



Historic Stimulus Strives to Spur Economy

In an attempt to address the nation's ongoing economic challenges, Congress has passed and the president has signed the American Recovery and Reinvestment Act of 2009. The \$787 billion package is remarkable not only in its scale and scope but in the speed of its passage as well.

The bill combines \$282 billion in tax relief with more than \$500 billion in government spending that ranges from meeting basic human needs to investments in infrastructure and scientific research.¹ The resulting increase in the federal budget deficit is expected to equal about 2.5% of gross domestic product for two years in a row.² Congress began work on the legislation even before the inauguration of President Barack Obama, who signed the bill on February 17, 2009.

A slowing economy that shed more than 3.6 million jobs in 2008 helped create the urgency for a stimulus package that would attempt to boost employment and economic activity.³ The Congressional Budget Office estimated that the legislation will save or create 800,000 to 2.3 million jobs by the end of 2009, 1.2 million to 3.6 million jobs by the end of 2010, and 600,000 to 1.9 million jobs by the end of 2011.⁴

The stimulus package totals more than 1,000 pages. Here is a rundown of the most far-reaching programs.

Taming Taxes

Individual taxpayers with modified adjusted gross incomes (AGIs) not exceeding \$75,000 and married couples filing jointly with AGIs not exceeding \$150,000 will receive tax credits of up to \$400 and \$800, respectively, for the 2009 and 2010 tax years. Only individuals with earned income qualify for the Making Work Pay tax credit; it isn't available to single filers earning more than \$95,000 and joint filers earning more than \$190,000. Workers will take the credit through a reduction in wage withholding; other qualified taxpayers can claim the credit when they file their 2009 and 2010 tax returns.⁵ The hope is that workers will be more likely to spend the extra dollars and further stimulate the overall economy if they associate it with a steady gain in income, rather than applying a lump-sum payment to savings or paying off debt.

Other notable tax cuts and incentives include:

- First-time homebuyer tax credit. First-time homebuyers of a principal residence (purchased after December 31, 2008, through November 30, 2009) can receive a maximum \$8,000 tax credit, which does not have to be repaid to the IRS as long as the home is not sold within 36 months of purchase. The credit phases out for single filers earning more than \$75,000 and joint filers earning more than \$150,000. Last year's refundable first-time homebuyer credit (up to \$7,500) was the equivalent of an interest-free loan equal to 10% of the purchase of a home; people who received that credit have to repay the money back to the government over 15 years in equal installments or when the home is sold.⁶
- A one-year patch for the alternative minimum tax (for the 2009 tax year). The 2009 AMT exemption amounts are \$46,700 for single filers and \$70,950 for joint filers. This move will spare about 26 million middle-income taxpayers from a levy that was originally designed to prevent the wealthy from avoiding the federal income tax entirely.⁷
- An enhanced higher-education tax credit in 2009 and 2010. The law temporarily increases the former HOPE Scholarship credit from \$1,800 to \$2,500 per year for single filers earning less than \$80,000 and joint filers earning less than \$160,000 (partial credits allowed for single filers earning \$80,000 to \$90,000 and joint filers earning \$160,000 to \$180,000) and gives the credit a new name: the American Opportunity Tax Credit. After 2010, the law reverts to the Hope credit unless the new credit is extended.⁸

- A sales tax deduction for a new vehicle purchased in 2009. Taxpayers can deduct state and local sales taxes and excise taxes paid on the purchase (not the lease) of one new vehicle (including a car, SUV, light truck, motor home, or motorcycle) in 2009 (after the law's enactment date). The deduction phases out for single filers earning more than \$125,000 and joint filers earning more than \$250,000. The tax deduction cannot exceed the portion of tax applicable to the first \$49,500 of the vehicle purchase price.⁹

Extending a Hand

The legislation includes measures to help the unemployed:

- Lengthens date to be eligible for extended unemployment benefits. A law passed last year (Emergency Unemployment Compensation) allowed workers who had exhausted the regular 26 weeks of state unemployment benefits to be eligible for up to 20 weeks of extended jobless benefits (or up to 33 weeks in states with "high unemployment"). This program for extended unemployment benefits, which was slated to expire on March 31, 2009, is now available through December 31, 2009.¹⁰
- Temporary \$25 increase in weekly unemployment benefits (through 2009).¹¹
- Temporary suspension of federal income taxes on up to \$2,400 of unemployment benefits (for 2009 only). Amounts over \$2,400 remain fully taxable.¹²
- Subsidized COBRA benefits. Individuals who are involuntarily separated from employment after August 31, 2008, and before January 1, 2010, can elect to pay only 35% of their COBRA health insurance premiums, as if they were paying the full amount, for up to 9 months. Although former employers would pay the remaining 65%, they would be reimbursed by receiving credits on those amounts against income tax withholding and payroll taxes to the federal government.¹³

Spending Plans

Some of the program's largest expenditures center on investments in infrastructure, energy, scientific research, health care, and education and are intended to create jobs and modernize at the same time. Here's a breakdown of some of the spending:¹⁴

- More than \$43 billion for programs related to energy, including energy efficiency and renewable energy programs, electric power transmission projects, and modernizing the electric power grid.
- \$111 billion for infrastructure and science, including highway improvements, public transportation, bridges, watershed rehabilitation, and bringing broadband services to underserved areas.
- \$59 billion for health care, including \$10 billion to the National Institutes of Health and \$17 billion to computerize medical records.
- \$53 billion for education and training, including \$17 billion in Pell grants and other financial aid for college students.
- \$144 billion in aid to states and localities in order to avoid cuts in Medicaid, education, and public safety.

The stimulus package is by far the most expensive in our nation's history, but it is also the first stimulus bill to have a dedicated Web site, www.recovery.gov. The site is intended to provide accountability and transparency to enable the public to track how the money is spent.

If you have questions about the stimulus program, or how the new programs may affect your financial situation, please don't hesitate to call.

1–3) *The Wall Street Journal*, February 18, 2009, and February 14, 2009

4, 10–11, 14) Congressional Budget Office, 2009

5, 7–9, 12–13) CCH Tax Briefing, February 17, 2009

6) Senate Finance, House Ways & Means Committee, 2009; CCH Tax Briefing, February 17, 2009