# *TAX RELIEF INCLUDED IN "THE AMERICAN RECOVERY AND REINVESTMENT PLAN"*

**Summary:** The tax provisions included in "The American Recovery and Reinvestment Plan" will provide $275 billion of tax relief for individuals, businesses, and State and local governments.

## I. RECOVERY FOR INDIVIDUALS

**"Making Work Pay" Tax Credit.** The proposal cuts taxes for more than 95% of working families in the United States. For 2009 and 2010, the proposal creates a refundable tax credit of up to $500 for working individuals and $1,000 for working families. This tax credit would be calculated at a rate of 6.2% of earned income, and would phase out for taxpayers with adjusted gross income in excess of $75,000 ($150,000 for married couples filing jointly). Taxpayers can receive this benefit through a reduction in the amount of income tax that is withheld from their paychecks, or through claiming the credit on their tax returns. *This proposal is estimated to cost $142.2 billion over ten years.*

**Seniors, Disabled Veterans and SSI.** The proposal provides a one-time payment of $300 to retirees, disabled individuals and SSI recipients receiving benefits from the Social Security Administration, and Railroad Retirement beneficiaries. The proposal also provides a one-time payment of $300 to disabled veterans receiving benefits from the US Department of Veterans' Affairs. The one-time payment is a reduction to any allowable Making Work Pay credit. *This proposal is estimated to cost $17 billion over ten years.*

**Temporary Suspension of Taxation of Unemployment Benefits.** Under current law, all federal unemployment benefits are subject to taxation. The average unemployment benefit is approximately $300 per month. The proposal temporarily suspends federal income tax on the first $2,400 of unemployment benefits per recipient. Any unemployment benefits over $2,400 will be subject to federal income tax. This proposal is in effect for taxable year 2009. *This proposal is estimated to cost $4.7 billion over ten years.*

**Increase in Earned Income Tax Credit.** The proposal temporarily increases the earned income tax credit for working families with three or more children. Under current law, working families with two or more children currently qualify for an earned income tax credit equal to forty percent (40%) of the family's first $12,570 of earned income. This credit is subject to a phase-out for working families with adjusted gross income in excess of $16,420 ($19,540 for married couples filing jointly). The proposal increases the earned income tax credit to forty-five percent (45%) of the family's first $12,570 of earned income for families with three or more children and would increase the phase-out for all married couples filing a joint return (regardless of the number of children) by $1,880. *This proposal is estimated to cost $4.7 billion over ten years.*

**Increase Eligibility for the Refundable Portion of Child Credit.** The proposal increases the eligibility for the refundable child tax credit in 2009 and 2010. For 2008, the child tax credit is refundable to the extent of 15 percent of the taxpayer's earned income in excess of $8,500. The proposal reduces this $8,500 floor to $6,000 for 2009 and 2010. *This proposal is estimated to cost $10.5 billion over ten years.*

**American Opportunity Tax Credit.** The proposal creates a tax credit of up to $2,500 of the cost of tuition and related expenses paid during the taxable year. Under this new tax credit, taxpayers will receive a tax credit based on one hundred percent (100%) of the first $2,000 of tuition and related expenses (including books) paid during the taxable year and twenty-five percent (25%) of the next $2,000 of tuition and related expenses paid during the taxable year. Thirty percent (30%) of the credit would be refundable. This tax credit will be subject to a phase-out for taxpayers with adjusted gross income in excess of $80,000 ($160,000 for married couples filing jointly). *This proposal is estimated to cost $12.9 billion over ten years.*

**Computers as Qualified Education Expenses in 529 Education Plans.** 529 Education Plans are tax-advantaged savings plans that cover all qualified education expenses, including: tuition, room & board, mandatory fees and books. The proposal provides that computers and computer technology qualify as qualified education expenses. *This proposal is estimated to cost $6 million over ten years.*

