

American Recovery and Reinvestment Act of 2009

Summary and Highlights

On February 17, 2009, President Barack Obama signed into law H.R.-1, the American Recovery and Reinvestment Act of 2009 (ARRA 2009). Known popularly as the “economic stimulus” bill, ARRA 2009 represents a massive legislative effort to both restart the American economy and lay a foundation for future national economic growth. Running some 407 pages in length, the Act uses a combination of targeted federal spending, new income tax breaks, and major enhancements to many existing credits and deductions to achieve its goals.¹ The Congressional Budget Office estimates that the total 10-year (2009 - 2019) cost of the bill will be approximately \$787 billion.

Tax Benefits For Individual Taxpayers

Many of the tax benefits contained in ARRA 2009 are targeted at individual taxpayers. The table below summarizes a few of the more notable individual tax provisions.

Item	Prior Law	ARRA 2009
Making Work Pay Tax Credit Estimated 10-Year Cost: \$116,199,000,000²	No comparable provision.	For tax years 2009 and 2010, provides a refundable tax credit to eligible individuals equal to the lesser of 6.2% of an individual’s earned income or \$400 (\$800 in the case of a joint return). The credit is phased out at a rate of 2% of modified adjusted gross income (MAGI) in excess of \$75,000 (\$150,000 in case of a joint return).
AMT Relief for 2009 Estimated 10-Year Cost: \$69,759,000,000	For 2009, the AMT exemption amounts are: Married Filing Jointly and Surviving Spouse = \$45,000; Single and Head of Household = \$33,750; Married Filing Separately = \$22,500.	For 2009, the AMT exemption amounts are: Married Filing Jointly and Surviving Spouse = \$70,950; Single and Head of Household = \$46,700; Married Filing Separately = \$35,475.
Refundable Portion of the Child Credit Estimated 10-Year Cost: \$14,830,000,000	To the extent that the Child Credit exceeds a taxpayer’s tax liability, the refundable portion of the Child Credit is equal to 15% of earned income in excess of a threshold amount of \$8,500. ³	For 2009 and 2010, redefines the formula to be 15% of earned income in excess of \$3,000.

¹ The tax benefits discussed in this report concern federal income tax law; state or local tax law may vary.

² The estimated cost for each tax provision shown in this report is taken from the Full Summary of the Act, as prepared by the Senate Finance Committee and the House Ways & Means Committee.

³ This formula is termed the “earned income” formula. For taxpayers with three or more children, an “alternative formula” may be used if a larger refundable credit results. Under current law the dollar threshold is adjusted for inflation.

American Recovery and Reinvestment Act of 2009

Summary and Highlights

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<p>Earned Income Tax Credit (EITC)</p> <p>Estimated 10-Year Cost: \$4,663,000,000</p>	<p>For 2009, taxpayers with two or qualifying children may claim a credit of 40% of earnings up to \$12,570. For taxpayers filing jointly, the credit begins to decrease when earnings exceed a phase-out threshold that is \$3,120 higher than that for singles, surviving spouses, and heads of household.</p>	<p>For tax years 2009 and 2010, increases the EITC percentage for families with three or more children to 45%. Increases the threshold phase-out amount for taxpayers filing jointly to \$5,000 above that for singles, surviving spouses, and heads of household. The \$5,000 amount is indexed for inflation beginning in 2010.</p>
<p>American Opportunity Tax Credit</p> <p>Estimated 10-Year Cost: \$13,907,000,000</p>	<p>Known as the Hope Credit, a non-refundable credit of up to \$1,800 (for 2009) per eligible student per year, for qualified tuition and expenses for the student's first two years of post-secondary education in a degree or certificate program. The credit is phased out ratably for taxpayers with modified adjusted gross income (MAGI) between \$50,000 and \$60,000 (\$100,000 and \$120,000 for married taxpayers filing jointly). The credit is not allowable against the AMT for tax years after 2008.</p>	<p>For 2009 and 2010, renames the Hope Credit to be the "American Opportunity Tax Credit." Allows for a credit of up to \$2,500 per eligible student per year for qualified tuition and related expenses for each of the student's first four years of post-secondary education in a degree or certificate program. Ratably phases out the credit for taxpayers with MAGI between \$80,000 and \$90,000 (\$160,000 and \$180,000 for married taxpayers filing jointly). The credit may be claimed against the AMT and up to 40% of the credit may be refundable.</p>
<p>First Time Homebuyer Credit</p> <p>Estimated 10-Year Cost: \$6,638,000,000</p>	<p>Provides for a refundable credit equal to the lesser of \$7,500 (\$3,750 for married filing separately) or 10% of the purchase price of a principal residence. The home must be purchased on or after April 9, 2008 and before July 1, 2009. The credit is phased out for taxpayers with modified adjusted gross income between \$75,000 and \$95,000 (\$150,000 and \$170,000 for married filing joint). The credit is recaptured ratably over a 15 year period beginning two years after the year of purchase.</p>	<p>Extends the existing time period to qualify for the credit to homes purchased before December 1, 2009. Increases the maximum credit to \$8,000 (\$4,000 for married filing separately) and waives the recapture of the credit for homes purchased after December 31, 2008 and before December 1, 2009. Generally, the home must remain the principal residence for 36 months; otherwise the present rules on the credit recapture apply.</p>

