

# AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

## PARTIAL SUMMARY OF TAX PROVISIONS FROM CONFERENCE AGREEMENT

Full summary available at: <http://finance.senate.gov/press/Bpress/2009press/prb021209.pdf>

### TAX RELIEF FOR INDIVIDUALS AND FAMILIES

**Extension of AMT relief for 2009.** The bill would provide more than 26 million families with tax relief in 2009 by extending AMT relief for nonrefundable personal credits and increasing the AMT exemption amount by \$70,950 for joint filers and \$46,700 for individuals. *This proposal is estimated to cost \$69.759 billion over 10 years.*

**Exclude Private Activity Bonds from the Alternative Minimum Tax.** The alternative minimum tax (AMT) can increase the costs of issuing tax-exempt private activity bonds imposed on State and local governments. Under current law, interest on tax-exempt private activity bonds is generally subject to the AMT. This limits the marketability of these bonds and, therefore, forces State and local governments to issue these bonds at higher interest rates. Last year, Congress excluded one category of private activity bonds (i.e., tax-exempt housing bonds) from the AMT. The bill would exclude the remaining categories of private activity bonds from the AMT if the bond is issued in 2009 or 2010. The bill also allows AMT relief for current refunding of private activity bonds issued after 2003 and refunded during 2009 and 2010. *This proposal is estimated to cost \$555 million over 10 years.*

**Sales Tax Deduction for New Vehicle Purchases.** The bill provides all taxpayers with a deduction for State and local sales and excise taxes paid on the purchase of new cars, light truck, recreational vehicles, and motorcycles through 2009. This deduction is subject to a phase-out for taxpayers with adjusted gross income in excess of \$125,000 (\$250,000 in the case of a joint return). *This proposal is estimated to cost \$1.684 billion over 10 years.*

**Plug-in Electric Drive Vehicle Credit.** The bill modifies and increases a tax credit passed into law at the end of last Congress for each qualified plug-in electric drive vehicle placed in service during the taxable year. The base amount of the credit is \$2,500. If the qualified vehicle draws propulsion from a battery with at least 5 kilowatt hours of capacity, the credit is increased by \$417, plus another \$417 for each kilowatt hour of battery capacity in excess of 5 kilowatt hours up to 16 kilowatt hours. Taxpayers may claim the full amount of the allowable credit up to the end of the first calendar quarter in which the manufacturer records its 200,000<sup>th</sup> sale of a plug-in electric drive vehicle. The credit is reduced in following calendar quarters. The credit is allowed against the alternative minimum tax (AMT). The bill also restores and updates the electric vehicle credit for plug-in electric vehicles that would not otherwise qualify for the larger plug-in electric drive vehicle credit and provides a tax credit for plug-in electric drive conversion kits. *This proposal is estimated to cost \$2.002 billion over 10 years.*

**Parity for Transit Benefits.** Current law provides a tax-free fringe benefit employers can provide to employees for transit and parking. Those benefits are set at different dollar amounts. This provision would equalize the tax-free benefit employers can provide for transit and parking. The proposal sets both the parking and transit benefits at \$230 a month for 2009,

indexes them equally for 2010, and clarifies that certain transit benefits apply to federal employees. *This provision is estimated to cost \$192 million over ten years.*

**Computers as Qualified Education Expenses in 529 Education Plans.** Section 529 Education Plans are tax-advantaged savings plans that cover all qualified education expenses, including: tuition, room & board, mandatory fees and books. The bill provides that computers and computer technology qualify as qualified education expenses. *This proposal is estimated to cost \$6 million over 10 years.*

**“American Opportunity” Education Tax Credit.** The bill would provide financial assistance for individuals seeking a college education. For 2009 and 2010, the bill would provide taxpayers with a new “American Opportunity” tax credit of up to \$2,500 of the cost of tuition and related expenses paid during the taxable year. Under this new tax credit, taxpayers will receive a tax credit based on one hundred percent (100%) of the first \$2,000 of tuition and related expenses (including books) paid during the taxable year and twenty-five percent (25%) of the next \$2,000 of tuition and related expenses paid during the taxable year. Forty percent (40%) of the credit would be refundable. This tax credit will be subject to a phase-out for taxpayers with adjusted gross income in excess of \$80,000 (\$160,000 for married couples filing jointly). *This proposal is estimated to cost \$13.907 billion over 10 years.*

**Refundable First-time Home Buyer Credit.** Last year, Congress provided taxpayers with a refundable tax credit that was equivalent to an interest-free loan equal to 10 percent of the purchase of a home (up to \$7,500) by first-time home buyers. The provision applies to homes purchased on or after April 9, 2008 and before July 1, 2009. Taxpayers receiving this tax credit are currently required to repay any amount received under this provision back to the government over 15 years in equal installments, or, if earlier, when the home is sold. The credit phases out for taxpayers with adjusted gross income in excess of \$75,000 (\$150,000 in the case of a joint return). The bill eliminates the repayment obligation for taxpayers that purchase homes after January 1, 2009, increases the maximum value of the credit to \$8,000, and removes the prohibition on financing by mortgage revenue bonds, and extends the availability of the credit for homes purchased before December 1, 2009. The provision would retain the credit recapture if the house is sold within three years of purchase. *This proposal is estimated to cost \$6.638 billion over 10 years.*

