



American Recovery and Reinvestment Act of 2009 [H.R. 1]

On February 17, 2009, President Obama signed the *American Recovery and Reinvestment Act of 2009*, referring to the bill as "the most sweeping economic recovery package in the nation's history." The \$789 billion price tag is divided fairly evenly among tax cuts, additional spending programs, and aid to the states, students, schools, the unemployed, and communities.

This summary will focus primarily on the tax cuts portion of the Act and how it will affect taxpayers. There are alternative energy provisions that offer incentives for businesses that produce or use alternative energy that are not discussed in this summary. The changes to the energy incentives available to individual taxpayers are included.

Individuals	
Making Work Pay Credit	<p>Eligible individuals are allowed a refundable income tax credit for tax years beginning in 2009 and 2010.</p> <p>The amount of the credit is the lesser of:</p> <ul style="list-style-type: none"> • 6.2% of the taxpayer's earned income , or • \$400 (\$800 for a joint return). <p>An "eligible individual" for purposes of the credit is any individual, except:</p>

	<ul style="list-style-type: none"> • A nonresident alien; • An individual who can be claimed as a dependent by another taxpayer; and • An estate or trust. <p>Each tax return on which this credit is claimed must include the social security number of the taxpayer (in the case of a joint return, the social security number of at least one spouse must be included).</p> <p>The credit is phased out at a rate of 2% of the individual's modified adjusted gross income (AGI) above \$75,000 (\$150,000 for joint returns).</p> <p>Revised income tax withholding schedules will be designed to reduce the taxpayers' income tax withheld for the remainder of 2009 in such a manner that the full annual benefit of the provision is reflected in income tax withheld during the remainder of 2009.</p> <p>The amount of the otherwise allowable credit must be reduced by the \$250 economic recovery payment.</p> <p>Effective only for tax years beginning in 2009 and 2010.</p>
Economic Recovery Payment	<p>A one-time \$250 economic recovery payment is available to:</p> <ul style="list-style-type: none"> • Adults eligible for social security benefits; • Adults eligible for railroad retirement benefits; • Adults eligible for veterans compensation or pension benefits; and • Individuals of any age eligible for supplement security income (SSI) benefits, other than individuals who receive SSI while in a Medicaid institution. <p>To receive an economic recovery payment, the individual must have been eligible for one of the above four benefit programs for any of the three months before February 17, 2009 (i.e., November or December 2008, or January 2009).</p>

	<p>Additional rules:</p> <ul style="list-style-type: none"> • No payments will be made to an individual who died before becoming certified to receive the payment. • The payment is not taxable. • An individual is entitled to only one payment even if he/she is eligible for more than one benefit from the four benefit programs. <p>Payments are to begin as soon as practicable, but no later than 120 days after February 17, 2009. No payments are to be made after December 31, 2010.</p>
First-time Homebuyer Credit	<p>The first-time homebuyer credit is extended to apply to principal residences purchased before December 1, 2009.</p> <p>The maximum amount of the credit is increased for homes purchased after December 31, 2008 from \$7,500 to \$8,000. For married individuals filing separately, the maximum credit is increased from \$3,750 to \$4,000.</p> <p>The recapture rules are waived for principal residences purchased after January 1, 2009 and before December 1, 2009. The accelerated recapture rules will only apply if the taxpayer disposes of the residence, or the residence ceases to be the principal residence of the taxpayer or the taxpayer's spouse, within 36-months of the date of purchase.</p> <p>Taxpayers who purchase a home in 2009 and elect to treat the purchase as if made in 2008 are not subject to the recapture rules or the \$7,500 credit limit.</p> <p>Effective for principal residences purchased after December 31, 2008 and before December 1, 2009.</p>
New Vehicle Sales Tax Deduction	<p>Qualified motor vehicle taxes are deductible either as part of the standard deduction or as an itemized deduction. Qualified motor vehicle taxes are any state or local sales or excise tax imposed on the purchase of a qualified motor vehicle.</p> <p>The deduction is limited to the amount of taxes attributable to the first \$49,500 of the purchase price.</p>

