



FEDERATION OF AMERICAN CONSUMERS AND TRAVELERS

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What Does the “Stimulus Plan” Mean to You?

Washington, D.C., February 20, 2009 - The Federation of American Consumers and Travelers ([FACT](#)) has published a brief overview of the key tax changes affecting individuals and families in the recently enacted “American Recovery and Reinvestment Act of 2009” (the 2009 economic stimulus act).

FACT is a not-for-profit association which was founded in 1984 and which provides a variety of benefits -- ranging from [medical insurance](#) and [dental care discounts](#) to [prescription drug savings](#) and [timely consumer information](#) -- for more than 1 million Americans.

It is difficult to digest all the implications of such a mammoth act, so FACT urges consumers to check with their own CPAs or financial advisors to determine the precise effect of the following changes:

“Making Work Pay” credit. The new law provides an individual tax credit of 6.2% of earned income not to exceed \$400 for single returns and \$800 for joint returns in 2009 and 2010. The credit is phased out at adjusted gross income (AGI) in excess of \$75,000 (\$150,000 for married couples filing jointly). The credit can be claimed as a reduction in the amount of income tax that is withheld from a paycheck, or through a credit on a tax return. Under the credit, workers can expect to see perhaps \$13 a week less withheld from their paychecks starting around June. Next year, the extra take-home pay will go down to around \$9 per week.

Economic recovery payment. The new law provides for a one-time payment of \$250 to retirees, disabled individuals and Social Security beneficiaries, SSI recipients receiving benefits from the Social Security Administration, and Railroad Retirement beneficiaries -- as well as to veterans receiving disability compensation and pension benefits from the U.S. Department of Veterans' Affairs. The one-time payment is a reduction to any allowable Making Work Pay credit. The Treasury must begin disbursing this payment as soon as practicable, but no later than 120 days after enactment.

Refundable credit for certain federal and state pensioners. The new law provides 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.

Unemployment compensation exclusion. A provision temporarily suspends federal income tax on the first \$2,400 of unemployment benefits received by a recipient in 2009.

Expanded and revised higher education tax credit. The new law creates a \$2,500 higher education tax credit that is available for the first four years of college. The credit is based on 100% of the first

\$2,000 of tuition and related expenses (including books) paid during the tax year and 25% of the next \$2,000 of tuition and related expenses paid during the tax year, subject to a phase-out for AGI in excess of \$80,000 (\$160,000 for married couples filing jointly). Forty percent of the credit is refundable. The new credit temporarily replaces the Hope credit.

Computers as an education expense. A provision permits computers and computer technology to qualify as qualified education expenses in 529 education plans for tax years beginning in 2009 and 2010.

Expanded first-time credit for first-time home buyers. Last year, Congress provided taxpayers with a refundable tax credit that was equivalent to an interest-free loan equal to 10% of the purchase of a home (up to \$75,000) by first-time home buyers. The provision applied to homes purchased on or after April 9, 2008 and before July 1, 2009. Taxpayers receiving this tax credit were required to repay any amount received under this provision to the government over 15 years in equal installments (or earlier if the home was 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 new law enhances the credit by eliminating the repayment obligation for taxpayers who purchased homes on or after January 1, 2009. It also extends the credit through the end of November 2009, and bumps up the maximum value of the credit from \$7,500 to \$8,000.

Tax break for new car purchasers. Sales tax is generally not a deductible item for individuals. Under the new law, buyers can claim an income tax deduction for the sales or excise tax they pay on a vehicle purchase. Key details of this new tax incentive include:

The tax break applies to purchases of passenger cars, minivans, light trucks, motorcycles, and motor homes, but it only applies on \$49,500 of the vehicle's price and it only applies to new vehicles. It covers new vehicles purchased between the date of enactment of the bill's enactment and the end of 2009.

You do not have to itemize your deductions to be able to claim the deduction. However, the deduction cannot be taken by a taxpayer who elects to deduct state and local sales tax.

Only couples making less than \$250,000 a year, or individuals making less than \$125,000 annually, qualify for the full deduction.

Alternative minimum tax (AMT) patch. To hold the number of taxpayers subject to the AMT at bay, the new law increases the AMT exemption amounts for 2009 to \$46,700 for individuals and \$70,950 for joint returns, and allows the personal credits against the AMT.

Vicki Rolens, Managing Director of FACT, says, "FACT is not in the tax-advice business. We believe the information above is accurate and may be helpful to consumers, but any tax decisions anyone makes should be done with the counsel and help of a qualified tax professional."

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Questions may be directed to FACT by sending an e-mail to cservice@usafact.org. More information on the Federation of American Consumers and Travelers may be found in the *Encyclopedia of Associations*, and by visiting the association's web site (www.usafact.org). [The organization was formed](#) under the not-for-profit corporation laws of the District of Columbia in 1984. Its administrative office is located at 318 Hillsboro Avenue, Edwardsville, IL 62025.