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Stimulus Act Includes Tax Breaks for Businesses and Individuals

On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act of 2009. It is one of the largest pieces of legislation in U.S. history with a total price tag of \$787 billion. While its contents are far reaching, the following are some major highlights that affect small businesses and individuals:

Changes for Business Taxpayers

Expensing qualified property – This continues to be a favorite tax break given by Congress. Affectionately known as Section 179, for its section in the internal revenue code, companies can expense up to \$250,000 in the first year that qualifying assets are placed in service. Prior to passage of this bill, this was set at \$133,000.

Bonus depreciation – In 2008, businesses were able to take “bonus” depreciation expense of up to 50% of the cost of newly acquired fixed assets. This provision has been extended for assets placed in service in 2009.

Expansion of loss carry back - Companies that incur operating losses in a year are allowed to offset those losses against income earned in previous periods. Thus they can obtain a refund on taxes paid in prior years. Losses incurred in tax years ending after December 31, 2007 can now carry back those losses for five years. Previously, companies were able to carry losses back only two years. This is available to companies with sales of \$15 million or less.

Vehicle depreciation - Depreciation expense for passenger vehicles in their first year of service increased from \$2,960 to \$10,960. Depreciation expense for light trucks and vans increased from \$3,160 to \$11,160. This is for vehicles placed into service in 2009.

Changes for Individual Taxpayers

Tax credit for earned income – Individual taxpayers will receive a \$400 tax credit and couples will receive an \$800 tax credit. This credit is available for those with earned income, i.e. wages. This credit will phase out starting at \$75,000 for individuals and \$150,000 for couples.

First time home buyers - A credit of \$8,000 is being offered to first time home buyers that purchase a primary residence before December 1, 2009. To keep the credit they buyer must maintain the house as their personal residence for 36 months. There are income phase out limits that affect one’s eligibility to claim the credit.

Car buyers – Any taxpayer that purchases a new car in 2009 can take a deduction for the sales tax paid on the vehicle. This does not apply to used car sales. For taxpayers that itemize, the taxes can be taken in as an itemized deduction. For those that do not itemize, a taxpayer may increase their standard deduction by the amount of sales and excise taxes paid. Income limits apply to the deductibility.

Increase in Hope credit – The Hope credit is available to tax payers for expenses incurred in the first two years of post-secondary education. This credit has been increased from \$1,800 to \$2,500. Income limits have been increased from \$50,000 to \$80,000 for individuals and from \$100,000 to \$160,000 for married filing jointly before any phase outs are triggered.

Unemployment compensation - For 2009 a taxpayer may exclude the first \$2,400 of unemployment compensation received from gross income.

Liberalized rules for 529 spending – There has been an expansion of items that can be considered qualified education expenses in spending money from a 529 plan. Qualifying expenses now include computer equipment and related services, including Internet access.

As previously noted, these are just some of the highlights that affect most business and individual taxpayers. If you have any questions about any of the items in the new tax act, please feel free to email Jamie Downey at jmdowney@downeycocpa.com.

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