



Investment

GUIDE with Eric Tyson

Questions & Answers for Financial Success

Federal Stimulus Bill

Q *What tax breaks can I take advantage of in the Federal Stimulus Bill?*

A The recently-passed stimulus bill has many provisions. Some of them include a small tax reduction, which most people will see reflected in slightly higher take-home pay in their paycheck. Another example is that taxes on the first \$2,400 of unemployment compensation are now waived (yes, the IRS does normally tax unemployment benefits).

In this piece, I review provisions that might be of benefit, and for which you might want or need to plan ahead.

Probably the biggest perk available to the most people is the **\$8,000 tax credit for first-time home buyers** (defined as not owning a home in the past three years) who buy on or before December 1, 2009. (As I've recently written, this may be a terrific time for many folks to buy a home.) Be warned that if you sell the home within three years, you will have to repay the entire credit.

The stimulus bill enables car buyers to **deduct their sales tax paid from gross income on the purchase of a new car (motorcycle, light truck, or mobile home) up to \$49,500 of the purchase price of a new car.** The purchase must take place in 2009. Taxpayers can take the deduction even if they don't itemize, but they can't take this deduction and also take an itemized deduction for state and local sales taxes. The deduction begins to phase out when modified adjusted gross income reaches \$125,000 for

single filers and \$250,000 for joint filers, phasing out completely at \$135,000 and \$260,000, respectively.

People who take mass transit or belong to van pools also may see an increased benefit, since the stimulus increases the current exclusion amount for those benefits from \$120 to \$250 per month, starting in March 2009, effectively creating parity with employer-provided parking benefits.

The stimulus bill includes a number of *benefits for small businesses.* The legislation has extended two provisions that encourage businesses to invest in equipment. *Bonus depreciation*, which allows a business to write off an additional 50 percent of the cost of new equipment in the first year, continues in 2009. *Enhanced small-business expensing*, which allows businesses to totally write off up to \$250,000 in new equipment, subject to a phase-out when capital expenditures exceed \$800,000, is also allowed in 2009.

The law *expands the existing Work Opportunity Tax Credit*, which generally gives businesses up to \$2,400 to add people in targeted groups to their payrolls. For 2008 through 2010, it adds to the list of targeted groups *unemployed veterans discharged and disconnected youth*, who are defined as being between the ages of 16 and 25 who haven't been regularly employed or in school for the past six months.

Many people paying for college expenses will benefit from a *multi-dimensional expansion of the Hope Credit for post-secondary education.* Renamed the American Opportunity

Tax Credit for the 2009 and 2010 tax years in which it will be available, the maximum credit amount will be \$2,500, versus \$1,800 under current law. It's figured as 100 percent of eligible expenses up to \$2,000 plus 25 percent of expenses above \$2,000.

Unlike the existing Hope Credit, which covers expenses during only the first two years of post-secondary education, the American Opportunity Credit can be used for expenses incurred during up to four years of study. In addition, the legislation expands the kinds of expenses eligible in figuring the credit to include "course materials," such as textbooks.

The credit also can now be claimed by some people whose incomes made them ineligible to take full advantage of the Hope Credit. It phases out with modified adjusted gross incomes between \$80,000 and \$90,000 for single filers, or between \$160,000 and \$180,000 for joint returns, as opposed to previous phase-out ranges of \$50,000-\$60,000 and \$100,000-\$120,000.

In another education-related tax benefit, the new measure will allow *withdrawals from 529 savings accounts* to pay for computers, computer-related technology, and Internet access for beneficiaries. **N**

Eric Tyson is a best-selling author (Personal Finance for Dummies, Investing for Dummies, Mutual Funds for Dummies, Home Buying for Dummies). He is read by more than four million people nationwide. A management consultant to Fortune 500 financial service firms, he also founded a counseling firm providing financial advice to non-wealthy investors, teaching that "one must live within one's means as a prerequisite to building wealth."