	<p>The deduction is phased out ratably for a taxpayer with modified adjusted gross income between \$125,000 and \$135,000 (\$250,000 and \$260,000 on a joint return).</p> <p>A qualified motor vehicle is:</p> <ul style="list-style-type: none"> • A new passenger automobile or light truck, or motorcycle with a gross vehicle weight rating of 8,500 pounds or less and the original use of which begins with the taxpayer, and • A new motor home of which the original use begins with the taxpayer. <p>A deduction of qualified motor vehicle taxes is not allowed for taxpayers who make the election to deduct state sales tax in lieu of state income tax.</p> <p>Effective for purchases of qualified motor vehicles on or after February 17, 2009, and before January 1, 2010.</p>
<p>Exclusion for Unemployment Compensation</p>	<p>Recipients of unemployment compensation are allowed to exclude from income up to \$2,400 of unemployment compensation benefits received in 2009.</p> <p>Effective for tax years beginning after December 31, 2008, but only for tax years beginning in 2009.</p>
<p>American Opportunity Tax Credit (expanded Hope Credit)</p>	<p>The Hope credit is modified and renamed the American Opportunity tax credit for tax years beginning in 2009 and 2010.</p> <p>The credit equals the sum of:</p> <ul style="list-style-type: none"> • 100% of the first \$2,000 of qualified tuition and related educational expenses, plus • 25% of the qualified tuition and related educational expenses over \$2,000 but not more than \$4,000. <p>The maximum credit a taxpayer may claim for 2009 or 2010 is \$2,500 and is allowed for the first four years of the student's post-secondary education in a degree or certificate program.</p> <p>The definition of qualified tuition and related expenses is modified to include</p>

	<p>tuition, fees, <i>and</i> course materials.</p> <p>The credit is phased out ratably for taxpayers with modified AGI between \$80,000 and \$90,000 (\$160,000 and \$180,000 for joint filers).</p> <p>Up to 40% of the credit is refundable, unless the student is subject to the kiddie tax rules.</p> <p>Effective for tax years beginning after December 31, 2008, but only for tax years beginning in 2009 and 2010.</p>
Eligible Expenses Under §529 plans	<p>Computer technology and equipment, and internet access and related services, qualify as higher education expenses under §529 plans for 2009 and 2010. This includes expenses paid or incurred for the purchase of any computer technology, equipment, or internet access or related services if such items are to be used by the beneficiary and the beneficiary's family during any of the years that the beneficiary is enrolled at an eligible educational institution.</p> <p>Effective for expenses paid or incurred after December 31, 2008, but only in 2009 or 2010.</p>
Refundable Child Tax Credit	<p>Currently, the child tax credit is, generally, refundable to the extent of 15% of the taxpayer's earned income in excess of \$10,000 as indexed for inflation. The new law reduces the \$10,000 income threshold to \$3,000, effectively increasing the amount of the refundable child tax credit.</p> <p>For 2009 and 2010, the child tax credit is refundable to the extent of 15% of the taxpayer's earned income that's in excess of \$3,000. Taxpayers with three or more qualifying children, may use an alternative formula under which the additional child tax credit equals the amount by which the taxpayer's social security taxes exceed the taxpayer's earned income credit (EIC), if that produces a greater refundable amount.</p> <p>Effective for tax years beginning after December 31, 2008, but only for tax years beginning in 2009 and 2010.</p>
Earned Income Credit	<p>The EIC credit percentage for families with three or more qualifying children</p>

Changes	<p>increases to 45% for 2009 and 2010.</p> <p>The Act also increases the threshold phase-out amounts for married couples filing a joint return by \$5,000. This means the threshold phase-out amounts for married couples filing joint returns is increased to \$5,000 above the threshold phase-out amounts for singles, surviving spouses, and heads of household. This \$5,000 amount is adjusted for inflation.</p> <p>The inflation-adjusted dollar amounts for 2009 have not changed.</p> <p>Effective for tax years beginning after December 31, 2008, but only for tax years beginning in 2009 and 2010.</p>
Alternative Minimum Tax	
Exemption Amounts	<p>For tax years beginning in 2009, the AMT exemption amounts are increased to:</p> <ul style="list-style-type: none"> • \$70,950 for married couples filing a joint return and surviving spouses; • \$46,700 for an individual who isn't married or a surviving spouse; • \$35,475 for married individuals filing separate returns. <p>For a child subject to the kiddie tax, the AMT exemption amount can't exceed the sum of the child's earned income plus \$6,700 in 2009.</p> <p>Effective for tax years beginning after December 31, 2008, but only for tax years beginning in 2009.</p>
Tax Exempt Bonds	<p>Interest on tax-exempt bonds issued in 2009 or 2010 isn't subject to AMT, thus tax-exempt interest on private activity bonds issued in 2009 and 2010 is not an item of tax preference for AMT purposes.</p> <p>Effective for bonds issued after December 31, 2008, and before January 1, 2011.</p>
Corporate ACE Adjustment	<p>Interest on tax-exempt bonds issued in 2009 or 2010 is not included in the adjustment based on corporate earnings (the ACE adjustment).</p> <p>Effective for bonds issued after December 31, 2008, and before January 1,</p>

