

Dear Client,

The recently enacted "American Recovery and Reinvestment Act of 2009" (the 2009 economic stimulus act) contains a wide-ranging tax package that includes tax relief for low and moderate-income wage earners, individuals and families with college expenses, and home and car purchasers. I'm writing to give you an overview of the more widely applicable tax changes affecting individuals and families in the new law. Please call our offices for details of how the new changes may affect you and your family.

"Making Work Pay" credit. The new law provides an individual tax credit in the amount of 6.2 percent of earned income not to exceed \$400 for single returns and \$800 for joint returns in 2009 and 2010. The credit is phased out at adjusted gross income (AGI) in excess of \$75,000 (\$150,000 for married couples filing jointly). The credit can be claimed as a reduction in the amount of income tax that is withheld from a paycheck, or through a credit on a tax return. Under the credit, workers can expect to see perhaps \$13 a week less withheld from their paychecks starting around June. Next year, the extra take-home pay will go down to around \$9 per week.

Economic recovery payment. The new law provides for a one-time payment of \$250 to retirees, disabled individuals and Social Security beneficiaries and SSI recipients receiving benefits from the Social Security Administration and Railroad Retirement beneficiaries, and to veterans receiving disability compensation and pension benefits from the U.S. Department of Veterans' Affairs. The one-time payment is a reduction to any allowable Making Work Pay credit.

Refundable credit for certain federal and state pensioners. The new law 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.

Unemployment compensation exclusion. A provision temporarily suspends federal income tax on the first \$2,400 of unemployment benefits received by a recipient in 2009.

Expanded earned income tax credit. The new law provides tax relief to families with three or more children and increases marriage penalty relief. The changes apply for 2009 and 2010.

Expanded child tax credit. A measure increases the eligibility for the refundable child tax credit in 2009 and 2010 by lowering the threshold to \$3,000 (from \$8,500 in 2008).

Expanded and revised higher education tax credit. The new law creates a \$2,500 higher education tax credit that is available for the first four years of college. The credit is based on 100% of the first \$2,000 of tuition and related expenses (including books) paid during the tax year and 25% of the next \$2,000 of tuition and related expenses paid during the tax year, subject to a phase-out for AGI in excess of \$80,000 (\$160,000 for married couples filing jointly). Forty percent of the credit is refundable. The new credit temporarily replaces the Hope credit.

Computers as an education expense. A provision permits computers and computer technology to qualify as qualified education expenses in 529 education plans for tax years beginning in 2009 and 2010.

Expanded first-time credit for first-time home buyers. Last year, Congress provided taxpayers with a refundable tax credit that was equivalent to an interest-free loan equal to 10% of the purchase of a home (up to \$75,000) by first-time home buyers. The provision applied to homes purchased on or after April 9, 2008 and before July 1, 2009. Taxpayers receiving this tax credit were required to repay any amount received under this provision back to the government over 15 years in equal installments (or earlier if the home was sold). The credit phases out for taxpayers with adjusted gross income in excess of \$75,000 (\$150,000 in the case of a joint return). The new law enhances the credit by eliminating the repayment obligation for taxpayers that purchase homes on or after January 1, 2009. It also extends the credit through the end of November 2009, and bumps up the maximum value of the credit from \$7,500 to \$8,000.

Tax break for new car purchasers. The new law allows taxpayers to deduct State and local sales taxes paid on the purchase of a new automobile, including light trucks, SUVs, motorcycles, and motor homes. The tax break phases out starting with taxpayers earning \$125,000 per year (\$250,000 for joint returns). The deduction is allowed to both those who itemize their deductions as well as to nonitemizers. However, the deduction cannot be taken by a taxpayer who elects to deduct State and local sales taxes in lieu of State and local income taxes.

Alternative minimum tax (AMT) patch. To hold the number of taxpayers subject to the AMT at bay, the new law increases the AMT exemption amounts for 2009 to \$46,700 for individuals and \$70,950 for joint returns, and allows the personal credits against the AMT.

I hope this information is helpful. If you would like more details about this or any other aspect of the new law, please do not hesitate to call our office.

Very truly yours,

RADKE & MOHRHAUSER, LLC