

RECOVERY ACT TAX CREDIT IMPACT ON MIDDLE CLASS FAMILIES

Fact Sheet

During these tough economic times, Recovery Act tax cuts are making things a little easier for hard-hit middle class families. There are more than a dozen Recovery Act tax cuts working families can take advantage of this tax season.

Here is a sampling of how Recovery Act tax cuts would benefit some “typical” middle class families this tax season:

Married Couple with Child in College

- Married couple with income of \$75,000 in 2009.
- Two children, one of whom is a junior in college.
- Paid \$5,000 in college expenses in 2009.

Thanks to the Recovery Act, this married couple making \$75,000 in 2009 is eligible for \$3,300 in new or expanded 2009 tax credits.

Their employers adjusted their withholding last year to reflect the Making Work Pay Credit, and they collected an extra \$800 in their paychecks in 2009 – and will continue to collect this credit in 2010. When they file their taxes this year, they will collect an additional \$2,500 thanks to the American Opportunity Credit to help with the costs of sending their oldest child to college.

Tax Savings:

- **\$800 in Making Work Pay Credit:** Over 110 million working Americans qualify for the Recovery Act’s Making Work Pay Credit, saving them up to \$400 per year (\$800 for married couples filing a joint return). Qualifying Americans should have received the credit incrementally in paychecks in 2009 and should continue to collect it throughout 2010.
- **\$2,500 in American Opportunity Credit:** College students and their parents are eligible to collect an American Opportunity Tax Credit of up to up to \$2,500 through the Recovery Act to pay for college tuition and other expenses when filing taxes. This expanded the Hope Credit by \$700 per student, and opened up the credit to apply beyond the first two years of college. Only the parent or the student can claim this credit – not both.

Married Couple Who Made Energy-Efficient Home Improvements

- Married couple with income of \$90,000 in 2009.
- Spent \$6,000 in 2009 making energy-efficiency improvements including new energy-efficient windows, doors and insulation.

Thanks to the Recovery Act, this married couple making \$90,000 in 2009 is eligible for \$2,300 in new or expanded 2009 tax credits.

Their employers adjusted their withholding last year to reflect the Making Work Pay Credit, and they collected an extra \$800 in their paychecks in 2009 – and will continue to collect this credit in 2010. And when they file their taxes this year; they will collect an additional \$1,500 in Residential Energy Property Credits because they made qualifying energy-efficiency improvements to their home.

Tax Savings:

- **\$800 in Making Work Pay Credit:** Over 110 million working Americans qualify for the Recovery Act's Making Work Pay Credit, saving them up to \$400 per year (\$800 for married couples filing a joint return). Qualifying Americans should have received the credit incrementally in paychecks in 2009 and should continue to collect it throughout 2010.
- **\$1,500 in Residential Energy Property Credits:** Americans who made some types of energy-efficient upgrades to their homes this year can get 30 percent of what was spent back – up to \$1,500 – this tax season.

Single Mom With Three Children, Collected Unemployment

- This single parent made \$15,700 in 2009 and has three children.
- She dealt with a layoff at the beginning of the year and collected \$2,400 in unemployment benefits.

Thanks to the Recovery Act, this single mom making \$15,700 in 2009 is eligible for \$1,233 in new or expanded 2009 tax credits – plus her unemployment benefits are tax-free.

Her employer adjusted her withholding last year to reflect the Making Work Pay Credit, and she collected an extra \$400 in her paychecks in 2009 – and will continue to collect this credit in 2010. She also will collect an extra \$833 in Earned Income Tax Credit this year since the Recovery Act increased the maximum EITC for families with three or more children from \$4,824 to \$5,657. And thanks to the Recovery Act, she will not have to pay taxes on the \$2,400 in unemployment benefits she collected in 2009. Typically unemployment benefit income is taxable.

Tax Savings:

- **\$400 in Making Work Pay Credit:** Over 110 million working Americans qualify for the Recovery Act's Making Work Pay Credit, saving them up to \$400 per year (\$800 for married couples filing a joint return). Qualifying Americans should have received the credit incrementally in paychecks in 2009 and should continue to collect it throughout 2010.
- **\$833 increase in Earned Income Tax Credit to \$5,657:** The Recovery Act has expanded the Earned Income Tax Credit for larger families (with 3 or more children) up to \$5,657.

- **Up to \$2,400 in Unemployment Benefits Tax-Free:** Americans who collected unemployment benefits in 2009 can benefit from the Recovery Act tax exemption that makes the first \$2,400 of those benefits tax-free.

First-Time Homebuyer Couple, Purchased New Car

- This married couple made \$80,000 in 2009 and closed on their first home last year that cost \$125,000.
- They also bought a \$17,000 new car in St. Louis, MO in 2009.

*Thanks to the Recovery Act, this married couple is eligible for **\$8,800** in new or expanded 2009 tax credits plus they can deduct the state and local sales taxes they paid on their new car.*

Their employers adjusted their withholding last year to reflect the Making Work Pay Credit, and they collected an extra \$800 in their paychecks in 2009 – and will continue to collect this credit in 2010. When they file their taxes this year, they will collect an additional \$8,000 through the First-Time Homebuyer Tax Credit because they purchased their first home in 2009 (this credit is refundable). They will also be able to deduct the state and local taxes they paid when they bought their new car last year.

Tax Savings:

- **\$800 in Making Work Pay Credit:** Over 110 million working Americans qualify for the Recovery Act's Making Work Pay Credit, saving them up to \$400 per year (\$800 for married couples filing a joint return). Qualifying Americans should have received the credit incrementally in paychecks in 2009 and should continue to collect it throughout 2010.
- **\$8,000 in First Time Homebuyers Tax Credit:** First-time homebuyers who purchased in 2009 can collect a refundable tax credit of up to \$8,000 with no payback requirement unless they sell the home within three years of purchase.
- **Deduction of State and Local Taxes Paid on New Vehicle:** The Recovery Act's New Vehicle Purchase Incentive provides a tax deduction for state and local taxes or other fees paid on up to \$49,500 of the price of that vehicle purchased between February 17, 2009 and December 31, 2009.