	2011.
Nonrefundable Personal Credits	<p>For tax years beginning in 2009, the nonrefundable personal credits may offset AMT as well as regular tax. This is a one-year extension of the rules applicable for 2008.</p> <p>In addition, the alternative motor vehicle credit (AMVC) is added and treated as a personal credit allowed against AMT for tax years beginning after 2008.</p>
Depreciation	
Bonus Depreciation	The 50% bonus depreciation and alternative minimum tax (AMT) depreciation relief are extended for one year through December 31, 2009. The placed-in-service date for certain aircraft and certain long-production-period property is extended to December 31, 2010.
Section 179	<p>The regular §179 deduction limit of \$250,000 and beginning of phase-out amount of \$800,000 for 2008 are each extended to apply to tax years beginning in 2009.</p> <p>Effective for tax years beginning after December 31, 2008.</p>
Passenger Autos	<p>The \$8,000 increase in first-year depreciation limit for passenger automobiles that are "qualified property" is extended through December 31, 2009.</p> <p>Effective for property placed in service before January 1, 2010, and after December 31, 2008, in tax years ending after December 31, 2008.</p>
Corporate Credit Election	<p>The election available to corporations to trade bonus and accelerated depreciation for otherwise-deferred credits is optionally extended through December 31, 2009. If the property placed in service is certain aircraft and certain long-production-period property, the election is extended to December 31, 2010.</p> <p>If a taxpayer didn't make the election for its first tax year ending after March 31, 2008 the taxpayer may make the election for its first tax year ending after December 31, 2008, and each later year.</p>

	Effective for property placed in service before January 1, 2010 (before January 1, 2011 for the aircraft and long-production-period property) and after December 31, 2008, in tax years ending after December 31, 2008.
Net Operating Losses	
2008 Carryback Period	<p>An eligible small business can elect to carryback a 2008 net operating loss (NOL) for up to five years. In other words, an eligible business may elect a three-, four-, or five-year carryback period for the 2008 NOL, instead of the general two-year carryback period.</p> <p>Any election under §172(b)(1)(H) must be made by the due date (including extensions) for filing the taxpayer's return for the tax year of the NOL.</p> <p>§172(b)(1)(H) provides for three elections:</p> <ul style="list-style-type: none"> • An election to apply the increased carryback provision; • An election as to the length of the increased carryback (i.e., three, four, or five years). This election is part of the election above, and is made when that election is made; and • An election to have the increased carryback period apply to NOLs for tax years <i>beginning</i> in 2008 (instead of NOLs for tax years ending in 2008). <p>Effective for NOLs arising in tax years ending after December 31, 2007 (i.e., NOLs for tax years ending in 2008) or, if the taxpayer so elects, NOLs for tax years beginning in 2008.</p>
Ownership Changes	<p>The §382 loss limitation rules do not apply to an ownership change (i) occurring under a restructuring plan required under a loan agreement or a commitment for a line of credit entered into with the U.S. under the <i>Emergency Economic Stabilization Act of 2008</i>, and (ii) intended to result in a rationalization of the costs, capitalization, and capacity with regard to the manufacturing workforce of, and suppliers to, the taxpayer and its subsidiaries.</p> <p>This rule, however, does not apply to a later ownership change, unless that ownership change also is described above.</p>