**Refundable First-Time Home Buyer Credit.** Last year, Congress provided taxpayers with a refundable tax credit that was equivalent to an interest-free loan equal to 10 percent of the purchase of a home (up to $7,500) by first-time home buyers. The provision applies to homes purchased on or after April 9, 2008 and before July 1, 2009. Taxpayers receiving this tax credit are currently required to repay any amount received under this provision back to the government over 15 years in equal installments, or if earlier (when the home is sold). The credit phases out for taxpayers with adjusted gross income in excess of $75,000 ($150,000 in the case of a joint return). This proposal would eliminate the repayment obligation for taxpayers that purchase homes after January 1, 2009. The proposal retains the recapture provisions if the house is sold within three years of purchase. *This proposal is estimated to cost $2.6 billion over ten years.*

# II. REINVESTMENT IN RENEWABLE ENERGY

**Long-term extension and modification of renewable energy production tax credit.** The proposal extends the placed-in-service date for wind facilities for three years (through December 31, 2012). The proposal also extends the placed-in-service date through December 31, 2013 for certain other qualifying facilities: closed-loop biomass; open-loop biomass; geothermal; small irrigation; hydropower; landfill gas; waste-to-energy; and marine renewable facilities. *This proposal is estimated to cost $13.1 billion over 10 years.*

**Temporary election to claim the investment tax credit in lieu of the production tax credit.** Under current law, facilities that produce electricity from solar facilities are eligible to take a thirty percent (30%) investment tax credit in the year the facility is placed in service. Facilities that produce electricity from wind, closed-loop biomass, open-loop biomass, geothermal, small irrigation, hydropower, landfill gas, waste-to-energy, and marine renewable facilities are eligible for a production tax credit, payable over a ten-year period. Because of current market conditions and the uncertain future tax positions of potential investors, it is difficult for many renewable projects to obtain financing. The proposal allows facilities placed-in-service in 2009 and 2010 to elect the investment tax credit in lieu of the production tax credit. *This proposal is estimated to cost $218 million over 10 years.*

**Business energy credit.** Current law provides a 30% investment tax credit for solar energy property, qualified fuel cell property, and ‘small wind’ property. The credit for small wind property is limited to $4000 per taxpayer, and the credit for fuel cells is limited to $1500 per half kilowatt of capacity. A 10% investment tax credit is also provided for geothermal heat pumps, microturbines and combined heat and power (CHP) systems. In general, the amount of credit is determined by multiplying the credit rate times the basis of the property. However, the basis of the property is reduced under current law by the amount of subsidized energy financing. Subsidized energy financing includes financing provided under a Federal, State, or local program the principal purpose of which is to provide subsidized financing for projects designed to conserve or produce energy. Subsidized energy financing does not include grants or loan guarantees. This proposal eliminates the cap on small wind property, and repeals the basis reduction for subsidized energy financing. *This proposal is estimated to cost $604 million over ten years.*

**Clean Renewable Energy Bonds (“CREBs”).** The proposal authorizes an additional $1.6 billion of clean renewable energy bonds to finance facilities that generate electricity from the following sources: wind, closed-loop biomass open-loop biomass, geothermal, small irrigation, hydropower, landfill gas, marine renewables and trash combustion facilities. This authorization will be subdivided into thirds: 1/3 will be available for qualifying projects of State/local/tribal governments; 1/3 for qualifying projects of public power providers; and 1/3 for qualifying projects of electric cooperatives. *This proposal is estimated to cost $578 million over ten years.*

**Conservation Bonds.** The proposal authorizes an additional $2.4 billion of qualified energy conservation bonds to finance State, municipal and tribal government programs and initiatives designed to reduce greenhouse gas emissions. *This proposal is estimated to cost $803 million over 10 years.*

**Energy-efficient existing homes.** Current law provides a 10% credit for investments in materials to improve the energy efficiency of existing homes. Qualifying materials include insulation, exterior windows and doors. The law also provides a credit for specific energy-efficient property, as follows: up to $50 for the purchase of advanced main air circulating fans used in efficient natural gas, propane or oil furnaces; up to $150 for the purchase of efficient natural gas, propane, or oil furnaces or hot water boilers; and up to $300 for the purchase of efficient heat pumps, central air conditioning systems, water heaters and biomass fuel property. The maximum credit for a taxpayer in the same dwelling for all taxable years is $500, with a maximum of $200 allowed for windows. This credit expired at the end of 2007, and was reinstated for 2009. The proposal increases the value of the credit to 30% for 2009 and 2010, and establishes a per-dwelling maximum for this period of $1500. The separate limitations on specific energy-efficient property are eliminated. The credit will expire at the end of 2010. This proposal also repeals the current-law basis reduction for subsidized energy financing. *This proposal is estimated to cost $4.3 billion over ten years.*

