

## The 2009 Economic Stimulus Package and You

*The American Recovery and Reinvestment bill that President Obama signed into law on Feb. 17 contains a number of important provisions that pertain to individual and household finances.*

*The following are highlights of these provisions. As you read these, please remember that while we have done our best to provide you with as much helpful detail as possible, we take no responsibility for omissions and errors. It is your responsibility to review this information with your accountant/ tax expert as to how these provisions apply to you. Or you should visit the IRS website for additional information – [www.irs.gov](http://www.irs.gov)*

### First-Time Home Buyers

- First-time home buyers who purchase a home between Jan. 1 and Nov. 30 can qualify for a tax credit of up to \$8,000, or 10 percent of the purchase price. Home buyers who sell the home within three years or it stops being their principal residence during that time will have to pay the credit back.
- The credit starts to phase out for buyers with incomes above \$75,000 for individuals and \$150,000 for couples.
- The credit included in the stimulus plan is more lucrative than a similar benefit that was in effect last year. That credit included a provision that required the \$7,500 tax break be repaid over a 15-year period, effectively turning it into an interest-free loan.
- The credit can be taken on 2008 taxes even when the purchase is made in 2009.

### Homeowners

1. Affordability: Refinancing through Fannie Mae or Freddie Mac
  - Homeowners who put money down and made their mortgage payments on time have – through no fault of their own – seen the value of their homes drop low enough to make them unable to access prevailing lower rates. If they took out conforming loans owned or guaranteed by Freddie Mac and Fannie Mae they can now refinance through the two institutions to access lower interest rates and reduce their monthly payments
  - Low-cost refinancing could reduce mortgage payments by thousands of dollars per year:
2. Stability: For at-risk homeowners:
  - Helps homeowners who commit to make reasonable monthly mortgage payments to stay in their homes
  - This initiative will not aid speculators or house flippers.
  - The average homeowner could see his or her home value stabilized against declines in price by as much as \$6,000 relative to what it would otherwise be absent the Homeowner Stability Initiative.
  - Loan modifications will include households at risk of imminent default despite being current on their mortgage payments.

- The Homeowner Stability Initiative has a simple goal: reduce the amount homeowners owe per month to sustainable levels. It will do this through the following:
  - ✓ The lender would first be responsible for bringing down interest rates so that the borrower's monthly mortgage payment is no more than 38 percent of his or her income. Next, the initiative would match further reductions in interest payments dollar-for-dollar with the lender to bring that ratio down to 31 percent. That lower interest rate must be kept in place for five years, after which it could gradually be stepped up to the conforming loan rate in place at the time of the modification. Lenders will also be able to bring down monthly payments by reducing the principal owed on the mortgage, with Treasury sharing in the costs.
  - ✓ Servicers will receive an up-front fee of \$1,000 for each eligible modification meeting guidelines established under this initiative. They will also receive "pay for success" fees – awarded monthly as long as the borrower stays current on the loan – of up to \$1,000 each year for three years.
  - ✓ Borrowers will receive an extra incentive to keep paying on time. The initiative will provide a monthly balance reduction payment that goes straight towards reducing the principal balance of the mortgage loan. As long as a borrower stays current on his or her loan, he or she can get up to \$1,000 each year for five years.
  - ✓ Lenders who stay focused on reaching borrowers who are trying their best to stay current on their mortgages will receive an incentive payment of \$500 and an incentive payment of \$1,500 will be paid to mortgage holders, if they modify at-risk loans before the borrower falls behind.
  - ✓ Lenders will be encouraged to modify more mortgages and enable more families to keep their homes, through the Administration's and FDIC's innovative partial guarantee initiative. The insurance fund – to be created by the Treasury Department at a size of up to \$10 billion – will be designed to discourage lenders from opting to foreclose on mortgages that could be viable now out of fear that home prices will fall even further later on. Holders of mortgages modified under the program would be provided with an additional insurance payment on each modified loan, linked to declines in the home price index

## **FHA**

- Loan limits for reverse mortgages insured by the Federal Housing Administration have been increased to \$625,500 across the country. The program, which took effect Jan. 1, allows older homeowners to use the proceeds from a reverse mortgage to purchase a new principal residence. To qualify for a new purchase reverse mortgage, buyers need to be seniors over age 62 and presently own a home.
- The maximum FHA loan limit for high-cost areas has been restored to the 2008 level of \$729,750.