	Effective for ownership changes after February 17, 2009.
Subsidized COBRA Coverage	
Premium Subsidy	<p>The Code contains rules that require certain group health plans to offer certain individuals the opportunity to continue to participate for a specified period of time in the group health plan after the occurrence of certain events (qualifying event) that otherwise would have terminated such participation. These continuation coverage rules are often referred to as "COBRA continuation coverage" or COBRA. These employees can continue their coverage at their own expense, plus a 2% administrative fee. This coverage can continue for at least 18 months after the date that their health plan coverage is lost due to a qualifying event.</p> <p>Under the new law, for a period not more than nine months, an "assistance eligible individual" (AEI) is treated as having paid any premium required for COBRA continuation coverage under a group health plan if the individual pays 35% of the premium. Thus, if the assistance eligible individual pays 35% of the of the premium, the group health plan must treat that individual as having paid the full premium required for COBRA continuation coverage, and the individual is effectively entitled to a "subsidy " for 65% of the premium.</p> <p>An "assistance eligible individual" (AEI) is any qualified beneficiary who:</p> <ul style="list-style-type: none"> • At any time from September 1, 2008, through December 31, 2009, is eligible for COBRA continuation coverage; • Elects COBRA continuation coverage; and • The qualifying event giving rise to the COBRA eligibility consists of the involuntary termination of the covered employee's employment during this period. <p>Additional rules:</p> <p>Workers who were involuntarily terminated between September 1, 2008, and February 17, 2009, but initially failed to elect COBRA because it was unaffordable, are given an additional 60 days to elect COBRA and receive the</p>

	<p>subsidy.</p> <p>The COBRA subsidy is excluded from income.</p> <p>COBRA-subsidized individuals are not eligible for the refundable federal health coverage tax credit.</p> <p>Terminated workers must be notified of their right to the COBRA continuation benefits subsidy.</p> <p>Effective for COBRA premiums provided for periods of coverage beginning on or after February 17, 2009.</p>
Recapture of Subsidy	<p>A recapture provision applies for premium assistance provided to high-income taxpayers. Under this provision, the taxpayer's income tax for the tax year is increased by the amount of the premium assistance if:</p> <ul style="list-style-type: none"> • Premium assistance is provided for any COBRA continuation coverage which covers the taxpayer, the taxpayer's spouse, or any dependent of the taxpayer during any portion of the tax year, and • The taxpayer's modified adjusted gross income for the tax year exceeds \$125,000 (\$250,000 in the case of a joint return). <p>The IRS is required to issue regulations or other guidance as necessary or appropriate to carry out the premium assistance recapture rules, including requirements that the entity to whom premiums are reimbursed report to the IRS, and to each assistance eligible individual, the amount of premium assistance provided.</p> <p>Effective for tax years ending after February 17, 2009.</p>
Reimbursement to Plan	<p>The person to which premiums are payable will be reimbursed for the difference between the full premium and the amount paid by an AEI. Specifically, the person to which premiums are payable under COBRA continuation coverage must be reimbursed for the amount of the premiums that are not paid by AEIs on account of the 65% premium reduction.</p> <p>A person entitled to reimbursement and who files a claim for reimbursement at</p>

	<p>such time and in such manner as the IRS may require will be treated as having paid to the IRS, on the date that the AEI's premium payment is received, payroll taxes in an amount equal to the portion of the reimbursement relating to that premium. To the extent that the amount treated as paid exceeds the amount of the person's liability for payroll taxes, the IRS will credit or refund the excess in the same manner as if it were an overpayment of payroll taxes.</p> <p>The IRS is authorized to issue regulations or other guidance as may be necessary or appropriate to carry out the reimbursement provisions, including the reporting requirement or the establishment of other methods for verifying the correct payments and credits. In addition, the IRS must issue regulations or guidance with respect to applying the reimbursement provisions to group health plans that are multi-employer plans.</p> <p>Effective for COBRA premiums provided for periods of coverage beginning on or after February 17, 2009.</p>
Penalties	<p>Penalties will be imposed on COBRA-subsidized individuals who fail to notify the group health plan when they become eligible for another group health plan or Medicare. The individual must notify the group health plan providing the subsidized COBRA coverage in writing and must be provided in the time and manner that the Department of Labor may specify.</p> <p>The penalty is 110% of the premium reduction (the subsidy) after termination of eligibility for the subsidized COBRA coverage. No penalty will be imposed if it is shown that the failure to provide the required notice is due to reasonable cause and not to willful neglect.</p> <p>Effective February 17, 2009. However, the penalty provision is effective for notification failures occurring after February 17, 2009.</p>
Compensation and Benefits	
Executive Compensation	<p>In general, for publicly held corporations, the deduction for certain executive compensation is limited to \$1 million. Under §162(m)(5), the \$1 million deduction limit is reduced to \$500,000 for compensation paid to covered</p>