American Recovery and Reinvestment Act of 2009

Summary and Highlights

Item	Prior Law	ARRA 2009
<p>Sales and Excise Tax Deduction for Purchase of New Motor Vehicles</p> <p>Estimated 10-Year Cost: \$1,684,000,000</p>	No comparable provision.	<p>Provides for an above-the-line deduction for state or local sales or excise taxes imposed on the sale of a new (original use starts with the taxpayer) motor vehicle.</p> <p>A qualified motor vehicle includes autos, light trucks, or motorcycles with a gross vehicle weight rating of 8,500 pounds or less, or a motor home. The deduction is limited to the tax imposed on the first \$49,500 of the purchase price and is phased out for taxpayers with a modified adjusted gross income between \$125,000 and \$135,000 (\$250,000 and \$260,000 for married filing jointly). The vehicle must be purchased on or after the date of enactment (February 17, 2009) and before January 1, 2010. The deduction is not available if a taxpayer chooses to deduct state and local sales taxes on Schedule A.</p>
<p>529 Plans and Computer Technology</p> <p>Estimated 10-Year Cost: \$6,000,000</p>	No comparable provision.	<p>For expenses paid or incurred in 2009 and 2010, expands the definition of “qualified higher education expenses” to include expenditures for computer equipment and technology, including internet access. Applies to both prepaid tuition plans and higher education savings plans.</p>

Tax Benefits For Business

ARRA 2009 also contains a wide range of tax incentives for business taxpayers:

- **IRC Sec. 382 changes:** In 2008, the Treasury Department issued Notice 2008-83, which liberalized rules in the tax code intended to prevent taxpayers that acquire companies from claiming losses that were incurred by the acquired company prior to the taxpayer’s ownership of the company. ARRA 2009 repeals this Notice prospectively. The Act also clarifies the application of IRC Sec. 382 to certain companies restructuring pursuant to the Emergency Economic Stabilization Act of 2008. Estimated 10-year cost: \$10,141,000,000.

American Recovery and Reinvestment Act of 2009

Summary and Highlights

- **Extension of bonus depreciation:** In 2008, federal income tax law was amended to allow businesses to recover the cost of capital expenditures faster than under normal depreciation schedules by allowing businesses to immediately “write-off” 50% of the cost of depreciable property purchased in 2008 for use in the U.S. This “bonus” depreciation is in addition to regular depreciation. ARRA 2009 extends this temporary benefit to capital expenditures incurred in 2009. Estimated 10-year cost: \$5,074,000,000.
- **Delayed recognition of certain cancellation of debt income (CODI):** Generally, under current law, a taxpayer has income where the taxpayer cancels or repurchase its debt for an amount less than its adjusted issue price. Under ARRA 2009, certain businesses will be allowed to recognize CODI over a 10-year period, deferring tax on CODI for the first four or five years and then recognizing the income ratably over the following five taxable years. The provision applies to specified types of business debt repurchased by the business after December 31, 2008 and before January 1, 2011. Estimated 10-year cost: \$1,622,000,000.
- **5-Year Carry back of NOLs for small business:** Under existing law, a “net operating loss” (NOL) may be carried back to the two taxable years before the year the loss arises and carried forward to each of the succeeding twenty taxable years after the year that the loss arises. For tax years ending or starting in 2008, the Act extends the maximum NOL carry back period from two to five years for small businesses with gross receipts of \$15,000,000 or less. Estimated 10-year cost: \$947,000,000.
- **Small business capital gains:** Current federal income tax law provides individuals with a 50% exclusion for gain from the sale of certain small business stock held for more than five years. The non-excluded portion of the gain is taxed at the lesser of ordinary income rates or 28%, instead of the individual capital gains rates. Limits apply to the amount of gain that may be excluded from a taxpayer’s income. ARRA 2009 allows for a 75% exclusion for individuals on the gain from the sale of such small business stock held for more than five years, applicable to stock issued after the date of enactment (February 17, 2009) and before January 1, 2011. Estimated 10-year cost: \$829,000,000.
- **IRC Sec. 179 Expensing:** IRC Sec. 179 allows small businesses to choose to write-off the cost of certain capital expenditures in the year of acquisition, rather than recovering the costs over time through depreciation. Through 2010, small business taxpayers are allowed to write-off up to \$125,000 (indexed for inflation) of capital expenditures, subject to a phase-out once these expenditures exceed \$500,000 (also indexed for inflation). In 2008, federal income tax law was amended to allow for a temporary increase in the amount that a small business could write-off to \$250,000, with the phase-out threshold increased to \$800,000. ARRA 2009 extends these temporary increases to capital expenditures incurred in 2009. Estimated 10-year cost: \$41,000,000.

