

# Overview of Federal Tax Relief for Individuals and Families

The American Recovery and Reinvestment Act of 2009 has made the Internal Revenue Service (IRS) responsible for implementing several tax changes that will provide relief to the American taxpayer and spur job growth. The following are key tax provisions that can directly impact American Individuals and Families. Please check back for updates as more information becomes available.

*Information presented below provides only a summary of the opportunities made available through the passage of the American Recovery and Reinvestment Act of 2009 and individuals should seek a detailed explanation of opportunities available through the American Recovery and Reinvestment Act, U.S. Internal Revenue Service, or the U.S. Department of Treasury's websites.*

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### **Alternative Motor Vehicle Credit**

Starting in 2009, the new law allows the Alternative Motor Vehicle Credit, including the tax credit for purchasing hybrid vehicles, to be applied against the Alternative Minimum Tax (AMT). Prior to the new law, the Alternative Motor Vehicle Credit could not be used to offset the AMT. This means the credit could not be taken if a taxpayer owed AMT or was reduced for some taxpayers who did not owe AMT.

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### **“American Opportunity” Education Tax Credit**

The ARRA would provide financial assistance for individuals seeking a college education. The law renames the current federal HOPE credit available for post-secondary education expenses. The change expands the maximum credit to \$2,500 for tax years 2009 and 2010 and allows taxpayers to claim the credit for up to four years.

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).<sup>1</sup>

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### **COBRA Premium Subsidy**

Workers who have lost their jobs may qualify for a 65 percent subsidy for COBRA continuation premiums for themselves and their families for up to nine months.

Eligible workers will have to pay 35 percent of the premium to their former employers. To qualify, a worker must have been involuntarily separated between Sept. 1, 2008, and Dec. 31, 2009. Workers who lost their jobs between Sept. 1, 2008, and enactment, but failed to initially elect COBRA because it was unaffordable, get an additional 60 days to elect COBRA and receive the subsidy.

This subsidy phases out for individuals whose modified adjusted gross income exceeds \$125,000, or \$250,000 for those filing joint returns. Taxpayers with modified adjusted gross income exceeding \$145,000, or \$290,000 for those filing joint returns, do not qualify for the subsidy.

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### **Expand Earned Income Tax Credit (EITC)**

For 2009 and 2010, a larger Earned Income Tax Credit (EITC) is available for families with three or more qualifying children. The law also reduces the marriage penalty by increasing the income level at which the EITC begins to phased out for married couples; the phase out rate for married couples will be \$5,000 more than for single filers.

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### **Extension of Alternative Minimum Tax Relief**

The Alternative Minimum Tax (AMT) is an additional tax computation designed to ensure that taxpayers who receive significant tax deductions and exemptions pay at least some level of federal income tax. The AMT calculation allows for certain income exemption amounts. These exemption amounts are not indexed for inflation but are specified by law for each tax year. The new federal law increases the 2009 exemption levels so that fewer middle-income taxpayers will be subject to the AMT. The exemption amounts for tax year 2009 are increased to \$70,950 for married couples and \$46,700 for single filers.

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### **First-time Homebuyers**

The Act extends the existing credit to qualifying first-time home purchases made before December 1, 2009, increases the maximum credit amount to \$8,000 (\$4,000 for a married individual filing separately), and repeals repayment requirement under Housing and Economic Recovery Act of 2008. If the taxpayer disposes of the home or the home otherwise ceases to be the principal residence of the taxpayer within 36 months from the date of purchase, the present law rules for recapture of the credit will apply.

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### **Fuel Cell Tax Credit for Home**

A taxpayer may claim a credit of 30% of qualified expenditures for a system that serves a dwelling unit located in the United States and used as a residence by the taxpayer. Expenditures include labor costs for onsite preparation, assembly or original system installation, and for piping or wiring to interconnect a system to the home.

The maximum credit is \$500 per half kilowatt (kW). Systems must be placed in service on or after January 1, 2006, and on or before December 31, 2016. The fuel cell must have a nameplate capacity of at least 0.5 kW of electricity using an electrochemical process and an electricity-only generation efficiency greater than 30%. In case of joint occupancy, the maximum qualifying costs that can be taken into account by all occupants for figuring the credit is \$1,667 per half kilowatt. This does not apply to

married individuals filing a joint return. The credit that may be claimed by each individual is proportional to the costs he or she paid. The home served by the system *must* be the taxpayer's principal residence.

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### **Health Coverage Tax Credit**

The HCTC helps certain trade-affected workers, retirees, and their families pay their health insurance premiums. The HCTC makes health coverage more affordable by paying 65% of health insurance premiums for individuals who are eligible for the tax credit. Changes That Affect All HCTC Eligible Individuals due to passage of this law are:

The HCTC now pays a greater portion of your health insurance costs. The tax credit has increased from 65% to 80% of qualified health insurance premiums. If you are a monthly HCTC participant, the 80% tax credit amount will be reflected on your HCTC invoice beginning in April 2009.

Newly-enrolled participants will soon be able to receive a credit on their HCTC account for qualified health insurance payments they paid in 2009 while enrolling in the monthly HCTC Program. The HCTC Program will begin offering this option in August 2009.

