus Package and How You May Be Impacted

On Feb. 17, President Obama signed into law the American Recovery and Reinvestment Act of 2009. Though the majority of the \$800 billion stimulus act is focused on government spending initiatives intended to stimulate the economy, about one-third provides tax breaks for businesses and individuals.

As your trusted advisor, Ryan, Sharkey & Crutchfield, LLP is pleased to provide you with this summary on the American Recovery and Reinvestment Act of 2009 (ARRA). ARRA may significantly affect your tax liability in a variety of ways. If you would like more detailed information about this new tax law, please give us a call. We would be glad to help you determine exactly how ARRA will affect your tax liability – and what you should do to take full advantage of the act. Here are the highlights for your consideration:

Business Tax Impacts

Reduced estimated tax payment requirements. For 2009, ARRA reduces estimated tax payment requirements for some small business owners. Owners may qualify for reduced payments if their adjusted gross income (AGI) for 2008 was less than \$500,000 and if more than 50% of their 2009 gross income is generated from a "small business," defined as having fewer than 500 employees.

Cancellation of Indebtedness. Eligible businesses will be able to recognize cancellation of certain indebtedness over five years, beginning in 2014, under the new law. This treatment applies to specified types of business debt repurchased or forgiven by the business after December 31, 2008 and before January 1, 2011.

S corporation built-in gains tax relief. While converting a C corporation to an S corporation is not a taxable event, the S corporation usually must hold its assets for 10 years to avoid tax on built-in gains existing at the time of the conversion. Under ARRA, for tax years beginning in 2009 and 2010, there generally will be no tax on an S corporation's net unrecognized built-in gain if the seventh tax year in the recognition period occurred before the 2009 and 2010 tax years.

Net operating loss carryback expansion. Because of the economic downturn, many businesses are in a loss position. The Tax Code generally allows eligible taxpayers to carry back net operating losses (NOLs) two years with some exceptions. The new law increases the carryback period to five years for qualified small businesses with gross receipts of \$15 million or less. The treatment is also temporary, applying only to 2008 NOLs.

Work Opportunity credit expansion. In the past, employers have been able to claim a credit equal to 40% of the first \$6,000 of wages paid to employees in certain demographic groups, such as ex-felons, food stamp recipients and disabled veterans. ARRA expands these groups to include unemployed veterans and disconnected youth.

Energy Incentives. ARRA extends and enhances energy tax incentives for developers and producers of alternative and renewable energy including: advanced energy investment credits, renewable electricity production credits, and alternative fuel pump tax credits. The incentives are temporary and are intended to boost production of energy from renewable sources.

Bonus Depreciation Expanded. To business investment, ARRA extends the 50 percent bonus depreciation that expired at the end of 2008. Businesses can take advantage of bonus depreciation (in addition to regular depreciation) throughout 2009 (and longer for certain types of property).

This provision also expands allowances for passenger automobiles that are eligible property under the 50% bonus depreciation rules, extending the \$8,000 increase for the first-year limit on depreciation to new vehicles placed in service in 2009. The new law also allows eligible businesses to monetize accumulated AMT and research tax credits in lieu of taking bonus depreciation for 2009.

Individual Tax Impacts

New relief for most workers, retirees and other Social Security recipients. For 2009 and 2010, ARRA creates the Making Work Pay credit of up to \$800 for joint filers and \$400 for other filers. The credit phases out for joint filers with adjusted gross income exceeding \$150,000 and for single filers with adjusted gross income exceeding \$75,000. Unlike last year's "rebate," which was distributed via check, this credit will be "paid" through a reduction in income tax withholding. Individuals receiving Social Security benefits, disabled veterans and others on fixed incomes will receive one-time payments of \$250. If these individuals also qualify for the Making Work Pay credit, the credit will be reduced by the \$250 payment.

New sales tax deduction for vehicle purchases. Automobile sales, like new home sales, have plummeted in recent months. ARRA creates a new above-the-line deduction for state and local sales and excise taxes paid on qualified purchases of new vehicles. The deduction is available for vehicles purchased from Feb. 17, 2009, through Dec. 31, 2009. Income thresholds and other limitations apply.

Credit for first-time homebuyers extended. Last year, a refundable credit equal to 10% of the purchase price of a principal residence was made available to qualified first-time homebuyers. Unlike other credits, this one had to be repaid. The new law removes the repayment requirement for homes purchased by first-time buyers between January 1, 2009 and December 1, 2009. The enhanced credit also has a higher maximum up to \$8,000 (\$4,000 for married individuals filing separately). There are income limitations, which preclude higher-income individuals and couples from taking advantage of the credit.

American Opportunity education credit (previously called the Hope credit). For 2009 and 2010, ARRA expands this credit to cover 100% of the first \$2,000 of tuition and related expenses (including books) and 25% of the next \$2,000 of such expenses. More individuals will be able to take advantage of this credit because of expanded income phase-outs. The law also extends the credit over four years of post-secondary school education and makes 40 percent of the credit refundable. Finally, it also permits beneficiaries of qualified tuition plans to use tax-free distributions to pay for computer technology.

AMT relief granted early this year. Every year, bills are introduced in Congress to abolish the alternative minimum tax (AMT). This year is no different but because the federal budget deficit, Congress cannot eliminate the AMT without finding an equivalent source of revenue. However, ARRA provides a one-year "patch" that increases the AMT exemption. The new law increases the AMT exemption amounts and allows taxpayers to take most personal credits to reduce AMT liability for 2009.

Additionally, ARRA extends a provision allowing certain nonrefundable personal tax credits to provide benefit against the AMT. These include the dependent care credit, the American Opportunity credit and the Lifetime Learning credit. The act also excludes income from tax-exempt bonds issued in 2009 and 2010, along with refundings of bonds issued after Dec. 31, 2002, and before Jan. 1, 2009.

Energy-related breaks expanded for individuals. ARRA creates or expands several energy-related breaks for individuals including: transit benefits, residential energy property credit, residential energy-efficient property credit, and plug-in electric vehicles credit.

In summary, ARRA may significantly affect your tax liability in a variety of ways. Please keep in mind that we've described only the highlights of the most important changes in the new law. If you have questions on how ARRA affects your unique tax position, please do not hesitate to contact us at (703) 652-1124.

***Disclaimer:** this article is intended to provide resources for the tax and accounting needs of small businesses and individuals. The information contained in this Website is intended to provide general information on matters of interest in the areas of tax and accounting. Users are encouraged to contact us regarding specific situations.*