**Residential energy property.** Current law provides a credit of 30% for residential solar electric, solar thermal, residential wind, and geothermal heat pump property, through 2016. The law also provides a 30% credit for the purchase of qualified fuel cell power plants, limited to $500 for each 0.5 kilowatt of capacity. The solar thermal and geothermal heat pump credits are capped at $2,000, while residential wind property is capped at $4,000. These credits can be used to offset the AMT. The proposal lifts the caps on solar thermal, small wind and geothermal heat pump property, and repeals the current-law basis reduction for subsidized energy financing. *This proposal is estimated to cost $268 million over ten years.*

**Tax credits for alternative fuel pumps.** The alternative refueling property credit provides a tax credit to businesses (e.g., gas stations) that install alternative fuel pumps, such as those that dispense E85 fuel, hydrogen, and natural gas. The bill increases the 30% alternative refueling property credit for businesses (capped at $30,000) to 50% (capped at $50,000). Hydrogen refueling pumps remain at a 30% credit percentage, but with an increased cap of $200,000. The bill also increases the 30% alternative refueling property credit for individuals (capped at $1,000) to 50% (capped at $2,000). *This proposal is estimated to cost $54 million over 10 years.*

**Energy Research credit.** The proposal provides for an enhanced twenty percent (20%) R&D credit in taxable years beginning in 2009 and 2010 for research expenditures incurred in the fields of fuel cells, battery technology, renewable energy, energy conservation technology, efficient transmission and distribution of electricity, and carbon capture and sequestration. This credit is unavailable to taxpayers who receive the Advanced Energy Investment Credit. *This proposal is estimated to cost $18 million over 10 years.*

**5-year Carryback of General Business Credits.** Businesses are allowed to carry back and carry forward certain tax attributes from one tax period to another. Under current law, general business credits may be carried back one year before the year that the credit arises and carried forward for five years after the year that the credit arises. The proposal extends the carryback period for general business credits, including energy credits, from one year to five years. The proposal also temporarily allows general business credits arising in 2008 and 2009 to be used to offset AMT. *This proposal is estimated to cost $11 billion over ten years.*

# III. RECOVERY FOR BUSINESSES

**Extension of Bonus Depreciation.** Businesses are allowed to recover the cost of capital expenditures over time according to a depreciation schedule. Last year, Congress temporarily allowed businesses to recover the costs of capital expenditures made in 2008 faster than the ordinary depreciation schedule would allow by permitting these businesses to immediately write-off fifty percent (50%) of the cost of depreciable property (e.g., equipment, tractors, wind turbines, solar panels, and computers) acquired in 2008 for use in the United States. The proposal extends this temporary benefit for qualifying property purchased and placed into service in 2009. *This proposal is estimated to cost $5.3 billion over ten years.*

**Extension of Monetization of Accumulated AMT and R&D Credits in Lieu of Bonus Depreciation.** Some taxpayers are unable to utilize the bonus depreciation provision because they are subject to AMT or are in a loss position. An AMT taxpayer cannot utilize the bonus depreciation deduction because the taxpayer is required to pay a minimum percentage of tax on gross income. Therefore, an AMT taxpayer loses the benefit of deductions in excess of the tax due under AMT. Where a taxpayer is in a loss position, deductions in excess of income are unable to enjoy the benefit of bonus depreciation. This provision extends the provision contained in the Foreclosure Prevention Act of 2008 and allows AMT and loss taxpayers to receive 20% of the value of their old AMT or research and development (R&D) credits to the extent such taxpayers invest in assets that qualify for bonus depreciation. The amount is capped at the lesser of 6% of outstanding and unused AMT and R&D credits or $30 million. *This proposal is estimated to cost $805 million over 10 years*.

