



FISCAL FACT

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Update: The Tax Savings from Fiscal Stimulus

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Note: This Fiscal Fact was updated on Feb. 13, 2009 to reflect the text of the Stimulus Bill as agreed upon in conference. While unlikely, the provisions of the bill could still be changed before the final vote.

A conference agreement has been reached regarding the contents of the stimulus bill and the text of the bill has been released. Today Congress will vote on this final version of the stimulus. Table 1 shows the tax savings for a family with two kids, one in college and one under age 17, under some of the major tax provisions included in the fiscal stimulus bill. It shows that these families are going to see significant tax savings from the stimulus bill. Table 2 provides a brief description of the tax provisions included in the stimulus bill.

As shown below, some taxpayers are set to receive a considerable tax cut from the stimulus. Most of the tax benefit comes from the new Making Work Pay Credit and the American Opportunity Tax Credit, which replaces and expands the existing Hope credit for certain higher education expenses. The stimulus also includes a higher AMT exemption (the so-called AMT patch).

Table 1: Tax Savings in 2009 Under the Stimulus Bill

Couple with Two Children Earning: (a)	Current Income Tax	Tax Under the Stimulus Bill	Savings
\$40,000	(\$1,721)	(\$3,915)	\$2,194
\$60,000	\$2,900	(\$33)	\$2,933
\$80,000	\$5,604	\$2,518	\$3,086
\$100,000	\$10,180*	\$4,978	\$5,202
\$200,000	\$35,750*	\$30,191	\$5,559
Single Parent with Two Children Earning: (a)			
\$20,000	(\$5,274)	(\$6,674)	\$1,400
\$40,000	\$0	(\$1,100)	\$1,100
\$60,000	\$4,753	\$1,853	\$2,900
\$80,000	\$9,103	\$6,303	\$2,800
\$100,000	\$14,105*	\$13,953	\$152
\$200,000	\$41,113*	\$37,746*	\$3,367

(a) The couple is assumed to be a two-earner couple with equal earnings and income from no other source. One child is assumed to be under age 17 and the other child of college age with college expense of \$4,000. Itemized deductions are assumed to be 18 percent of earnings. It is assumed that the taxpayer does not purchase a home in 2009. The same assumptions apply for the single parent.

*Indicates taxpayer is required to pay the Alternative Minimum Tax.

Table 2: Description of Tax Provisions Included in the Final Stimulus Bill (a)

Provision	Stimulus Bill (b)
<p>Making Work Pay Credit: <i>New credit</i>; 6.2% of earned income, up to a maximum credit of \$400 per earner (\$800 for a couple who both have earned income over \$6,450).</p>	<p>Credit phases out at rate of 2% of income over \$75,000 (\$150,000 for joint filers). Therefore individuals with income over \$95,000 and couples with income over \$190,000 would not receive any portion of the credit.</p>
<p>Earned Income Tax Credit: Current credit equals a fixed percentage of income until the maximum credit is reached. Credit begins to phase out when income is greater than the phase-out threshold (credit rate, thresholds, and phase-out rate are based on the number of children in the family).</p>	<p>Increase credit rate from 40% to 45% for filers with 3 or more children. Income level at which credit begins to phase out for joint filers is increased to \$5,000 above the threshold for singles.</p>
<p>Additional Child Tax Credit (ACTC): This is the refundable portion of the Child Tax Credit (CTC), and is allowed for certain taxpayers who cannot claim the full CTC because their tax liability is not high enough.</p>	<p>Reduces the income level at which a taxpayer can begin claiming the ACTC from \$12,550 in 2009 to \$3,000 in 2009 and 2010.</p>
<p>American Opportunity Credit: <i>New credit; replaces the current Hope credit.</i> A credit for higher education expenses. 100% of first \$2,000 of qualified expenses and 25% of next \$2,000.</p>	<p>The income threshold at which the credit begins to phase out is increased from \$50,000 to \$80,000 (\$100,000 to \$160,000 for couples). 40% of the credit would be refundable and therefore available to taxpayers with little or no income tax liability.</p>
<p>First-time Homebuyer Credit: Credit is lesser of \$7,500 or 10% of purchase price. Available to first-time homebuyers who purchased a home between April 9, 2008, and June 30, 2009. Currently, the credit is refundable but must be paid back over a 15 year period. The credit phases out between AGI of \$75,000 and \$95,000 (\$150,000 and \$170,000 for joint filers).</p>	<p>Extends the eligible period to Dec. 1 2009 and increases the maximum credit to \$8,000 for homes purchased between Jan. 1, 2009 and Dec. 1, 2009. Waives the repayment requirement for homes purchased in 2009 (must hold home at least for 3 years)</p>
<p>Unemployment Compensation: Currently unemployment compensation is included in gross income.</p>	<p>Allows taxpayers to exclude up to \$2,400 in unemployment compensation from gross income for 2009.</p>
<p>Sales Tax Deduction for Certain Car Purchases: Currently there is no special deduction for non-itemizers who purchase a car.</p>	<p>Provides a permanent "above-the-line" deduction for state and local sales or excise taxes imposed on the purchase of a new vehicle which meets Clean Air Act standards. The deduction applies to the amount of tax that is attributable to the vehicle price up to \$49,500. The deduction phases out for taxpayers with income between \$125,000 and \$135,000</p>

	(\$250,000 and \$260,000 for couples). The deduction is allowed for taxpayers who do not itemize (i.e. it is an "above-the-line deduction) and is also allowed against the Alternative Minimum Tax.
Alternative Minimum Tax Relief: The AMT exemption amounts are not indexed for inflation. In order to keep millions of taxpayers from having to pay AMT, Congress has routinely passed short-term patches for the past several years.	Includes an AMT patch for 2009. The patch increases the exemption amounts to \$46,700 for individuals and to \$70,950 for joint filers. Also, AMT liability can be reduced by the nonrefundable personal credits.
(a) While unlikely, the provisions of the bill could	be changed before the final vote.
(b) Unless otherwise noted, all provisions are for	taxable years beginning in 2009 and 2010 only

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