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FINANCIAL & BUSINESS INFORMATION

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Will Recent Legislation “Jump Start” Your Finances?

The American Recovery and Reinvestment Act of 2009 is intended to stimulate the U.S. economy and provide tax relief to individuals and businesses. Some of the highlights are:

“Making Work Pay” Tax Credit: This refundable tax credit is 6.2% of earned income up to \$400 (\$800 for joint filers) in 2009 and 2010. Phaseout starts at modified adjusted gross income (MAGI) above \$75,000 (\$150,000 for joint filers). This benefit can be received through either reduced withholding in a paycheck or by claiming the credit on the tax return. A new Form W-4 is not required, but those with multiple jobs or combined income in a higher tax bracket should consider completing a revised W-4 to ensure enough tax is withheld.

Economic Recovery Payment: This is a one-time \$250 payment for qualifying individuals who receive Social Security, Supplemental Security Income (SSI), Railroad Retirement and Veterans benefits. An individual must have been eligible for any of these programs for any of the 3 months prior to February 2009 to qualify. This payment reduces any allowable “Making Work Pay” credit and is to be paid by the U.S. Treasury by 6/17/09.

Also, certain government employees *not eligible for social security benefits* may receive a one-time \$250 refundable *tax credit* in 2009, which reduces any allowable “Making Work Pay” credit.

New Car Deduction: For new vehicles purchased 2/17/09-12/31/09, buyers can claim a deduction for sales and excise tax paid *even if they do not itemize*. The deduction applies only to the first \$49,500 of the cost of a qualified vehicle and phaseout begins at MAGI of \$125,000 (\$250,000 for joint filers). This deduction cannot be taken if a taxpayer elects to take an itemized deduction for state and local *sales* (rather than *income*) tax.

First-time Homebuyer Credit: Prior legislation allowed first-time homebuyers (making purchases 4/9/08-6/30/09) up to a \$7,500 refundable credit if they had no ownership in a principal residence during the 3 years prior to purchase. This credit was to be paid back to the government ratably over 15 years. The new law increases the credit to \$8,000 for purchases 1/1/09-11/30/09 and does not have to be repaid unless the home is resold within 36 months of purchase. Phaseout starts at MAGI over \$75,000 (\$150,000 for joint filers). The credit for a qualified 2009 home purchase can be claimed on the 2008 or 2009 tax return, so taxpayers can maximize the credit amount depending on that year’s MAGI.

Non-Business Energy Incentives: The personal energy property credit is expanded and applies to certain energy-efficient improvements to existing principal residential property (e.g. exterior windows and doors, skylights and insulation materials) and purchases of principal residential energy-efficient property (e.g. central air conditioning, furnaces and water heaters). For 2009 and 2010, the credit percentage on qualified expenditures increases from 10% to 30% up to an aggregate maximum credit of \$1,500 (which replaces the \$500 lifetime cap).

Unemployment: The first \$2,400 of unemployment compensation is excluded from 2009 gross income. Also, eligible employees involuntarily terminated 9/1/08-12/31/09 pay only 35% of the premium to continue COBRA coverage under a group health plan for 9 months (the other 65% is covered by the employer through government subsidy). Income phaseouts apply.

Note: If you make estimated tax payments, the first 2009 estimate is due April 15!

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