The HCTC will soon be available to your family members for a longer period of time. Beginning in January 2010, qualified family members may continue receiving the HCTC for up to 24 months (but not beyond December 31, 2010) after the primary eligible individual experiences including enrollment in Medicare, divorce, and death.

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### **Increase in Child Tax Credit**

The new law increases eligibility for the refundable federal additional child tax credit in 2009 and 2010. The child tax credit is targeted to tax filers with adjusted gross income under \$75,000 for single filers and \$110,000 for married joint filers and is equal to \$1,000 per qualifying child. However, because the credit is nonrefundable, the credit can only be as much as a taxpayer's tax liability. Taxpayers with unused credits may be eligible for an additional child tax credit that is refundable. It is equal to the unused credit or 15% of the taxpayer's earned income that is in excess of a specified amount, whichever is less. For 2009 and 2010, the income threshold for taxpayers to receive a portion of the Child Tax Credit as a refund is lowered from \$8,500 to \$3,000, resulting in larger credits.

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### **Making Work Pay**

For 2009 and 2010, this new credit is worth up to \$400 to individuals and up to \$800 for married couples filing jointly. The credit is refundable, which means the credit is available even to those who have no tax liability. The credit is reduced for taxpayers with adjusted gross incomes exceeding \$75,000 (\$150,000 for married couples filing jointly.)

The Making Work Pay tax credit will primarily be distributed through reduced withholding on wages. Taxpayers who do not receive the full benefit through reduced withholding can claim the remaining credit on their annual tax return.

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### **New Car Deductions**

Purchasers of new vehicles may deduct, from federal taxable income, the amount of sales tax paid on the purchase of a new car, SUV, light truck, or motorcycle. The deduction would apply to the sales tax paid up to \$49,500 of the purchase price, and would phase out for taxpayers with incomes over \$125,000 (\$250,000 joint returns) on purchases from 2/17/2009 through 12/31/2009.

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### **Plug-In Electric Drive Vehicle Credit**

The new law modifies the credit for qualified plug-in electric drive vehicles purchased after Dec. 31, 2009. To qualify, vehicles must be newly purchased, have four or more wheels, have a gross vehicle weight rating of less than 14,000 pounds, and draw propulsion using a battery with at least four kilowatt hours that can be recharged from an external source of electricity. The minimum amount of the credit for qualified plug-in electric drive vehicles is \$2,500 and the credit tops out at \$7,500, depending on the battery capacity.

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### **Plug-In Electric Drive Conversion Kit Credit**

The new law provides a tax credit for plug-in electric drive conversion kits. The credit is equal to 10 percent of the cost of converting a vehicle to a qualified plug-in electric drive motor vehicle and placed in service after Feb. 17, 2009. The maximum amount of this credit is \$4,000. The credit does not apply to conversions made after Dec. 31, 2011. A taxpayer may claim this credit even if the taxpayer claimed a hybrid vehicle credit for the same vehicle in an earlier year.

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### **Qualified Transportation Fringe Benefits**

Under the American Recovery and Reinvestment Act (ARRA), the monthly tax exclusion for employer-provided commuter highway vehicle transportation and transit pass benefits increased to \$230, effective from March through December 2009.

Employees may exclude from income \$230 per month in transit benefits and \$230 per month in parking benefits — up to a maximum of \$460 per month. Employees may receive benefits for commuter transportation and transit passes and benefits for parking during the same month; they are not mutually exclusive.

These qualified transportation fringe benefits are excluded from an employee's gross income for income tax purposes and from an employee's wages for payroll tax purposes.

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### **Refundable Credit for Certain Federal and State Pensioners**

A one-time federal payment of \$250 will be available for retirees, disabled individuals, and Supplemental Security Insurance (SSI) recipients receiving benefits from the Social Security Administration, Railroad Retirement, or the U.S. Department of Veterans Affairs. This payment reduces any Making Work Pay credit for which the recipient would be eligible.

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### **Residential Energy Efficient Property Credit**

This nonrefundable energy tax credit will help individual taxpayers pay for qualified residential alternative energy equipment, such as solar hot water heaters, geothermal heat pumps and wind turbines. The credit will equal up to 30 percent of the cost of qualified property.

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### **Residential Energy Property Credit**

The new law increases the energy tax credit for homeowners who make energy efficient improvements to their existing homes. The new law increases the credit rate to 30 percent of the cost of all qualifying improvements and raises the maximum credit limit to \$1,500 for improvements placed in service in 2009 and 2010.

The credit applies to improvements such as adding insulation, energy efficient exterior windows and energy-efficient heating and air conditioning systems. Until the guidance

is released, homeowners generally may continue to rely on manufacturer' certifications that were provided under guidance issued for the 2007 tax credit.

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### **Suspension of Tax on Portion of Unemployment Compensation**

The first \$2,400 of unemployment compensation is excluded from gross income in 2009. This exclusion will reduce taxable income for Delaware taxpayers on both their federal and state tax returns.

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### **Helpful Links:**

**American Recovery and Reinvestment Act:** <http://recovery.gov>

**U.S. Department of Treasury:** <http://www.treas.gov/recovery/programs.shtml>

**Internal Revenue Service:** <http://www.irs.gov/individuals/index.html>