**Extension of Enhanced Small Business Expensing (Section 179).** In order to help small businesses quickly recover the cost of certain capital expenses, small business taxpayers may elect to write-off the cost of these expenses in the year of acquisition in lieu of recovering these costs over time through depreciation. Until the end of 2010, small business taxpayers are allowed to write-off up to $125,000 (indexed for inflation) of capital expenditures subject to a phase-out once capital expenditures exceed $500,000 (indexed for inflation). Last year, Congress temporarily increased the amount that small businesses could write-off for capital expenditures incurred in 2008 to $250,000 and increased the phase-out threshold for 2008 to $800,000. The proposal extends these temporary increases for capital expenditures incurred in 2009. *This proposal has been estimated to cost $41 million over ten years.*

**5-year Carryback of Net Operating Losses.** Under current law, net operating losses may be carried back to the two years before the year that the loss arises (the "carryback period") and carried forward to each of the succeeding twenty years after the year that the loss arises (the "carryforward period"). For 2008 and 2009, the proposal extends the maximum carryback period for net operating losses from two years to five years for tax years ending in 2008 and 2009. This benefit would be denied to companies that received money from the Troubled Asset Relief Program (TARP). *This proposal is estimated to cost $17.2 billion over ten years.*

**Delayed Recognition of Certain Cancellation of Debt Income**. Under current law, a taxpayer generally has income where the taxpayer cancels or repurchases its debt for an amount less than its adjusted basis price. The amount of cancellation of debt income ("CODI") is the difference between the adjusted basis price over the repurchase price. Certain businesses will be allowed to recognize CODI over 4 years for specified types of business debt repurchased by the business after December 31, 2008 and before January 1, 2011. *This proposal is estimated to cost $511 million over ten years.*

**Incentives to Hire Unemployed Veterans and Disconnected Youth.** Under current law, businesses are allowed to claim a work opportunity tax credit equal to forty percent (40%) of the first $6,000 of wages paid to employees of one of nine targeted groups. The proposal creates two new targeted groups of prospective employees: (1) unemployed veterans; and (2) disconnected youth. An individual would qualify as an unemployed veteran if they were discharged or released from active duty from the Armed Forces during 2008, 2009 or 2010 and received unemployment compensation for more than four weeks during the year before being hired. An individual qualifies as a disconnected youth if they are between the ages of 16 and 25 and have not been regularly employed or attended school in the past 6 months. *This proposal is estimated to cost $208 million over ten years.*

**Small Business Capital Gains.** Under current law, Section 1202 provides a 50 percent exclusion for the gain from the sale of certain small business stock held for more than five years. The amount of gain eligible for the exclusion is limited to the greater of 10 times the taxpayer's basis in the stock, or $10 million gain from stock in that small business corporation. This provision is limited to individual investments and not the investments of a corporation. The nonexcluded portion of section 1202 gain is taxed at the lesser of ordinary income rates or 28 percent, instead of the lower capital gains rates for individuals. The provision allows a 75 percent exclusion for individuals on the gain from the sale of certain small business stock held for more than five years. This change is for stock issued after the date of enactment and before January 1, 2011. *This provision is estimated to cost $829 million over ten years.*

# IV. MANUFACTURING RECOVERY

**Industrial Development Bonds (IDB).** Under current law, certain manufacturing facilities are eligible for tax exempt bond financing. Section 144(a)(12)(C) specifically limits the definition of a manufacturing facility for the purposes of such financing to facilities that are used in the manufacturing or production of tangible personal property. The proposal amends the definition of manufacturing facility to any facility used in the manufacturing, creation, or production of tangible or intangible property described in section 197(d)(1)(C)(iii). Intangible property is any patent, copyright, formula, process, design, pattern, knowhow, format, or other similar item. The proposal also clarifies which physical components of a manufacturing facility qualify as "ancillary" and therefore are subjected to a 25% limitation in the amount of bond issuance used to build or re-construct those components. *This proposal is estimated to cost $203 million over ten years.*