American Recovery and Reinvestment Act of 2009

Summary and Highlights

Provisions Benefiting The Unemployed And Those On Fixed Incomes

In recognition of the financial hardship experienced by those who are unemployed or living on fixed incomes, the Act contains a number of provisions designed to “assist those most impacted by the recession.”¹ A few of the more notable provisions include:

- **Extension of emergency unemployment compensation:** Through December 31, 2009, the Act continues the Emergency Unemployment Compensation Program, which provides up to 33 weeks of extended unemployment benefits to workers exhausting their regular benefits. Estimated 10-year cost: \$26,960,000,000.
- **Increase in unemployment compensation benefits:** The legislation increases unemployment weekly benefits by an additional \$25 through 2009. Estimated 10-year cost: \$8,800,000,000.
- **Partial taxation of unemployment benefits:** For 2009, the Act excludes the first \$2,400 of unemployment compensation from federal gross income. Under prior law, unemployment income is generally 100% includable in federal gross income. Estimated 10-year cost: \$4,740,000,000.
- **COBRA continuation coverage:** The Act provides a 65% premium subsidy for COBRA health insurance continuation premiums for workers who have been involuntarily terminated, and for their families, for up to nine months. The premium subsidy applies to involuntary terminations that occur on or after September 1, 2008 and before January 1, 2010. Estimated 10-year cost: \$24,700,000,000.
- **Economic Recovery Credit:** In 2009, a one-time refundable tax credit of \$250 will be paid to retirees, disabled individuals, and SSI recipients receiving benefits from Social Security, Railroad Retirement beneficiaries, and disabled veterans receiving benefits from the Veterans Administration. This credit will reduce any “Making Work Pay” credit that might otherwise be allowable. Estimated 10-year cost: \$218,000,000.

Federal Spending

ARRA 2009 also contains over \$308 billion in additional federal spending, directed to a wide range of goals and purposes. The table below outlines these expenditures:²

Function/Department	Funds Expended For	Estimated 10-Year Outlay
Agriculture, Rural Development, Food and Drug Administration, Related Agencies	Distance learning; Telemedicine; Broadband program; Supplemental Nutrition Assistance Program; Other.	\$26,431,000,000
Commerce, Justice, Science, and Related Agencies	Broadband Technology Opportunities; State and Local Law Enforcement Assistance; National Science Foundation; Other.	\$15,810,000,000

¹ ARRA 2009, Section 3.

² Source: Congressional Budget Office analysis of the conference agreement for H.R. 1, dated February 13, 2009.

American Recovery and Reinvestment Act of 2009

Summary and Highlights

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Defense	Operation and Maintenance; Research, Development, Testing and Evaluation; Other.	\$4,531,000,000
Energy and Water Development	Energy Efficiency and Renewable Energy; Innovative Technology Loan Guarantee Program; Other Energy Programs; Corps of Engineers; Other.	\$50,775,000,000
Financial Services and General Government	Federal Buildings Fund; Other	\$6,707,000,000
Homeland Security	Equipment; Border Security Fencing, Infrastructure, and Technology; Construction of Land Border Ports of Entry; Other.	\$2,744,000,000
Interior, Environment, and Related Agencies	Clean Water and Drinking Water State Revolving Funds; Other.	\$10,545,000,000
Labor, Health and Human Services, Education, and Related Agencies	National Institutes of Health; National Coordinator for Health Information Technology; Other Health and Human Services; Employment and Training Administration; Education for the Disadvantaged; Special Education; Student Financial Assistance; Other Education.	\$71,271,000,000
Legislative Branch	Government Accountability Office.	\$25,000,000
Military, Veterans Affairs, and Related Agencies	Military Construction; Family Housing; VA Medical Facilities; National Cemeteries; Other.	\$4,246,000,000
Department of State, Foreign Operations, and Related Programs	Diplomatic and Consular Programs; Capital Investment Fund; Other.	\$602,000,000
Transportation and Housing & Urban Development	Highway Construction; Other Transportation; Public Housing Capital Fund; Other Housing Assistance.	\$61,051,000,000
State Fiscal Stabilization Fund	Education Fund; State Incentive Grants; Innovation Fund.	\$53,600,000,000

ARRA 2009 also includes an increase in the statutory limit on the public debt by \$789 billion, from \$11.315 trillion to \$12.104 trillion.