

What the Stimulus Package Means for You

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009, known by everyone as the “economic stimulus package.” The \$787 billion package provides funding for various governmental and private projects to help create and retain jobs. It also provides tax benefits for individuals.

Before we can talk about these benefits, we need to begin with a few definitions. A tax deduction allows you to reduce your taxable income. It lowers your taxes by reducing the amount of income used to determine how much tax you pay. A tax credit is more valuable. It reduces dollar for dollar the amount you pay in taxes. Many of these benefits start to disappear, or phase out, as your Adjusted Gross Income increases. AGI is your gross income after you subtract the various deductions provided for under the tax code. Your AGI is the last number on the first page of your Form 1040.

Now that we’re armed with these definitions, let’s look at the provisions of the economic stimulus package.

- **Income Taxes** - There will be a \$400 tax credit for individuals (\$800 for married couples) in 2009 and 2010. These credits phase out for individuals with Adjusted Gross Incomes above \$75,000. For married couples, the phase out begins at \$150,000. This credit will be seen in a decrease in withholding from your pay check.
- **Social Security Recipients** – Individuals receiving Social Security benefits will receive a \$250 tax credit. Because these individuals typically don’t have a paycheck with taxes taken out, they will likely receive a check.
- **First-time Homebuyers** – Anyone purchasing their first home between January 1, 2009 and December 1, 2009 will receive an \$8,000 tax credit. This credit phases out for individuals with Adjusted Gross Incomes above \$75,000. For married couples the phase out begins at \$150,000. If you sell the home within three years, you’ll forfeit the credit.
- **New Car Buyers** – New car buyers will be allowed to deduct sales and excise taxes paid on the purchase of a new vehicle completed by December 31, 2009. This applies on purchases up to \$49,500. The deduction phases out for individuals with Adjusted Gross Incomes above \$125,000. For married couples, the phase out begins at \$250,000.
- **Public Transportation Users** – If you commute to work on public transportation, your employer may allow you to set aside pre-tax money from your paycheck to pay for the bus, train or parking. This year and next you can set aside up to \$230 per month. This is an increase from the current \$120.
- **Parents of College Students** - Parents of college students will receive a \$2,500 higher education tax credit to cover higher educational expenses, including the cost of textbooks and other course materials. You can receive the full credit if you spend at least \$4,000 in a single year. This credit phases out for individuals with Adjusted Gross Incomes above \$80,000. For married couples, the phase out begins at \$160,000.