## Tax Credits for Energy Improvements

- Homeowners who make energy-efficient improvements to their property can qualify for tax credits of up to 30 percent, or a maximum of \$1,500.
- *Windows, Insulation, Central Air Conditioning systems and Metal or Asphalt roofing.* These improvements qualify for tax credits. A detailed list of qualified improvements is available at [www.energystar.gov](http://www.energystar.gov)
- *For windows, doors, insulation and other similar projects* that tighten up the "shell" of your home, the credit is limited to the cost of materials.
- *If you buy a new air conditioner, furnace, heat pump or boiler* that meets the energy-efficient guidelines, you can include the cost of installation in calculating the credit.
- *Solar Hot Water Heaters.* The NEW credit removes a \$2,000 limit on the credit you could receive for a new system, so larger solar hot water systems will be eligible for the full 30% tax credit. The previous tax credit cap of \$2,000 meant that you wouldn't get any additional help if your solar hot water system cost more than \$6,667, which many do. To qualify, the solar hot water system must provide at least 50% of your home's hot water, and it can't be used for heating pools.
- *Solar Photovoltaic Systems.* As with a solar hot water system, the NEW tax credit removes the previous \$2,000 maximum benefit cap. You now get 30% of the cost as a credit regardless of the total amount. Because solar PV systems are so expensive, this is a MAJOR new benefit.
- *Geothermal Heat Pumps.* They're among the most efficient ways to heat or cool our homes, but they're very expensive. The new stimulus package gives you a 30% credit with no upper cap for installing one, as long as it is an Energy Star version. As with solar PV systems, this can mean thousands of dollars for you. Previously, the credit was for 30% but was capped at \$2,000.
- *Cool Roofs.* Can save major money if you live in a climate where air conditioning bills dominate your utility spending. Now, you can get up to a \$1,500 tax credit (30% of the installation cost) for a cool roof, whereas the previous amounts were only 10% of the cost with a maximum of \$300.
- *Residential Wind Energy Systems.* You can get up to 30% of the cost back as a tax credit with no cap on the total amount. This isn't as much of a benefit as in other categories, for the previous maximum credit amount for small wind systems was \$4,000. To get any added benefit, you'll have to spend at least \$13,300, which is a pretty large turbine on your property!
- *High Efficiency Hot Water Heaters.* The new tax credit is for 30% of the installation cost up to \$1,500. However, the new unit must have an energy factor of at least 0.82, which rules out even the new Energy Star storage hot water heaters.
- Just like for income tax deductions, homeowners must maintain records. This means saving the Energy Star labels that come on windows, all sales receipts, as well as any manufacturer's certification statements.
- All products must be placed in service between January 1, 2009 and December 31, 2010.
- Products or energy-saving appliances must have been installed in the taxpayer's primary residence.

## Car buyers

- New car buyers can deduct the sales and excise taxes they pay on vehicles purchased after Feb. 16 through the end of this year.
- The deduction is limited to the first \$49,500 of the vehicle's purchase price and is phased out for buyers whose incomes exceed \$125,000 for individuals and \$250,000 for couples filing jointly.
- The deduction helps reduce your taxable income, so even taxpayers who claim the standard deduction can claim this tax break. But the tax savings will depend on a taxpayer's tax bracket.
- The number of taxpayers eligible for a tax break on hybrid vehicles has been expanded.
- Taxpayers who purchase an IRS-certified hybrid — a vehicle that combines an electric motor with a gas engine — are eligible for tax credits ranging from \$250 to \$3,000, depending on the type of vehicle.
- Taxpayers subject to the alternative minimum tax are also eligible for the hybrid tax credit. However, the credit cannot exceed your tax liability.
- Once a manufacturer has sold 60,000 hybrid vehicles, the credit phases out and gradually disappears. Toyota and Honda hybrids are no longer eligible for the tax credit. To find a list of hybrids that are still eligible, go to [www.fueleconomy.gov](http://www.fueleconomy.gov)

## College Tuition and Support

- *The Hope Scholarship Credit* worth a maximum of \$1,800 is replaced with a new credit that is worth up to \$2,500 both this year and in 2010. The credit covers the first \$2,000 in eligible expenses, such as tuition, fees and books, and then 25 percent of the next \$2,000 in eligible expenses.
- The new credit also is 40 percent refundable, which means it is paid to taxpayers even if they have little or no tax liability.
- The new credit is available to more families than the old Hope credit was, and can be used for the third and fourth years of college, as well as the first two years. The income limits for the new credit also are higher, phasing out for incomes above \$80,000 for individuals and \$160,000 for couples filing jointly, up from \$50,000 and \$100,000 under the Hope program.
- *Section 529 College Savings Plans*: This year and in 2010, funds from these plans may be used to purchase computers and other computer equipment, as well as to pay for Internet access.
- *Pell Grants*: The maximum for low-income students rises by \$500 to \$5,350 for the 2009-10 academic year and to \$5,500 the next.

## Unemployment Benefits

- Workers receiving unemployment benefits won't have to pay income taxes on the first \$2,400 in benefits received this year. These benefits previously had been completely taxable.
- Unemployment benefits will rise temporarily by \$25 a week.

