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To: State Unit Directors
From: Martha Roherty, Melanie McNeil, and Cathy Rudd
RE: Tax Changes in H.R. 1 The American Recovery and Reinvestment Act

The recently enacted American Recovery and Reinvestment Act (ARRA) had a number of tax changes that could impact seniors and individuals with disabilities. This memo outlines several of the key tax changes for both individuals as well as state governments.

Tax Changes for Individuals in ARRA

“Making Work Pay Credit” (Section 1001): For 2009 and 2010, ARRA would provide a refundable tax credit of up to \$400 for working individuals and \$800 for working families. This tax credit would be calculated at a rate of 6.2 percent of earned income, and would phase out for taxpayers with adjusted gross income in excess of \$75,000 (\$150,000 for married couples filing jointly). Taxpayers can receive this benefit through a reduction in the amount of income tax that is withheld from their paychecks, or through claiming the credit on their tax returns. This provision applies to taxable years beginning after December 31, 2008.

Economic Recovery Payment to Recipients of Social Security, SSI, Railroad Retirement and Veterans Disability Compensation Benefits (Section 2201): The bill would provide a one-time payment of \$250 to retirees, disabled individuals and SSI recipients receiving benefits from the Social Security Administration, Railroad Retirement beneficiaries, and disabled veterans receiving benefits from the U.S. Department of Veterans Affairs. The one-time payment is a reduction to any allowable Making Work Pay Credit. The one-time payment will not be taken into account as income for nine months for other services for which the individual may be eligible such as food stamps or Medicaid. The payments shall be made as soon as possible but no later than 120 days after the enactment of the legislation.

Refundable Credit for Certain Federal and State Pensioners (Section 2202): The Act 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 and is for those retirees who are not eligible for Section 2201 funding. The credit will not be taken into account as income.

Expand Earned Income Tax Credit (EITC) (Section 1002): The bill would increase the earned income tax credit to forty-five percent (45%) of the family's first \$12,570 of earned income for families with three or more children and would increase the beginning point of the phase-out range for all married couples filing a joint return (regardless of the number of children) by \$1,880. The EITC is a refundable tax credit, meaning that if the amount of the credit exceeds the taxpayer's federal income tax liability, the excess is payable to the taxpayer as a direct transfer payment. The provision applies to taxable years beginning after December 31, 2008.

Sales Tax Deduction for Vehicle Purchases (Section 1008): The bill provides all taxpayers with a deduction for state and local sales and excise taxes paid on the purchase of new cars, light trucks, recreational vehicles, and motorcycles until January 1, 2010. The deduction is limited to the tax on up to \$49,500 of the purchase price of a qualified vehicle. This deduction is subject to a phase-out for taxpayers with adjusted gross income in excess of \$125,000 (\$250,000 in the case of a joint return).

Temporary suspension of taxation of unemployment benefits. (Section 1007): Under current law, all federal unemployment benefits are subject to taxation. The average unemployment benefit is approximately \$300 per month. The bill temporarily suspends federal income tax on the first \$2,400 of unemployment benefits per recipient. Any unemployment benefits over \$2,400 will be subject to federal income tax. This suspension is in effect for taxable year 2009.

Extension of Alternative Minimum Tax (AMT) relief for 2009 (Section 1011 and 1012): The legislation would provide more than 26 million families with tax relief in 2009 by extending AMT relief for nonrefundable personal credits and increasing the AMT exemption amount by \$70,950 for joint filers and \$46,700 for individuals. This extension is estimated to cost \$69.8 billion over 10 years.

Treasury Department Low-Income Housing Grants in Lieu of Tax Credits. (Section 1404 and Section 1602) The Act would allow taxpayers to receive a grant from the Treasury Department in lieu of tax credits. Under this provision, state housing agencies would receive a grant equal to up to 85 percent of 40 percent of the state's low-income housing tax credit allocation in lieu of the low-income housing tax credits they would have received. The sub-awards are subject to the same requirements (including rent, income, and use restrictions on such buildings) as the low-income housing tax credit allocations. The grant program would apply to each state's 2009 low-income housing tax credit allocation.

State Tax Changes

Coordination of Low-Income Housing Credit and Grants (Section 1602): The Act permits states to elect to substitute a portion of low-income housing credit allocation for 2009 for grants. The low-income housing grant election amount for a State is an amount elected by the State, subject to certain limits. A state receiving a grant under this provision is to use these monies to make sub-awards to finance the construction, or acquisition and rehabilitation of qualified low-income buildings as defined under the low-income housing credit.

Tax Credits for Energy-Efficient Improvements to Existing Homes The bill would extend the tax credits for improvements to energy-efficient existing homes through 2010. For 2009 and 2010, the bill would increase the amount of the tax credit to 30 percent of the amount paid or incurred by the taxpayer for qualified energy efficiency improvements during the taxable year. The bill would also eliminate the property-by-property dollar caps on this tax credit and provide an aggregate \$1,500 cap on all property qualifying for the credit.

Changes Impacting Employers

Work Opportunity Tax Credit (Section 1221): The Work Opportunity Tax Credit (WOTC) is available for employers hiring individuals from one or more targeted groups. The amount of the credit is determined by the amount of qualified wages paid by the employer. The nine categories include: families receiving TANF, qualified veterans, qualified ex-felons, designated community residents (for individuals living in empowerment zones, enterprise communities, or rural renewal communities), vocational rehabilitation referrals, qualified summer youth employees, qualified food stamp recipients (between the ages of 18-40), qualified SSI recipients and long-term family assistance recipients. The ARRA changes the WOTC to include an expanded definition of qualified veterans and it also adds a new category of disconnected youth.