	<p>executives such as the chief executive officer (CEO), chief financial officer (CFO), and the three highest paid other officers of certain employers. The \$500,000 limit applied to financial institutions (even if not publicly held or not incorporated) from whom troubled assets were acquired under the Troubled Assets Relief Program (TARP).</p> <p>The new law provides that each TARP recipient is subject to the \$500,000 compensation deduction limit of §162(m)(5) during the period in which any obligation arising from financial assistance provided under TARP remains outstanding.</p> <p>The scope of the \$500,000 compensation deduction limit is expanded in the following ways:</p> <ul style="list-style-type: none"> • The \$500,000 limit applies to “any entity,” not just to financial institutions. • The \$500,000 limit applies to all entities that have received or will receive TARP financial assistance of any type or amount. It isn't restricted to institutions from which more than \$300 million of troubled assets were acquired, and there is no exception for institutions from which assets were acquired only through direct purchase. • The \$500,000 limit will remain in effect as long as any obligation arising from TARP financial assistance remains outstanding (with the exception for warrants to purchase common stock). It isn't restricted to employer tax years that include any part of the “TARP authorities period,” which would have ended by October 3, 2010. <p>Effective February 17, 2009.</p>
Employer-provided Transportation Benefits	<p>The monthly exclusion for employer-provided transit passes and vanpooling increases to the same level as the exclusion for employer-provided parking.</p> <p>For months in 2009 beginning on or after February 17, 2009, an employer may exclude from an employee's income up to \$230 a month for the aggregate of transit passes and vanpooling benefits provided to an employee.</p>

	<p>From January 2009 through February 17, 2009, the employer may only exclude transit passes and vanpooling benefits at the rate of up to \$120 a month.</p> <p>For 2010, an employer will be able to exclude up to whatever the inflation-adjusted amount for employer-provided parking for 2010 turns out to be.</p> <p>Effective for months beginning on or after February 17, 2009.</p>
Health Plan Enrollment	<p>The <i>Children's Health Insurance Program Reauthorization Act of 2009</i> ("2009 CHIP") provides that group health plans must permit special enrollment arrangements for employees related to eligibility under either Medicaid or CHIP. Specifically, a group health plan must permit an employee, or his dependent, who is eligible, but not enrolled, for coverage under the plan to enroll for coverage if either:</p> <p>(1) (i) the employee or dependent is covered under a Medicaid plan or state CHIP, (ii) coverage of the employee or dependent is terminated as a result of loss of eligibility, and (iii) the employee requests coverage under the group health plan no later than 60 days after the date coverage terminates; or</p> <p>(2) (i) the employee or dependent becomes eligible for assistance under a Medicaid plan or state CHIP (including under any waiver or demonstration project conducted under or in relation to those plans), and (ii) the employee requests coverage under the group health plan no later than 60 days after the date the employee or dependent is determined to be eligible for assistance.</p> <p>Effective April 1, 2009.</p>
Withholding and Estimated Tax	
Small Businesses	<p>For any tax year beginning in 2009, the required annual payment of estimated taxes of a qualified individual is reduced. The term "required annual payment" means the lesser of:</p> <ul style="list-style-type: none"> • 90% of the tax shown on the return for the tax year, or • 90% of the tax shown on the return of the individual for the preceding

	<p>tax year (previously this was 100%).</p> <p>For purposes of this special rule for 2009 tax years, "qualified individual" means any individual if:</p> <ul style="list-style-type: none"> • The adjusted gross income shown on the return of that individual for the preceding tax year is less than \$500,000 (\$250,000 if married filing separately), and • That individual certifies that more than 50% of the gross income shown on the return of that individual for the preceding tax year was income from a small business (i.e., less than 500 employees). <p>Effective February 17, 2009 for tax years beginning in 2009.</p>
Corporations	<p>Estimated tax payments due from corporations with assets of \$1 billion or more are increased for installments due in July, August, and September 2013.</p> <p>The corporate estimated tax payment due in July, August, or September 2013 increases from 120.00% to 120.50% of the payment otherwise due.</p> <p>Effective February 4, 2009.</p>
Withholding on Government Contractors	<p>The withholding tax on government contractors is delayed for one year until 2012. The withholding of 3% was to begin for payments made after 2010.</p> <p>Effective February 17, 2009.</p>
Health Coverage Tax Credit	
Refundable Credit Increase	<p>The amount of the HCTC increases from 65% to 80% of the taxpayer's premiums for qualified health insurance of the taxpayer and qualifying family members.</p> <p>Effective for coverage months beginning May 1, 2009, and ending December 31, 2010.</p>
IRS Premium Payment Requirement	<p>The IRS will make one or more retroactive payments on behalf of certified individuals equal to 80% of the premiums for coverage of the taxpayer and</p>