## TAX INCENTIVES FOR BUSINESSES

**Small Business Capital Gains.** Under current law, Section 1202 provides a fifty percent (50%) exclusion for the gain from the sale of certain small business stock held for more than five years. The amount of gain eligible for the exclusion is limited to the greater of 10 times the taxpayer’s basis in the stock, or \$10 million gain from stock in that small business corporation. This provision is limited to individual investments and not the investments of a corporation. The non-excluded portion of section 1202 gain is taxed at the lesser of ordinary income rates or 28 percent, instead of the lower capital gains rates for individuals. The provision allows a seventy-five percent (75%) exclusion for individuals on the gain from the sale of certain small business stock held for more than five years. This change is for stock

issued after the date of enactment and before January 1, 2011. *This provision is estimated to cost \$829 million over 10 years.*

**Temporary Reduction of S Corporation Built-In Gains Holding Period from 10 Years to 7 Years.** Under current law, if a taxable corporation converts into an S corporation, the conversion is not a taxable event. However, following such a conversion, an S corporation must hold its assets for ten years in order to avoid a tax on any built-in gains that existed at the time of the conversion. The bill would temporarily reduce this holding period from ten years to seven years for sales occurring in 2009 and 2010. *This proposal is estimated to cost \$415 million over 10 years.*

**Extension of Enhanced Small Business Expensing.** In order to help small businesses quickly recover the cost of certain capital expenses, small business taxpayers may elect to write-off the cost of these expenses in the year of acquisition in lieu of recovering these costs over time through depreciation. Until the end of 2010, small business taxpayers are allowed to write-off up to \$125,000 (indexed for inflation) of capital expenditures subject to a phase-out once capital expenditures exceed \$500,000 (indexed for inflation). Last year, Congress temporarily increased the amount that small businesses could write-off for capital expenditures incurred in 2008 to \$250,000 and increased the phase-out threshold for 2008 to \$800,000. The bill would extend these temporary increases for capital expenditures incurred in 2009. *This proposal is estimated to cost \$41 million over 10 years.*

**5-Year Carryback of Net Operating Losses for Small Businesses.** Under current law, net operating losses (“NOLs”) may be carried back to the two taxable years before the year that the loss arises (the “NOL carryback period”) and carried forward to each of the succeeding twenty taxable years after the year that the loss arises. For 2008, the bill would extend the maximum NOL carryback period from two years to five years for small businesses with gross receipts of \$15 million or less. *This proposal is estimated to cost \$947 million over 10 years.*

**Extension of Bonus Depreciation.** Businesses are allowed to recover the cost of capital expenditures over time according to a depreciation schedule. Last year, Congress temporarily allowed businesses to recover the costs of capital expenditures made in 2008 faster than the ordinary depreciation schedule would allow by permitting these businesses to immediately write-off fifty percent of the cost of depreciable property (e.g., equipment, tractors, wind turbines, solar panels, and computers) acquired in 2008 for use in the United States. The bill would extend this temporary benefit for capital expenditures incurred in 2009. *This proposal is estimated to cost \$5.074 billion over 10 years.*

**Delayed Recognition of Certain Cancellation of Debt Income.** Under current law, a taxpayer generally has income where the taxpayer cancels or repurchases its debt for an amount less than its adjusted issue price. The amount of cancellation of debt income (“CODI”) is the excess of the old debt’s adjusted issue price over the repurchase price. Certain businesses will be allowed to recognize CODI over 10 years (defer tax on CODI for the first four or five years and recognize this income ratably over the following five taxable years) for specified types of business debt repurchased by the business after December 31, 2008 and before January 1, 2011. *This proposal is estimated to cost \$1.622 billion over 10 years.*

**Incentives to Hire Unemployed Veterans and Disconnected Youth.** Under current law, businesses are allowed to claim a work opportunity tax credit equal to 40 percent of the first \$6,000 of wages paid to employees of one of nine targeted groups. The bill would create two new targeted groups of prospective employees: (1) unemployed veterans; and (2) disconnected youth. An individual would qualify as an unemployed veteran if they were discharged or released from active duty from the Armed Forces during the five-year period prior to hiring and received unemployment compensation for more than four weeks during the year before being hired. An individual qualifies as a disconnected youth if they are between the ages of 16 and 25 and have not been regularly employed or attended school in the past 6 months. *This proposal is estimated to cost \$231 million over 10 years.*

## **ASSISTANCE FOR FAMILIES & UNEMPLOYED WORKERS**

**“Making Work Pay” Tax Credit.** The bill would cut taxes for more than 95% of working families in the United States. For 2009 and 2010, the bill would provide a refundable tax credit of up to \$400 for working individuals and \$800 for working families. This tax credit would be calculated at a rate of 6.2% of earned income, and would phase out for taxpayers with adjusted gross income in excess of \$75,000 (\$150,000 for married couples filing jointly). Taxpayers can receive this benefit through a reduction in the amount of income tax that is withheld from their paychecks, or through claiming the credit on their tax returns. *This proposal is estimated to cost \$116.199 billion over 10 years.*

