

American Recovery and Reinvestment Act: Tax Cuts for Middle-class Families and American Businesses

The tax cuts in the American Recovery and Reinvestment Act, signed into law by President Obama on February 17, will jumpstart the economy by returning money to the hands of about 95% of American workers, and encouraging new job-creating investments by businesses large and small, that will transform our economy for years to come, such as in renewable energy and energy efficiency. These tax cuts make up 36 percent of the package – the largest individual component of the plan. As President Obama pointed out on February 21, “[B]y April 1st, a typical family will begin taking home at least \$65 more every month. Never before in our history has a tax cut taken effect faster or gone to so many hardworking Americans.”

Tax Cuts for American Families (\$232 billion over 10 years)

- *Making Work Pay Tax Cut:* Provides immediate and sustained tax relief to about 95 percent of American workers and their families through the Making Work Pay tax credit, a refundable tax credit of up to \$400 per worker (\$800 per couple filing jointly), phasing out completely at \$190,000 for couples filing jointly and \$95,000 for single filers.
 - These tax cuts will be distributed to 129 million families by reducing tax withholding from workers’ paychecks by April 1st. These tax cuts are a downpayment on President Obama’s plan for permanent middle-class tax relief, but were scaled back to gain the support of the needed Senate Republicans.
- *Child Tax Credit:* Cuts taxes for the families of more than 16 million children through an expansion of the child tax credit. This would provide a new tax cut for more than 6 million children, and increase the existing credit for more than 10 million children.
- *Earned Income Tax Credit:* Expands the Earned Income Tax Credit by providing tax relief to families with three or more children and increasing marriage penalty relief.
- *College Tax Credit:* Helps more than 4 million additional students attend college with a new, \$2,500 tax credit for families, which is partially refundable. As a result, the nearly one-fifth of high school seniors who currently receive no tax credit will receive a tax cut to make college affordable for the first time. These tax credits phase out completely at \$90,000 for individuals and \$180,000 for couples filing jointly.
- *Alternative Minimum Tax:* Protects 26 million middle-class families from being hit by the alternative minimum tax.
- *First-Time Homebuyers:* Strengthens the housing market by enhancing the current tax first-time homebuyer credit by increasing it to \$8,000 (up from \$7,500) and by removing the current repayment requirement.
- *Incentives to Buy New Cars:* Provides a tax deduction for state and local sales taxes and excise taxes paid on the purchase of new cars, including light trucks and motor homes.
- *Unemployment Benefits:* Temporarily suspends federal taxes on the first \$2,400 of unemployment benefits.

Business Tax Incentives to Create Jobs and Spur Investment (\$10 billion over 10 years)

- *Bonus Depreciation:* Helps businesses quickly recover costs of new capital investments by extending the increased bonus depreciation for businesses making investments in new plants and equipment in 2009.

- *Buying Back Debt:* Provides assistance to companies looking to reduce their debt burdens by delaying the tax on businesses that have discharged indebtedness, which will help these companies strengthen their balance sheets and obtain resources to invest in job creation.
- *Small Business Expensing:* Spurs small business investment by extending small business expensing, which doubles the amount small businesses can immediately write off their taxes for capital investments and purchases of new equipment made in 2009 from \$125,000 to \$250,000. This write off phases out completely for investments over \$800,000 (up from \$500,000).
- *Small Business Loss Carrybacks:* Increases cash flow for small businesses by providing a 5-year carryback of net operating losses (NOLs). This would allow small businesses (with gross receipts of less than \$15 million) to write off losses incurred in 2008 against taxes assessed over the previous five years (current law limits NOL carryback to the previous two years), thereby reducing their taxes this spring.
- *Small Business Investment:* Spurs investments in small businesses by cutting the capital gain tax on investors in small businesses who buy stock (in the next two years) and hold it for more than five years – increasing from 50 percent to 75 percent the capital gains that are excluded from tax.
- *3% Government Withholding:* Delays the mandate that federal, state, local governments withhold 3 percent of payments to businesses for goods and services, which is supported by the National Small Business Association.
- *Jobs for Unemployment Veterans or Youth:* Encourages new job creation with business tax credits for hiring recently discharged unemployed veterans and youth that have been out of work and out of school for the 6 months prior to hire.

Renewable Energy and Energy Efficiency Tax Incentives to Spur Energy Savings and Create Green Jobs (\$20 billion over 10 years)

- *Tax Credit for Renewable Energy:* Extends for three years the production tax credit (PTC) for electricity derived from wind (through 2012) and for electricity derived from biomass, geothermal, hydropower, landfill gas, and waste-to-energy facilities (through 2013).
- *Easing Credit Crunch for Renewable Energy:* Provides grants of up to 30 percent of the cost of building a new renewable energy facility in 2009 and 2010 or permits that business to claim a 30 percent investment credit instead of a production tax credit, to address current the credit crunch for investments in renewable energy.
- *Energy Efficient Home Tax Credits:* Promotes energy efficient investments in homes by extending and expanding tax credits through 2010 for investments such as new furnaces, energy-efficient windows and doors, or insulation. Increases the credit from 10 percent to 30 percent of the cost of the investment and raises the credit cap from \$500 to \$1,500, saving American families money on their energy bills.
- *Plug-in Hybrid Tax Credit:* Spurs the next generation of cars by providing a tax credit for families that purchase plug-in hybrid and all-electric vehicles of up to \$7,500.
- *Renewable Energy Bonds:* Provides clean renewable energy bonds for State and local governments, electric cooperatives and public power companies to finance facilities that generate electricity from renewable resources.
- *Energy Conservation Bonds:* Increases qualified energy conservation bonds for State and local governments to make a variety of energy conservation investments, such as investments in public infrastructure, loans and grants to retrofit homes, and funding for research to reduce greenhouse gas emissions.
- *Investment in Advance Energy Manufacturing:* Establishes a new manufacturing investment tax credit for advanced energy facilities, such as facilities that manufacture components for the production of renewable energy, advanced battery technology, and other innovative next-generation green technologies.
- *Alternative Fuel Pumps:* Increases incentives to install pumps that dispense alternative fuels including E85, biodiesel, hydrogen, and natural gas. More of these fuel pumps are needed for consumers with flex-fuel and alternative fuel vehicles.

Tax Incentives for State and Local Economic Development (\$26 billion over 10 years)

- *School Construction:* Spurs new construction, rehabilitation, or repair of public school facilities with a new bond financing program for state and local governments with \$22.4 billion in tax credit bonds over the next two years. This will create construction jobs and strengthen the education of our children.
- *Recovery Zone Bonds:* Provides relief for America's hardest hit areas with tax credits and tax-exempt bonds for development in "Recovery Zones" (areas hit particularly hard by job loss, poverty, and home foreclosures).
- *Build America Bonds:* Establishes new Build America Bonds which are a better value for state and local governments to use to finance state and local infrastructure projects.
- *Low-Income Housing:* Provides temporary grants to states to support investment in low-income housing in lieu of tax credits.