	<p>qualifying family members for qualified health insurance for eligible coverage months occurring before the first month for which an advance payment is made on behalf of that individual.</p> <p>The amount of the payment must be reduced by the amount of any payment made to the taxpayer under a national emergency grant under §173(f) of the <i>Workforce Investment Act of 1998</i> for a tax year including the eligible coverage months.</p> <p>Effective for coverage months beginning after December 31, 2008, and before January 1, 2011. The IRS, however, is not required to make any payments until after August 17, 2009.</p>
TAA Recipient Training Requirement	<p>To qualify for the health coverage tax credit (HCTC), a taxpayer must be an eligible individual, which includes an eligible trade adjustment allowance (TAA) recipient. Under prior law, these recipients were required to be enrolled in training if they were collecting unemployment compensation.</p> <p>The new law modifies the definition of an eligible TAA recipient to eliminate the requirement that an individual receiving unemployment compensation be enrolled in training. In addition, the definition of an eligible TAA recipient includes an individual who would be eligible to receive a trade readjustment allowance except that the individual is in a break in training that exceeds the period specified in §233(c) of the <i>Trade Act of 1974</i>, but within the period for receiving the allowance.</p> <p>Effective for coverage months beginning after February 17, 2009.</p>
Family Member Continued Eligibility	<p>Family members of eligible individuals are allowed continued eligibility for the HCTC even after the occurrence of certain events. If an individual eligible for the HCTC dies, becomes eligible for Medicare, or becomes divorced, family members remain eligible for the credit for a period of 24 months.</p> <p>Effective for coverage months beginning after December 31, 2009, and before January 1, 2011.</p>

Business Provisions

Reacquisition of Business Debt

Under current law, a taxpayer generally has income where the taxpayer cancels or repurchases its debt for an amount less than its adjusted issue price. The amount of cancellation of debt income is the excess of the old debt's adjusted issue price over the repurchase price.

The new law allows a taxpayer to elect to have debt discharge income from the reacquisition of an applicable debt instrument after December 31, 2008, and before January 1, 2011, be included in gross income ratably over five tax years.

The inclusion period begins with:

- The fifth tax year following the tax year in which the reacquisition occurs for reacquisitions occurring in 2009, and
- The fourth tax year following the tax year in which the reacquisition occurs for reacquisitions occurring in 2010.

The term "applicable debt instrument" means any debt instrument that was issued by:

- A C corporation, or
- Any other person in connection with the conduct of a trade or business by that person.

The term "reacquisition" means any acquisition of the debt instrument by:

- The debtor that issued (or is otherwise the obligor under) the debt instrument, or
- A related person to that debtor.

An election to defer debt discharge income from a reacquisition of an applicable debt instrument is made by including with the income tax return for the tax year in which the debt instrument is reacquired a statement that clearly identifies the instrument and includes the amount of deferred income.