**Advanced Energy Investment Credit.** The proposal establishes a new 30% investment tax credit for facilities engaged in the manufacture of advanced energy property. Credits are available only for projects certified by the Secretary of Treasury, in consultation with the Secretary of Energy, through a competitive bidding process. The Secretary of Treasury must establish a certification program no later than 180 days after date of enactment, and may allocate up to $2 billion in credits. Advanced energy property includes technology for the production of renewable energy, energy storage, energy conservation, efficient transmission and distribution of electricity, and carbon capture and sequestration. This credit is unavailable to taxpayers who receive the Advanced Energy R&D Credit. *This proposal is estimated to cost $1.4 billion over 10 years.*

# V. ECONOMIC RECOVERY TOOLS

**Recovery Zone Bonds.** The proposal creates a new category of tax credit bonds and an additional allocation of private activity bonds for investment in economic recovery zones. The proposal authorizes $10 billion in recovery zone economic development bonds and $15 billion in recovery zone facility bonds. These bonds could be issued during 2009 and 2010. Each state would receive a share of the national allocation based on that state's job losses in 2008 as a percentage of national job losses in 2008. That allocation would be sub-allocated to local municipalities. Municipalities receiving an allocation of these bonds would be permitted to use these bonds to invest in infrastructure, job training, education, and economic development in areas within the boundaries of the State, city or county (as the case may be) that has significant poverty, unemployment or home foreclosures. *This proposal is estimated to cost $4.9 billion over 10 years.*

**Tribal Economic Development Bonds.** Under current law, tribal governments are limited in their ability to issue tax-exempt bonds. Projects funded by bonds issued by tribal governments must satisfy an "essential governmental function" requirement. This requirement is not imposed on projects funded by bonds issued by State and local governments, and can limit the ability of tribal governments to use tax-exempt bonds for economic development. The proposal temporarily allows tribal governments to issue $2 billion of tax-exempt bonds for projects without this restriction in order to spur economic development on tribal lands, and requires the Secretary of the Treasury to study this modification. *This proposal is estimated to cost $315 million over 10 years.*

**Increase in New Markets Tax Credits.** Under current law, $3.5 billion of New Markets Tax Credits is allocated for 2008 and 2009. The proposal increases the total amount of credits available for the 2008 allocation to $5 billion. The Community Development Financial Institutions Fund would allocate the additional credits for 2008 ensuring an additional $1.5 billion will be made available within 60 days of the date of enactment. In addition, the total of allocable credits for 2009 is increased to $5 billion and can be taken against the alternative minimum tax. *This proposal is estimated to cost $1.05 billion over ten years.*

# VI. RECOVERY FOR STATE AND LOCAL GOVERNMENTS

**Modification of Rules Applicable to Financial Institutions for Interest Expense Related to Tax-exempt Income.**

- **De Minimis Safe Harbor Exception for Tax-Exempt Interest Expense of Financial Institutions.** Financial institutions are not allowed to take a deduction for the portion of their interest expense that is allocable to such institution's investments in tax-exempt municipal bonds. In determining the portion of interest expense that is allocable to investments in tax-exempt municipal bonds, the proposal excludes investments in tax-exempt municipal bonds issued during 2009 and 2010 to the extent that these investments constitute less than two percent (2%) of the average adjusted bases of all the assets of the financial institution.

- **Modification of Small Issuer Exception to Tax-exempt Interest Expense Allocation Rules for Financial Institutions.** As described above, financial institutions are not allowed to take a deduction for the portion of their interest expense that is allocable to such institution's investments in tax-exempt municipal bonds. For purposes of this interest disallowance rule, bonds that are issued by a "qualified small issuers" are not taken into account as investments in tax-exempt municipal bonds. Under current law, a "qualified small issuer" is defined as any issuer that reasonably anticipates that the amount of its tax-exempt obligations (other than certain private activity bonds) will not exceed $10,000,000. The proposal increases this dollar threshold to $30,000,000 when determining whether a tax-exempt obligation issued in 2009 and 2010 qualifies for this small issuer exception. The small issuer exception would also apply to an issue if all of the ultimate borrowers in such issue would separately qualify for the exception.

