

Impact of Key Tax Law Changes - Calendar Year 2009 (b)  
As of January 21, 2010

#	What is it?	Who is impacted?	When is it effective?	How many taxpayers will be impacted? (estimate, if can be estimated)	What does the taxpayer need to do?	Maximum Impact to the Taxpayer at tax time <sup>(a)</sup>
1	<b>Additional Child Tax Credit</b> Earnings threshold for this refundable credit lowered from \$8,500 to \$3,000	New tax credit for taxpayers with earned income between \$3,000 and \$8,500.	2009 and 2010	3% of taxpayers	- Claim the credit on a filed tax return; Taxpayer could have previously been a not-required-to-file	Taxpayer could benefit up to \$1,000 per eligible child;
2	<b>Earned Income Tax Credit</b> 1) Families with 3 or more children will now receive additional credit for 3rd child (former law - only up to 2 kids) 2) Reduced the 'penalty' if MFJ, thus 'income ceiling' was raised by \$5,000	1) Families with 3 or more children with incomes up to \$48,000 2) Joint filers who previously didn't qualify for EITC may now qualify because the phase-out range was shifted	2009 and 2010	3% of taxpayers	- Claim the credit on a filed tax return; Taxpayer could have previously been a not-required-to-file	Taxpayer could benefit up to \$629 (MFJ with three or more qualifying children);
3	<b>Making Work Pay Credit</b> NEW Refundable credit of up to \$400 per qualified taxpayer (\$800 MFJ). Qualified taxpayers were 'prepaid' the credit through decreased payroll withholdings since April 1. However, the change in withholdings may cause some people to be under withheld, thus, they may need to "pay back" the dollars already received	Individuals with earned income and a valid SSN (MFJ only one needs valid SSN). Benefit starts to phase out at modified adjusted gross income (MAGI) = \$75,000 (\$150,000 MFJ). Full phaseout occurs at MAGI = \$95,000 (\$190,000 MFJ)	2009 and 2010	81% of taxpayers are expected to claim the credit Taxpayers In Danger Zone (underwithheld) include those who are: (1) single or married with more than one income (2) a dependent (3) retired	- Claim the credit on a filed tax return with new Schedule M	If underwithheld could reduce refund up to \$400 or \$1,200/MFJ
4	<b>Recovery Rebate Credit</b> Expired at end of CY2008. Commonly referred to as the 2008 Stimulus Payment where individuals had to file a tax return to receive this money. Some received a prepayment via a check, with a positive 'true-up' on the CY2008 return	Those taxpayers that received a positive 'true-up' on their CY2008 return.	N/A (expired after 2008)		Nothing	Cost taxpayer up to \$600 or \$1,200/MFJ + \$300 per child
5	<b>American Opportunity Tax Credit (expanded Hope Credit)</b> Increased higher education credit from \$1,800 to \$2,500 per year, per student; first 4 years of college eligible instead of first 2; and 40% is now refundable (vs. 0% PY)	Qualified taxpayers investing in education. Benefits starts to phase out at AGI of \$80,000 (\$160,000 MFJ). Full phase out occurs at \$90,000 (\$180,000 MFJ); previous 2008 credit was fully phased out at AGI of \$58,000 (\$116,000 MFJ) For 2009, students in Midwestern Disaster Area may opt for enhanced credit of \$3,600 instead	2009 and 2010	5% of taxpayers	- Invest \$\$ in higher education (taxpayer, dependents) - Claim such on 2009 return	Taxpayer could benefit up to \$1,000 per eligible student; \$700 maximum impact per student for taxpayers whose tax liability is high enough to benefit from the full credit if it were fully nonrefundable
6	<b>Unemployment compensation</b> First \$2,400 of unemployment compensation not subject to income tax	Jobless taxpayers receiving unemployment compensation.	2009		- When filing, reduce reported unemployment compensation by \$2,400.	Taxpayer benefit up to \$840 if one taxpayer received unemployment benefits; up to \$1,680 if MFJ and both spouses received unemployment

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7	<b>Homebuyer credit</b> A refundable credit of 10% of first-time home purchase price up to \$8,000. No repayment unless taxpayer moves out of or sells home within 3 years For homes purchased after 11/06/09 - up to \$6,500 credit for qualifying existing homeowners. no credit is allowed for homes costing more than \$800,000. - other new limitations and exceptions also apply	Qualified taxpayers investing in first time homes. Phaseout starts at \$75,000 (\$150,000 MFJ) and ends at \$95,000 (\$170,000 MFJ) For home purchased after 11/06/09: -- the phaseout starts at \$125,000 (\$225,000 MFJ) and ends at \$145,000 (\$245,000 MFJ). Individuals who have owned and lived in a principal residence for 5 consecutive years out of the last 8 years and who buy a subsequent principal residence after 11/06/09 and before 4/30/10 may claim a credit of 10% of the purchase price up to \$6,500.	Homes purchased 1/1/09 – 11/06/09  Homes purchased after 11/06/09 and before 4/30/10	1.4% of taxpayers	- Invest \$\$ in first home, or after 11/6/09, invest in subsequent home - Claim such on 2008, 2009, or 2010 return	First-time homebuyers; could benefit up to \$8,000; Long-time homeowners could benefit up to \$6,500
8	<b>Energy Credit</b> A credit for 30% of costs (max credit of \$1,500 collectively for 2009 and 2010) for qualifying residential improvements for heating and cooling efficiency (e.g., windows, doors, HVAC). This credit was \$500 in 2006 and 2007; \$0 in 2008	Taxpayers who invest in such qualifying improvements to their home	2009 and 2010		- Invest \$\$ in energy efficient improvements (purchase and install) - Claim such on 2009 or 2010 return	Taxpayer could benefit up to \$1,500
9	<b>New vehicle purchase</b> A tax deduction for the state and local sales tax on purchase of a new vehicle costing up to \$49,500	- Qualified taxpayers who buy new cars after 2/16/09 and before 2010. - Benefit starts to phase out at MAGI < \$125,000 Single (\$250,000 MFJ) - Taxpayer does not need to itemize to receive this deduction	2009		- Invest \$\$ in new car - Claim on 2009 return (don't have to itemize to get benefit!)	Taxpayer benefit depends on sales tax paid and number of vehicles purchased; Reduced basis would increase recognized gain if the car is sold for a profit
10	<b>Refined definition of Uniform Definition of Child (UDC)</b> 1) Related to age (Qualifying Child must be younger than taxpayer) and 2) Tie-breaker rule (when parent is in the home, child is QC of other taxpayer only if that taxpayer has a higher AGI)	Unrelated adults who care for siblings as their children Lower-earning adult children living with parents who can no longer claim their siblings	2009 and ongoing	2.7% of taxpayers	- Nothing. - Rule applies to all taxpayers	Could cost taxpayer up to \$3,043 for one child; \$5,028 for two children; or \$5,657 for three children

**a** The estimated impact is solely for the one noted law; not a collective impact of all the tax law changes.

**b** These changes are the key year-over-year tax law changes. There are many more tax law changes and regulatory changes (e.g., the annual inflationary adjustments, other tax law changes that impact a smaller group of individuals, etc.). For more information, go to [www.thetaxinstitute.com](http://www.thetaxinstitute.com).