	<p>Effective for discharges in tax years ending after December 31, 2008. The provision applies to reacquisitions after December 31, 2008, and before January 1, 2011.</p>
Gain on Qualified Small Business Stock (QSBS)	<p>Under current law, §1202 provides a 50% exclusion for the gain from the sale of certain small business stock held for more than five years.</p> <p>The new law provides that, for QSBS acquired after February 17, 2009, and before January 1, 2011, the 50% gain exclusion is increased to 75%, and none of the 60% gain exclusion rules for qualified business entity (QBE) QSBS apply.</p> <p>Effective for stock acquired after February 17, 2009, and before January 1, 2011.</p>
S Corporation Built-in Gain	<p>For S corporation tax years beginning in 2009 and 2010, the built-in gains tax does not apply if the seventh tax year in the recognition period preceded the 2009 and 2010 tax years. Therefore, if the corporation elected S status in 2002 or 2003, the required holding period for avoiding the built-in gains tax expires in 2009 and 2010 respectively.</p> <p>Effective for taxable years beginning after December 31, 2008.</p>
Work Opportunity Credit	<p>Businesses are allowed to claim a work opportunity tax credit equal to 40% of the first \$6,000 of wages paid to employees of one of nine targeted groups. Two new targeted groups of prospective employees are added:</p> <ul style="list-style-type: none"> • Unemployed veterans, and • Disconnected youth. <p>An individual qualifies as an unemployed veteran if they were discharged or released from active duty from the Armed Forces during the five-year period prior to hiring and received unemployment compensation for more than four weeks during the year before being hired.</p> <p>An individual qualifies as a disconnected youth if they are between the ages of 16 and 25 and have not been regularly employed or attended school in the past 6 months.</p>

	Effective for individuals who begin work for the employer after December 31, 2008, and before January 1, 2011.
New Markets Tax Credit	Under current law, there are \$3.5 billion of new markets tax credits available for 2008 and 2009. The new law increases the available credits for 2008 and 2009 to \$5 billion. Effective February 17, 2009.
Low-income Housing Credits	States can elect grants, instead of tax credits, to finance low-income housing for 2009. Effective February 17, 2009.
Energy Incentives	
Qualified Alternative Fuel Vehicle Credit	Taxpayers are entitled to an income tax credit for the cost of installing qualified alternative fuel vehicle (QAFV) refueling property to be used in a taxpayer's trade or business or at the taxpayer's principal residence. The alternative refueling property credit provides a tax credit to businesses (e.g., gas stations) that install alternative fuel pumps, such as fuel pumps that dispense E85 fuel, electricity, hydrogen, and natural gas. For 2009 and 2010, the credit for businesses is increased from 30% (capped at \$30,000) to 50% (capped at \$50,000). Hydrogen refueling pumps would remain at a 30% credit percentage; however, the cap for hydrogen refueling pumps will be increased to \$200,000. In addition, the credit for individuals increases from 30% (capped at \$1,000) to 50% (capped at \$2,000). Effective for tax years beginning after December 31, 2008.
Plug-in Electric Drive Vehicle Credit	The tax credit for the purchase of a plug-in electric vehicle is modified and increased. The base amount of the credit is \$2,500. If the qualified vehicle draws propulsion from a battery with at least 5 kilowatt

	<p>hours of capacity, the credit is increased by \$417, plus another \$417 for each kilowatt hour of battery capacity in excess of 5 kilowatt hours up to 16 kilowatt hours.</p> <p>Taxpayers may claim the full amount of the allowable credit up to the end of the first calendar quarter in which the manufacturer records its 200,000th sale of a plug-in electric drive vehicle. The credit is reduced in the following calendar quarters.</p> <p>The credit is allowed against the alternative minimum tax (AMT). The bill also restores and updates the electric vehicle credit for plug-in electric vehicles that would not otherwise qualify for the larger plug-in electric drive vehicle credit and provides a tax credit for plug-in electric drive conversion kits.</p> <p>Effective for vehicles acquired after December 31, 2009.</p>
Plug-in Conversion Credit	<p>The alternative motor vehicle credit (AMVC) had four components:</p> <ul style="list-style-type: none"> • The qualified fuel cell motor vehicle credit. • The advanced lean-burn technology motor vehicle credit. • The qualified hybrid motor vehicle credit. • The qualified alternative fuel motor vehicle credit. <p>Alternative motor vehicle credit (AMVC) is expanded to include a plug-in conversion credit for property placed in service after February 17, 2009, and before Jan. 1, 2012.</p>
Nonbusiness Energy Property Credit	<p>The nonbusiness energy property credit available to individual homeowners is modified and increased in the following ways:</p> <ul style="list-style-type: none"> • The 10% credit for building envelope components is increased to 30%; • All energy property that was previously eligible for the \$50, \$100, and \$150 credits is instead eligible for a 30% credit; • The \$500 lifetime cap (\$200 for windows) is eliminated and replaced with an aggregate \$1,500 cap for 2009 and 2010; and