- Unemployment benefits will also include a 33-week expansion, extending the period laid-off workers in New York can get the benefits to 59 weeks.
- The federal government will pay 65 percent of the health insurance premiums unemployed workers pay under the COBRA program, which lets former employees keep the same health coverage they had at their old jobs.
- The subsidies apply to workers who were laid off between Sept. 1, 2008, and the end of 2009 and will last for up to nine months.
- Workers who lost their jobs between Sept. 1, 2008, and Feb. 17 and didn't sign up for health coverage under COBRA will get an extra 60 days to reconsider under the new terms. The subsidy is limited to workers whose incomes are less than \$125,000 for individuals and \$250,000 for couples filing jointly.
- The COBRA provisions are important because the cost of health insurance can eat up most of a laid-off worker's unemployment benefits. In New York, the typical monthly cost of COBRA family coverage amounts to about 85 percent of a worker's average monthly unemployment benefits.
- Laid-off workers can also switch to cheaper health-care plans in Cobra, if their employers offer them, without having to wait for an open-enrollment period. This might also help some people who chose the more-expensive health-care plans offered by their employers when they had their jobs.
- A Web site that lays out many private and public insurance programs is available at [www.coverageforall.org](http://www.coverageforall.org), a project of the Foundation for Health Coverage Education, a nonprofit group funded by health insurers and foundations, and at the industry-funded [www.nahu.org](http://www.nahu.org).

### **Taxes Cuts for Individuals and Households**

- The tax cuts included in the stimulus plan will reduce the tax burden on 97 percent of American families.
- The effect of tax cuts will boost the average family's after-tax income by 2 percent, or an average of \$1,179. The biggest tax savings will go to people in the bottom fifth of the income spectrum. These taxpayers will see their after-tax incomes rise by an average of 4.7 percent.
- Almost half of the \$280 billion in tax cuts included in the stimulus plan will go toward the "Making Work Pay" tax credit.
- The "Making Work Pay" credit provides up to \$400 per person or \$800 for couples filing income tax returns jointly (the credit is equal to 6.2 percent of earnings). People making \$75,000 or less (\$150,000 per couple) get the full credit. Individuals making no more than \$100,000 and couples who make less than \$200,000 can get a partial credit. The credit will be given out gradually and amount to roughly \$15 per two-week pay period. Low-income families who owe no income tax can also receive the refundable credit.
- There is a tax break for higher-income families: This one-year provision protects middle- and upper-middle-income families from having to pay the Alternative Minimum Tax

## **Small Businesses**

- The Small Business Administration (SBA) temporarily will guarantee 100 percent of loans of up to \$35,000 issued by banks to small businesses that are struggling to make payments on existing debt.
- The SBA will subsidize the interest on the loan, and small businesses will have a year before they have to start repaying it.
- The stimulus package has \$92 billion to strengthen community banks across the country. These banks are supposed to use the funds to help small businesses in their local area. Check the Treasury reports to find a bank near you. (Source: U.S. Treasury, [TARP Program Transactions](#), 3/16/09)
- Also included is \$54 billion in various tax write-offs for small businesses.
- Businesses with gross receipts of \$15 million or less can write off 2008 losses against the five previous tax years instead of the past two years. They also can immediately write off more of their investments in computers and other equipment.
- Businesses repurchasing debt at a lower amount than when it was issued will be able to defer taxes on it. Usually reduced or canceled debt is treated as income and taxed. The break applies to debt repurchased adjusted after Dec. 31, 2008, and before Jan. 1, 2011.
- The 3% withholding tax is to be delayed on payments to businesses that sell goods or services to governments.
- The capital gains tax is cut for small business investors who hold stock for at least five years.
- There will be tax credits for businesses that hire veterans and youth.
- The bonus depreciation for investments in plants and equipment is to be extended.

## **Low-income and Fixed Income**

- More taxpayers will be eligible to claim the child tax credit. The stimulus package also makes it easier for taxpayers who don't owe any income tax to claim the credit.
- Under last year's rules, taxpayers with dependent children under age 17 needed at least \$8,500 in income to benefit from the credit. The stimulus plan lowers that income threshold to \$3,000.
- The earned income tax credit also is expanding for the next two years. The maximum credit for a qualifying family with three or more children will rise by \$629 to \$5,657.
- Food stamp benefits will increase by 13.6 percent, hiking the maximum monthly benefit for a family of four by \$80 to \$668 from \$588, according to the U. S. Department of Agriculture.
- Individuals who receive Social Security benefits; railroad retirees; disabled veterans; and government retirees who aren't eligible for Social Security will receive a one-time payment of \$250.
- The stimulus offers \$87 billion to help states administer Medicaid. That could slow or reverse some of the steps states have taken to cut the program. (Check with the Department of Social Services for additional information).

## **Military Families**

- Assistance for service members who have been foreclosed upon or have to sell because of a base closure, reassignment or combat wound requiring a move nearer a health facility. The program also covers surviving spouses of those killed in combat.
- Not all military members are eligible for the aid, which is restricted to the primary residence of the service member and only to homes purchased before July 1, 2006 when the housing market began sliding.
- For more information, service members and their families should go to the Defense Department's [Homeowners Assistance Program](#).