The Stimulus Package Presents Planning Opportunities for Taxpayers

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On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009. Included in this massive stimulus bill are a number of tax incentives for small businesses and individuals. Since the new law was signed so early in the year, physicians and their advisors have the luxury of time to engage in tax and capital planning for 2009. This article addresses some of those provisions.

Section 179. In lieu of depreciation, taxpayers with small amounts of equipment purchases may elect to deduct (or "expense") the purchase price under Section 179 of the Internal Revenue Code. For taxable years beginning in 2009, this maximum was scheduled to be $133,000. The new law increases this maximum to $250,000 for taxable years beginning in 2009. Thus, physicians and their practices should plan capital purchases appropriately.

Bonus Depreciation. Under legislation that was enacted in early 2008, additional first-year depreciation deductions are allowed in an amount equal to 50 percent of the cost of new property purchased and placed in service in 2008 and only in 2008. Referred to as "bonus depreciation," this benefit is significant. In order to qualify, the property is required to be new property, and must have a life (i.e., "recovery period") of 20 years or less. The new law extends this provision for one year, generally through 2009. In addition, of interest to physicians, automobile depreciation is enhanced for 2009.

Alternative Minimum Tax. The alternative minimum tax is a trap for the unwary. For many taxpayers, the AMT calculation allows taxpayers to exclude a base amount of income, working much like a standard deduction. This exclusion was originally enacted as a minimal deduction, since the AMT was designed to tax wealthy individuals. The exclusion generally has not been indexed for inflation. Consequently, as taxpayer earnings have increased over the years, the exemption amount has become less material in the scheme of the AMT calculation. There are exemption amounts for various types of taxpayers. Unadjusted for inflation, these amounts are as follows: $45,000 for married individuals filing a joint return, $33,750 for unmarried individuals, and $22,500 for married individuals filing separate returns. These amounts were schedule to apply to 2009. Under the new law, for 2009 (and only 2009), the exemption amounts are increased to $70,950 for married individuals filing a joint return, $46,700 for unmarried individuals, and $35,475 for married individuals filing separate returns. The unadjusted amounts will then return in 2010.

Making Work Pay Credit. The new law provides eligible individuals with a refundable income tax credit for tax years beginning in 2009 and 2010. Referred to as the "Making Work Pay" credit, the credit is the lesser of (1) 6.2% of an individual's earned income or (2) $400 ($800 for a joint return). The credit is phased out at a rate of 2% of the eligible individual's modified AGI above $75,000 ($150,000 for a joint return). Of interest to employers: The credit will be implemented through revised income tax withholding schedules produced by IRS.

Education. The new law modifies the Hope Credit for tax years beginning in 2009 or 2010 for certain taxpayers. The modified credit is referred to as the American Opportunity Tax Credit. The credit can be as high as $2,500 per eligible student. The new law also favorably amends the rules related to Section 529 education plans. Distributions from Section 529 plans are tax-free and not subject to penalties if used for qualified education expenses. The new law provides that, for 2009 and 2010, the purchase of any computer technology, equipment or Internet access or related services will be considered to be qualified education expenses for purposes of Section 529 if certain conditions are met.

The new law also provides for various individual incentives, such as a homebuyer credit and a sales tax deduction for auto purchases. These and other provisions in the new law are complex; physicians should consult with their tax advisors.

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