	<ul style="list-style-type: none"> • The credit is extended for one year, through December 31, 2010. <p>Effective for tax years beginning after December 31, 2008. The credit won't be available for property placed in service after December 31, 2010.</p>
Property Standards	<p>Various changes have been made to the standards that property must meet to qualify for the nonbusiness energy property credit. These changes will take effect for property placed in service after 2009, except for the change regarding biomass fuel stoves.</p> <p>Insulation – must meet the prescriptive criteria for that material or system established by the 2009 International Energy Conservation Code, as in effect on February 17, 2009.</p> <p>Exterior windows, skylights, and doors – must have a U factor equal to or below 0.30 and a solar heat gain coefficient (SHGC) of 0.30.</p> <p>Electric heat pumps must meet the following standards:</p> <ul style="list-style-type: none"> • A seasonal energy efficiency ratio (SEER) greater than or equal to 15, energy efficiency ratio (EER) greater than or equal to 12.5, and heating seasonal performance factor (HSPF) greater than or equal to 8.5 for split heat pumps, and • A SEER greater than or equal to 14, EER greater than or equal to 12, and HSPF greater than or equal to 8.0 for packaged heat pumps. <p>Central air conditioners must meet the following standards:</p> <ul style="list-style-type: none"> • A SEER greater than or equal to 16 and EER greater than or equal to 13 for split systems, and • A SEER greater than or equal to 14 and EER greater than or equal to 12 for packaged systems. <p>Natural gas, propane, or oil water heaters - must have either an energy factor of at least 0.82 or a thermal efficiency of at least 90%.</p> <p>Biomass fuel stoves - that burn biomass fuel to heat a dwelling unit that the</p>

	<p>taxpayer uses as a residence, or to heat water for use in the residence, and that has a thermal efficiency rating of at least 75%.</p> <p>Furnaces and boilers – there are six separate categories:</p> <ol style="list-style-type: none"> 1. A “qualified natural gas furnace” will mean any natural gas furnace that achieves an annual fuel utilization efficiency rate of not less than 95. 2. A “qualified propane furnace” will mean any propane furnace that achieves an annual fuel utilization efficiency rate of not less than 95. 3. A “qualified oil furnace” will mean any oil furnace that achieves an annual fuel utilization efficiency rate of not less than 90. 4. A “qualified natural gas hot water boiler” will mean any natural gas hot water boiler that achieves an annual fuel utilization efficiency rate of not less than 90. 5. A “qualified propane hot water boiler” will mean any propane hot water boiler that achieves an annual fuel utilization efficiency rate of not less than 90. 6. A “qualified oil hot water boiler” will mean any oil hot water boiler that achieves an annual fuel utilization efficiency rate of not less than 90. <p>Effective for property placed in service after February 17, 2009, except that the change regarding biomass fuel stoves takes effect for tax years beginning after December 31, 2008.</p>
Subsidized Energy Financing	<p>Under current law, the investment tax credit must be reduced if the property qualifying for the investment tax credit is also financed with industrial development bonds or through any other federal, state, or local subsidized financing program.</p> <p>The bill repeals this subsidized energy financing limitation on the investment tax credit in order to allow businesses and individuals to qualify for the full amount of the investment tax credit even if such property is financed with industrial development bonds or through any other subsidized energy financing.</p>

	Effective for tax years beginning after December 31, 2008.
Residential Energy Efficient Property Credit Limitations	<p>Individual taxpayers are allowed a nonrefundable personal tax credit, known as the residential energy efficient property (REEP) credit, for 30% of expenditures made during the tax year for qualified solar water heating, geothermal heat pump, fuel cell, small wind energy, and solar electric property. Previously, the REEP credit for a tax year was limited to:</p> <ul style="list-style-type: none"> • \$2,000 for qualified solar water heating property; • \$2,000 for qualified geothermal heat pump property; • \$500 for each 0.5 kilowatt of capacity of qualified fuel cell property; and • \$500 for each 0.5 kilowatt of capacity (not to exceed \$4,000) of qualified small wind energy property. <p>There is no dollar limit for solar electric property after 2008.</p> <p>The new law eliminates the REEP credit caps for qualified solar water heating, geothermal heat pump, and small wind energy property, while retaining the credit cap for qualified fuel cell property.</p> <p>Effective for tax years beginning after December 31, 2008.</p>