**Economic Recovery Payment to Recipients of Social Security, SSI, Railroad Retirement and Veterans Disability Compensation Benefits.** The bill would provide a one-time payment of \$250 to retirees, disabled individuals and SSI recipients receiving benefits from the Social Security Administration, Railroad Retirement beneficiaries, and disabled veterans receiving benefits from the U.S. Department of Veterans Affairs. The one-time payment is a reduction to any allowable Making Work Pay credit. *This proposal is estimated to cost \$14.225 billion over 10 years.*

**Refundable Credit for Certain Federal and State Pensioners.** The bill would provide a one-time refundable tax credit of \$250 in 2009 to certain government retirees who are not eligible for Social Security benefits. This one-time credit is a reduction to any allowable Making Work Pay credit. *This proposal is estimated to cost \$218 million over 10 years.*

**Increase in Earned Income Tax Credit.** The bill would temporarily increase the earned income tax credit for working families with three or more children. Under current law, working families with two or more children currently qualify for an earned income tax credit equal to forty percent (40%) of the family’s first \$12,570 of earned income. This credit is subject to a phase-out for working families with adjusted gross income in excess of \$16,420 (\$19,540 for married couples filing jointly). The bill would increase the earned income tax credit to forty-five percent (45%) of the family’s first \$12,570 of earned income for families with three or more children and would increase the beginning point of the phase-out range for all married couples filing a joint return (regardless of the number of children) by \$1,880. *This proposal is estimated to cost \$4.663 billion over 10 years.*

**Increase Eligibility for the Refundable Portion of Child Credit.** The bill would increase the eligibility for the refundable child tax credit in 2009 and 2010. For 2008, the child tax credit is refundable to the extent of 15 percent of the taxpayer's earned income in excess of \$8,500. The bill would reduce this floor for 2009 and 2010 to \$3,000. *This proposal is estimated to cost \$14.830 billion over 10 years.*

**Tax Credits for Energy-Efficient Improvements to Existing Homes.** The bill would extend the tax credits for improvements to energy-efficient existing homes through 2010. Under current law, individuals are allowed a tax credit equal to ten percent (10%) of the amount paid or incurred by the taxpayer for qualified energy efficiency improvements installed during the taxable year. This tax credit is capped at \$50 for any advanced main air circulating fan, \$150 for any qualified natural gas, propane, oil furnace or hot water boiler, and \$300 for any item of energy-efficient building property. For 2009 and 2010, the bill would increase the amount of the tax credit to thirty percent (30%) of the amount paid or incurred by the taxpayer for qualified energy efficiency improvements during the taxable year. The bill would also eliminate the property-by-property dollar caps on this tax credit and provide an aggregate \$1,500 cap on all property qualifying for the credit. The bill would update the energy-efficiency standards of the property qualifying for the credit. *This proposal is estimated to cost \$2.034 billion over 10 years.*

**Temporary suspension of taxation of unemployment benefits.** Under current law, all federal unemployment benefits are subject to taxation. The average unemployment benefit is approximately \$300 per month. The proposal temporarily suspends federal income tax on the first \$2,400 of unemployment benefits per recipient. Any unemployment benefits over \$2,400 will be subject to federal income tax. This proposal is in effect for taxable year 2009. *This proposal is estimated to cost \$4.740 billion over 10 years.*

**Increase in Unemployment Compensation Benefits.** The bill increases unemployment weekly benefits by an additional \$25 through 2009. *This provision is estimated to cost \$8.8 billion.*

**Extension of Emergency Unemployment Compensation.** Through December 31, 2009, the bill continues the Emergency Unemployment Compensation program, which provides up to 33 weeks of extended unemployment benefits to workers exhausting their regular benefits. *This provision is estimated to cost \$26.96 billion.*

**Premium Subsidies for COBRA Continuation Coverage for Unemployed Workers.** Recession-related job loss threatens health coverage for many families. To help people maintain coverage, the bill provides a 65% subsidy for COBRA continuation premiums for up to 9 months for workers who have been involuntarily terminated, and for their families. This subsidy also applies to health care continuation coverage if required by states for small employers. With COBRA premiums averaging more than \$1000 a month, this assistance is vitally important. To qualify for premium assistance, a worker must be involuntarily terminated between September 1, 2008 and December 31, 2009. The subsidy would terminate upon offer of any new employer-sponsored health care coverage or Medicare eligibility. Workers who were involuntarily terminated between September 1, 2008 and enactment, but failed to initially elect COBRA because it was unaffordable, would be given an additional 60 days to elect COBRA and receive the subsidy. To ensure that this assistance is targeted at workers who are most in need, participants must attest that their same year

income will not exceed \$125,000 for individuals and \$250,000 for families. The Joint Committee on Taxation estimates that this provision would help 7 million people maintain their health insurance by providing a vital bridge for workers who have been forced out of their jobs in this recession. *This provision is estimated to cost \$24.7 billion.*