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AMERICAN RECOVERY AND REINVESTMENT ACT

So, Just Where is That Economic Recovery?

So what will \$800 billion buy these days? Hopefully, a few roads and bridges, about 3.5 million new jobs, and maybe an economic recovery in the process. On February 17, 2009, President Obama signed into law a massive \$787 billion stimulus package aimed at jumpstarting the domestic economy. The bill represented a combination of new spending on infrastructure and other programs as well as a series of tax cuts designed to put dollars directly back into the economy. While the jury is still out on the ultimate success of the stimulus, average Americans are left scratching their heads and asking one very important question...What's in it for me?

The following includes a brief description of some of the key tax-related provisions of the stimulus package that could impact individuals.

Home Buyer Credit

Under this provision, first-time homebuyers may be eligible for up to an \$8,000 credit on the purchase of their house (or 10% of the purchase price). The credit is subject to the income limitations (\$75,000 for single filers, \$150,000 for joint) and can be taken for homes bought between January 1, 2009 and December 1, 2009. Because the collapse of the housing sector has been a major contributor to the economic downturn of the past few years, the government is hoping that this credit will encourage renewed housing activity.

For first time homebuyers who qualify, this provision may accelerate their decision to pursue home ownership and live the American Dream. Essentially, the government is subsidizing \$8,000 toward the purchase of a home. Coupled with the current lower property valuations, home ownership has become more attractive for this group of individuals. The home purchase could be treated as if it occurred in 2008 for tax purposes as the government is allowing for acceleration of the use of this credit. By extending the tax return filing to October 15th, an individual will have several months to complete the transaction and still be eligible for the credit on the 2008 return.

Car Buyer Deduction

Another provision aimed to stimulating additional retail activity is the temporary deduction for car buyers. Under this bill, individuals who purchase a car, recreational vehicle, or even a motorcycle in 2009 may be eligible to deduct state and local sales tax as well as excise tax on the vehicle. Again, an income limitation applies so not every car buyer is eligible, but the higher limits (\$125,000 single, \$250,000 joints) increase the potential for more individuals to take advantage.

This deduction is above the line meaning that taxpayers don't have to itemize to be able to reap the benefit and will be able to take a full deduction for cars costing up to \$49,500. Should they buy a more expensive vehicle, they will only be eligible for the deduction up to that amount. This provision could have some impact on auto activity as individuals who would consider buying a new car in the next few years could push up that decision to 2009 to take advantage of the deduction.

Qualified 529 Plans

Under the stimulus package, computers and related technology will qualify as expenses for tax-advantaged college savings plans for the next two years. The expanded definition of qualified higher education expenses should prove helpful for individuals with 529 plans and children attending college in 2009 and 2010 as they buy computers and use the college savings account to pay for them.

Home Energy Credit

The stimulus bill also increases the eligible credit (from 10% to 30%) for energy efficiency purchases made in the home. Homeowners who have been planning to replace furnaces and water heaters and install new efficient doors and windows should look into such opportunities this year and next. For some, these moves make sense even absent the tax credit as such purchases help homeowners to counter higher utility costs and the credit effectively reduces the payback period of the new equipment purchases.

Make Work Pay

The single largest tax provision within the stimulus package is the Making Work Pay Credit that provides a \$400 credit (\$800 if file jointly) to employees who make less than \$75,000 (\$150,000 if file jointly) in compensation. Even low income families who don't make enough income to owe taxes are still eligible for this credit. Unlike the 2008 Bush tax rebates which were distributed directly to eligible taxpayers, the government will not be sending any checks this time. Instead, the credit can be claimed on the 2009 tax return or received each pay period through deductions on the employees' paycheck. Recipients of this credit do not need to take any action in order to participate. In fact, the IRS has issued new withholding tables that employers must begin to use no later than April 1, 2009. The tables are designed to promptly and automatically deliver the benefit of the credit to employees so that these dollars get put back into the economy more quickly.

Alternative Minimum Tax

The one provision designed to actually impact upper-middle class and more high net worth taxpayers is the increase in the exemption amount (\$70,950) for alternative minimum tax (AMT) calculations. Established in 1969 to close certain loopholes that well-to-do taxpayers were using to reduce their tax liabilities, AMT has begun impacting more middle income earners because the calculation has not been adjusted for inflation over the years. Because, the government has been applying a "patch" each year in the form of an exemption increase, some believe that the provision in the stimulus bill accounts for nothing more than the enhancement most taxpayers were already expecting.

Private Activity Bonds

On a related note, interest on tax-exempt private activity bonds issued in 2009-10 will now be excluded from AMT calculations and more fixed income investors may consider these municipal securities that are issued to fund stadiums, theaters, etc., particularly since treasury yields have declined so much over the past year.

Estimated Costs Of Some Of The Key Stimulus Provisions

Provision	Estimated Cost over 10 years
First Time Homebuyer Credit	\$6.638 billion
Sales/Excise Tax Deduction on New Car Purchase	\$1.684 billion
Qualified 529 Computer Expenses	\$6 million
Energy Efficiency Improvement Credit	\$2.034 billion
Making Work Pay Credit	\$116.199 billion
AMT Exemption	\$69.759 billion
Private Activity Bonds Excluded from AMT	\$555 million

Call to Action...Years will pass before we grasp the full impact of the 2009 economic stimulus package. For now, individuals should visit with their financial advisors to learn about provisions that may directly impact themselves and their families. Your advisor should be able to direct you to any needed steps to take full advantage of what Uncle Sam may be giving you over the next few years and help explain “what’s in it for you.”

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