

# american recovery & reinvestment act of 2009

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**the** American Recovery and Reinvestment Act (Economic Stimulus Bill) makes numerous changes to the tax law. The changes seek to stimulate the economy by providing tax breaks and credits related to homes, autos and education. The following summarizes some of the changes.

### Changes for Individuals

- **Section 529 plans.** Computers and technology will qualify as education expenses for purposes of making tax free distributions from Section 529 plans.
- **Car buying.** New car buyers may deduct state and local sales taxes paid on the purchase of a new car. (This break phases out for single taxpayers earning more than \$125,000 per year and married taxpayers earning more than \$250,000.)
- **Education Credit.** The Hope Credit is amended to create a new "American Opportunity" tax credit for certain tuition and qualified expenses.
- **Unemployment compensation exclusion.** Federal income tax is temporarily suspended on the first \$2,400 of unemployment benefits received in 2009.
- **Credit for first time homebuyers.** A previous refundable tax credit for new homebuyers has been extended and increased in amount.
- **Tax Credits for Energy Efficient Improvements.** Tax credits are provided to encourage improvements that will result in energy-efficient homes.

### Changes for Businesses

- **S corporation built in gains.** The holding period to avoid built in gains taxes is reduced from ten years to seven years during 2009 and 2010.
- **Bonus Depreciation.** A provision permitting bonuses to immediately expense one half the cost of eligible property has been extended into 2009.

- **Sale of Small Business Stock.** 75% of the gain on qualified small business stock may be excluded from capital gains through January 1, 2011.
- **Expansion of Work Opportunity Credit.** Businesses are encouraged to hire unemployed veterans and disconnected youth as a result of the expansion of a tax credit to include these two groups.

### Changes to COBRA

COBRA has long provided a way for employees to continue health insurance for a period of time following the loss of a job. Employers subject to COBRA (20 or more employees) sponsoring group health plans are required to offer continuing coverage to terminated employees.

The cost of the continuing coverage however is at the cost of the terminated employee and the COBRA premium is often higher. The Economic Stimulus Bill provides that eligible individuals will be required to pay only 35 percent of their COBRA premiums. That balance will be reimbursed to the coverage provider by a tax credit.

Individuals eligible for the credit are those who become eligible for COBRA between September 1, 2008 and December 31, 2009 as a result of involuntary termination of employment. Those who are eligible for other group health coverage or Medicare cannot receive the premium reduction. Income limitations apply to eligibility.

Employers sponsoring group health plans are required to provide notice about the new rules to employees who have COBRA qualifying events since September 1, 2008.

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