

WILL THE STIMULUS ACT BENEFIT YOUR FAMILY?

On Feb. 17th, President Obama signed the American Recovery and Reinvestment Act of 2009 (ARRA) into law. In addition to government spending initiatives intended to revive the economy, the nearly \$800 billion act provides hundreds of millions of dollars of tax cuts expected to benefit 95% of taxpayers.

This act is extensive and includes many more spending and tax-saving provisions than we could mention here that may be a benefit to you and your business. To learn how you can take full advantage of all of the applicable ARRA tax benefits, feel free to contact the Tax Group at Brown Smith Wallace, LLC at 314-983-1200 or visit www.bswllc.com.

NEW TAX BREAKS FOR INDIVIDUALS

RELIEF FOR MOST WORKERS, RETIREES AND OTHER SOCIAL SECURITY RECIPIENTS

For 2009 and 2010, ARRA creates the Making Work Pay credit of up to \$800 for joint filers and \$400 for other filers. The credit generally is phased out for joint filers with AGIs (adjusted gross income) exceeding \$150,000 and for other filers with AGIs exceeding \$75,000.

The act also provides a one-time payment of \$250 to:

- Retirees, disabled individuals and SSI recipients receiving benefits from the Social Security Administration
- Railroad retirement beneficiaries
- Disabled veterans receiving benefits from the U.S. Department of Veteran Affairs
- Certain government retirees not eligible for Social Security benefits

SALES TAX DEDUCTION FOR VEHICLE PURCHASES

ARRA creates a new above-the-line deduction (even if you don't itemize) for state, local sales and excise taxes

paid on the purchase of new cars, light trucks, motorcycles and recreational vehicles.

The deduction is available for vehicles purchased from Feb. 17, 2009, through Dec. 31, 2009 for vehicles valued under \$49,500 and phased out for joint filers with AGIs over \$250,000 and other filers with AGIs over \$125,000.

EXPANDED TAX BREAKS

CREDIT FOR FIRST-TIME HOMEBUYERS

Last year, a refundable credit equal to 10% of the purchase price of a principal residence was made available to qualified first-time homebuyers. Under ARRA you will receive a refundable credit equal to 10% of the purchase of a principal residence for first-time homebuyers for purchases made before Dec. 1, 2009. For qualifying purchases made after Dec. 31, 2008, the act also increases the maximum credit from \$7,500 to \$8,000 and changes the credit from a repayment obligation to a genuine tax credit.

AMERICAN OPPORTUNITY EDUCATION CREDIT (previously called the Hope Credit)

For 2009 and 2010, ARRA expands this credit to cover 100% of the first \$2,000 of tuition and related expenses (including books) and 25% of the next \$2,000 of such expenses. The maximum credit is \$2,500 per year for the first four years of postsecondary education.

The credit phases out for joint filers with AGIs exceeding \$160,000 and for other filers with AGIs exceeding \$80,000.

529 SAVINGS PLANS

Taxpayers can use these tax-advantaged savings plans to fund college expenses. For federal purposes, contributions aren't deductible, but 529 plan distributions used to pay qualified education expenses — tuition, room, board, mandatory fees and books — are tax free. For expenses paid in 2009 and 2010, ARRA expands the definition of qualified education expenses to include computers and computer technology.

QUALIFIED SMALL BUSINESS STOCK GAIN EXCLUSION

Generally, taxpayers selling qualified small business (QSB) stock are allowed to exclude 75% of their gain (previously was 50%) as long as they've held the stock for at least five years and the stock was issued after Feb. 17, 2009 and before Jan. 1, 2011.

AMT RELIEF GRANTED

ARRA provides a one-year "patch" that increases the AMT exemption. For married couples filing jointly, the 2009 exemption is \$70,950. For singles and heads of households, it's \$46,700, and for married filing separately, it's \$35,475.

ENERGY-RELATED TAX BREAKS

ARRA creates or expands several energy-related breaks for individuals, such as:

- Transit benefits
- Residential energy property credit
- Residential energy-efficient property credit
- Plug-in electric vehicles credit

UNEMPLOYMENT BENEFITS

- Extends emergency unemployment compensation, which provides up to 33 additional weeks of benefits to workers who've exhausted their regular benefits
- Increases unemployment compensation by \$25 per week
- Suspends federal income tax on the first \$2,400 of unemployment benefits per recipient

COBRA PREMIUM ASSISTANCE

ARRA provides a 65% subsidy for health coverage continuation under COBRA for up to nine months. To be eligible, a worker must be involuntarily terminated between Sept. 1, 2008, and Dec. 31, 2009.

WILL THE STIMULUS ACT BENEFIT YOUR BUSINESS?

NEW BUSINESS TAX BREAKS

REDUCED ESTIMATED TAX PAYMENT REQUIREMENTS

For 2009, ARRA reduces the estimated tax payment requirements for many small business owners. To avoid penalties, taxpayers need to make sure their estimated payments or withholding equals at least 90% of their current or prior year's tax liability.

DEFERRAL OF INCOME FROM CANCELLATION OF DEBT (CODI)

ARRA allows businesses to defer CODI generated from repurchasing business debt after Dec. 31, 2008, and before Jan. 1, 2011, until calendar year 2014 (five-year deferral for 2009 CODI and four-year deferral for 2010 CODI) and then report the income ratably over the 2014 through 2018 tax years.

S CORPORATION BUILT-IN GAINS TAX RELIEF

Although a C corporation conversion to an S corporation isn't a taxable event, the S Corporation normally must hold on to its assets for 10 years to avoid tax on any built-in gains that existed at the time of the conversion. Under ARRA, for tax years beginning in 2009 and 2010, there generally will be no tax on an S corporation's net unrecognized built-in gain if the seventh tax year in the recognition period occurred before the 2009 and 2010 tax years.

EXPANDED BUSINESS TAX BREAKS

NET OPERATING LOSS CARRYBACK

For 2008 (not 2009), ARRA extends the maximum NOL carryback to five years for small businesses with gross receipts of \$15 million or less, making the potential cash infusion even more powerful.

WORK OPPORTUNITY CREDIT

For workers hired in 2009 and 2010, employers can claim a credit equal to 40% of the first \$6,000 of wages paid to employees in certain target groups, such as ex-felons, food stamp recipients, disabled veterans, unemployed veterans and disconnected youth.

EXTENDED DEPRECIATION BREAKS

For small businesses, ARRA extends the increase in the Section 179 limit for initial year expensing to \$250,000 (from \$125,000 indexed for inflation). The Sec. 179 expensing election allows a current deduction for newly acquired assets that otherwise would have to be depreciated over a number of years. A business can claim the expensing election only to offset its net income, not to reduce net income below zero. In

addition, ARRA extends bonus depreciation (50% first year tax write-off on the remaining cost after Sec. 179 expense) through 2009.

EXPANDED ENERGY-RELATED BREAKS

ARRA creates or expands several energy-related breaks for businesses, such as the:

- Advanced energy investment credit
- Renewable electricity production credit
- Alternative fuel pump tax credit

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