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Update: The Tax Savings from Final Fiscal Stimulus

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On Tuesday, February 17, President Obama signed the American Recovery and Reinvestment Act of 2009 (ARRA 2009), also know as the stimulus bill. It includes several provisions that change the individual income tax. Tables 1, 2 and 3 below show the tax savings for typical American families with various income levels and in different stages of life. Table 4 provides a brief description of the tax provisions included in the stimulus bill.

Table 1 shows the tax savings for a family with two children, one in college and one under age 17. Savings are shown for both a married couple and a single parent. At most income levels, the savings are largely due to the refundable Making Work Pay credit ($400 for a single filer, $800 for a couple) and the increased and now partially refundable education credit (now called the American Opportunity credit). The so-called AMT patch also makes up a substantial portion of the savings for the married couple at most incomes shown and for the single parent at higher incomes.

Oddly, the calculation of a person's AMT liability is so confusingly interwoven with the calculation of regular tax liability that the so-called AMT patch can actually provide tax relief to people who would not have had to pay the AMT even without the patch. In permanent law, the AMT prohibits the full use of certain tax credits, but with the one-year patch, the full value of those credits can be taken, and so even taxpayers with modest incomes often see significant savings from the AMT patch.

Table 1: Tax Savings in 2009 under ARRA 2009 for a Typical Family of Four with College Expenses (a)			
Couple with Two Children Earning: (a)	**Tax with No Stimulus Bill**	**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 first home in 2009. The same assumptions apply for the single parent.			
*Indicates taxpayer is required to pay the Alternative Minimum Tax.			

Table 2 below shows the tax savings for a couple who have three young children and have purchased their first home in 2009. Again, much of the savings comes from the Making Work Pay credit and the AMT patch. Additionally, the couple making $40,000 sees significantly increased savings due to the expansion of the earned income credit (EIC).

In this example, the taxpayer benefits from a once-in-a-lifetime tax benefit: a credit for purchasing one's first home. The stimulus bill added $500 to the First-time Homebuyer credit, raising it from $7,500 to $8,000, but that was not the most important change. As originally enacted last summer as part of the Housing and Economic Recovery Act, the homebuyer credit had to be repaid over a 15-year period. That made it more like an interest-free loan than a true tax credit. The stimulus bill eliminates that repayment requirement for homes purchased in 2009, turning it into a regular refundable credit. Our single-year snapshot examples don't change as a result, but this change does make the credit much more valuable to many low- and middle-income buyers of a first home. Upper-income buyers of a first home do not benefit because the credit begins to phase out when income surpasses $150,000 ($75,000 for a single taxpayer).

Table 2: Tax Savings in 2009 under ARRA 2009 for a Typical Family of Five Who Purchase Their First Home (a)

Earnings:	Tax with No Stimulus Bill	Tax under the Stimulus Bill	Savings
$40,000	($10,186)	($12,509)	$2,322
$60,000	($6,600)*	($8,080)	$1,480
$80,000	($3,896)*	($5,530)	$1,634
$100,000	$680*	($3,070)	$3,750
$120,000	$5,756*	$1,115	$4,641
$140,000	$11,332*	$6,215	$5,117
$160,000	$20,658*	$15,515	$5,143
$180,000	$30,030*	$24,548	$5,482
$200,000	$35,750*	$29,169	$6,581

(a) The family consists of a married couple with 3 children under age 17. The couple is assumed to be a two-earner couple with equal earnings and income from no other source. It is assumed that the first home is purchased for $150,000. Itemized deductions are assumed to be 18 percent of earnings.

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

Table 3 shows the tax savings for a retired couple with $12,000 of Social Security income and various amounts of pension and investment income. Because they have no earned income (like salaries or wages) the retired couple is not eligible for the Making Work Pay credit or the earned income credit. In this case the only benefit the elderly couple receives from the stimulus is from the AMT patch at upper incomes.

Table 3: Tax Savings in 2009 under ARRA 2009 for a Typical Retired Couple (a)

Other Income:	Tax with No Stimulus Bill	Tax under the Stimulus Bill	Savings
Taxable Pension:$0 Ordinary Dividends: $0	$0	$0	$0
Taxable Pension: $20,000 Ordinary Dividends: $5,000	$410	$410	$0
Taxable Pension: $40,000 Ordinary Dividends: $10,000	$5,060	$5,060	$0
Taxable Pension: $60,000 Ordinary Dividends: $15,000	$10,452*	$8,810	$1,642
(a) It is assumed that the retired couple has $12,000 in Social Security Income. Itemized deductions are assumed to be 18 percent of earnings.			
* Indicates taxpayer is required to pay the Alternative Minimum Tax.			

In summary, some taxpayers are set to receive a considerable tax cut from the stimulus bill because it includes an AMT patch, a new Making Work Pay credit, and the increased American Opportunity and First-time Homebuyer credits. In addition to these major changes, there are other tax changes in the stimulus which are not included in the examples we have looked at here. These include an above-the-line deduction for sales taxes paid on the purchase of a new car and the exclusion of up to $2,400 of unemployment benefits from gross income. See Table 4 for a glossary of the stimulus bill's tax provisions.

Table 4: Description of Tax Provisions Included in the American Recovery and Reinvestment Act of 2009	
Provision	**Stimulus Bill (a)**
Making Work Pay credit: *New credit*; 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).	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.
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).	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.
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.	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**.
American Opportunity credit: *New credit; replaces the current Hope credit.* A credit for higher education expenses. 100% of first $2,000 of qualified expenses and 25% of next $2,000.	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.
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).	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)
Unemployment compensation: Currently unemployment compensation is included in gross income.	Allows taxpayers to exclude up to $2,400 in unemployment compensation from gross income for 2009.
Sales tax deduction for certain car purchases: Currently there is no special deduction for non-itemizers who purchase a car.	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 ($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. Currently there is no AMT patch for 2009.	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) Unless otherwise noted, all provisions are for taxable years beginning in 2009 and 2010 only	

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