

New Tax Breaks to Aid Workers

By Bruce Schlegel
Legal Aid of Arkansas
LITC Director

New tax credits will aid many working class people in 2009. On February 17, 2009, President Obama signed the American Recovery and Reinvest Act of 2009 (ARRA) into law. The changes include a new tax credit of \$400 for workers who earn \$75,000 or less, or \$800 for married workers who file joint tax returns and earn \$150,000 or less; a tax credit of up to \$8,000 for first time home buyers; and a new sales tax deduction for persons who buy a new car, light truck, motorcycle or motor home. The tax breaks are intended to boost the economy by putting more money in the pockets of working people.

Making Work Pay Credit

For most workers, the Making Work Pay Credit, will result in a larger take home pay for each pay period. Employers' tax withholding schedules will be adjusted so that most workers will not have to do anything to receive the benefit of the credit. Employers will simply withhold less for Federal Income taxes, and workers will not have to submit a new Form W-4, Employee Withholding Certificate. Workers who have more than one job and married persons whose combined income puts them in higher tax brackets may wish to submit new Form W-4s to be sure they have enough income tax withheld. The Making Work Pay Credit is for tax years 2009 and 2010.

First-Time Home Buyer Credit

There is a large backlog of unsold homes, both new and previously occupied, in Arkansas, particularly in Northwest Arkansas, and prices and interest rates are low. It's a great time for persons who have not previously owned a home to buy because good deals

are available, and those buyers are also eligible for a tax credit of up to \$8000 if they buy after December 31, 2008 and before December 1, 2009. Buyers must own the home for a least three years or the credit must be repaid.

Sales Tax Deduction for Purchase of a New Vehicle

It you purchase a new car, light truck, motorcycle or motor home on or after February 17, 2009, you will be allowed to deduct state and local sales taxes and excise taxes from your federal taxable income. The deduction is available to all buyers, even those who do not itemize their deductions. Taxpayers who purchase more than one new vehicle may deduct the sale and excise taxes on only one new vehicle.

Other Tax Break Provisions of ARRA

There are other tax breaks in the ARRA, including:

- Temporary increase in earned income credit.
- Temporary increase in refundable portion of child tax credit.
- The American Opportunity Tax Credit which makes temporary changes to the education credits.
- A portion of unemployment compensation (\$2,400) can be excluded from income on a taxpayer's 2009 tax return.
- New energy conservation incentives.
- A 65% subsidy for COBRA health insurance continuation for up to nine months for certain worker's who are involuntarily terminated from their jobs.

How to Obtain Details of the New Tax Breaks

Details of the new ARRA provisions can be obtained from www.irs.gov, or by contacting the Legal Aid of Arkansas Low Income Tax Clinic, 4083 N. Shiloh Road, Fayetteville, AR 72703, phone (479) 442-0600, extension 4315.