*These proposals are estimated to cost $3.2 billion over ten years.*

**Eliminate Costs Imposed on State and Local Governments by the Alternative Minimum Tax.** The alternative minimum tax (AMT) can increase the costs imposed on State and local governments of issuing tax-exempt private activity bonds. Under current law, interest on tax-exempt private activity bonds is generally subject to the AMT. This limits the marketability of these bonds and, therefore, forces State and local governments to issue these bonds at higher interest rates. Last year, Congress excluded one category of private activity bonds (i.e., tax-exempt housing bonds) from the AMT. The proposal excludes the remaining categories of private activity bonds from the AMT. *This proposal is estimated to cost $481 million over ten years.*

**One Year Delay of Implementation of Three Percent (3%) Withholding on Government Contractors.** For payments made after December 31, 2010, current law requires withholding at a three percent rate on certain payments to persons providing property or services made by Federal, State, and local governments. The withholding is required regardless of whether the government entity making the payment is the recipient of the property or services (those with less than $100 million in annual expenditures for property or services are exempt). Numerous government entities and taxpayers have raised concerns about the application of this provision. The proposal delays for one year the implementation of the provision. *This proposal is estimated to cost $291 million over ten years.*

**Qualified School Construction Bonds.** The proposal creates a new category of tax credit bonds for the construction, rehabilitation, or repair of public school facilities or for the acquisition of land on which a public school facility will be constructed. There is a national limitation on the amount of qualified school construction bonds that may be issued by State and local governments of $10 billion ($5 billion allocated initially in 2009 and the remainder allocated in 2010). There is a national limitation on the amount of qualified school construction bonds that may be issued by Indian tribal governments of $400 million ($200 million allocated initially in 2009 and the remainder allocated in 2010). *This proposal is estimated to cost $4.5 billion over ten years.*

**Extension and Increase in Authorization for Qualified Zone Academy Bonds (QZAB).** The proposal allows an additional $1.4 billion of QZAB issuing authority to State and local governments in 2009 and 2010, which can be used to finance renovations, equipment purchases, developing course material, and training teachers and personnel at a qualified zone academy. In general, a qualified zone academy is any public school (or academic program within a public school) below college level that is located in an empowerment zone or enterprise community and is designed to cooperate with businesses to enhance the academic curriculum and increase graduation and employment rates. QZABs are a form of tax credit bonds which offer the holder a Federal tax credit instead of interest. *This proposal is estimated to cost $1 billion over 10 years.*

**Build America Bonds.** The Federal government provides significant financial support to State and local governments through the federal tax exemption for interest on municipal bonds. Both tax credit bonds and tax-exempt bonds provide a subsidy to municipalities by reducing the cash interest payments that a State or local government must make on its debt. Tax credit bonds differ from tax-exempt bonds in two principal ways: (1) interest paid on tax credit bonds is taxable; and (2) a portion of the interest paid on tax credit bonds takes the form of a Federal tax credit. The Federal tax credit offsets a portion of the cash interest payment that the State or local government would otherwise need to make on the borrowing. The proposal provides State and local governments with the option of issuing a tax credit bond instead of a tax-exempt governmental obligation bond. Because the market for tax credits is currently small given current economic conditions, the proposal allows the State or local government to elect to receive a direct payment from the Federal government equal to the subsidy that would have otherwise been delivered through the Federal tax credit for bonds issued in 2009 and 2010. *This proposal is estimated to cost $6.8 billion over ten years.*

# VII. OTHER RECOVERY RELIEF

**Extension of the Trade Adjustment Assistance (TAA) programs for two years.** The TAA for Workers program provides extended income support and training benefits for workers who lose their jobs because of increased imports or factory shifts to certain countries. The TAA for Firms program helps prevent layoffs entirely by assisting trade-distressed companies retool and become more competitive. Chairman Baucus – along with Senator Grassley, Chairman Rangel, and Rep. Camp – continue to work together on a robust, efficient, bipartisan expansion of Trade Adjustment Assistance. *This proposal is estimated to cost $108 million.*

**Duty Refund Recollection**. The proposal prohibits U.S. Customs and Border Protection (CBP) from demanding that U.S. lumber, steel, and other companies repay duties that CBP collected on Canadian and Mexican imports, and then distributed to the companies between 2001 and 2005. *This proposal is estimated to cost $90 million over ten years.*