

What's in the Stimulus for You

Measure Provides Tax Credits, College Help, Cobra Subsidy, AMT Patch

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Consumers get spending money and a helping hand with some key expenses under President Obama's stimulus plan.

By far the biggest tax piece in the plan is the Making Work Pay tax credit. It would put a bit of cash into pockets, probably by having employers withhold less tax. Each eligible worker would get 6.2% of earned income up to a maximum credit of \$400 (\$800 for two-earner couples). So folks would see an extra \$12 to \$20 per weekly paycheck, depending on whether the government pays it out over six months or more.

Many taxpayers will get the Making Work Pay credit, though it isn't open to anyone who earns more than \$95,000 (\$190,000 for couples). Its slow-drip approach is likely to stimulate spending, according to some tax experts. In hard times, people tend to stash a larger windfall in a savings account, says Roberton Williams, senior fellow at the Tax Policy Center, a joint venture of the Brookings Institution and the Urban Institute. An extra \$20 each week, however, is more likely to get spent at the movies or on a piece of clothing.

First-time homebuyers also get a tax break under the plan. A credit would allow them to subtract \$8,000 from the income tax they owe for 2009 for a principal residence purchased through Nov. 31, 2009. It phases out for individuals with adjusted gross income between \$75,000 and \$95,000 (\$150,000 and \$170,000 for joint filers). The credit is also available to taxpayers who haven't bought a home for the past three years. The homebuyer credit doesn't have to be repaid if the home isn't sold for at least 36 months.

Taxpayers also get help on the alternative minimum tax. The bill increases the AMT exemption to \$46,700 for individuals (up from \$46,200) in 2008, and \$70,950 for married couples (up from \$69,950.) Without the patch, 30.3 million taxpayers would owe AMT in 2009; with it, the number falls to 4.6 million, according to Mr. Williams.

People who lost a job will get help. The first \$2,400 of unemployment tax compensation received during 2009 won't be subject to income tax under the plan; currently all unemployment payments are taxed.

Car buyers also get a break. A provision allows taxpayers to deduct from income tax the sales tax paid on a new car. The above-the-line deduction for state and local sales tax applies to new car purchases up to \$49,500 from the date the stimulus is enacted through the end of 2009. Taxpayers who claim the existing itemized deduction for state and local sales taxes can't claim this new deduction. The deduction phases out for individuals with adjusted gross incomes between \$125,000 and \$135,000, and married couples filing jointly with AGI between \$250,000 and \$260,000.

Laid-off workers will be better able to afford health coverage because the bill slashes 65% from the cost of maintaining insurance through a former employer. Coverage would be subsidized for up to nine months.

Workers are already guaranteed the right to extend their job-related health coverage for up to 18 months under a federal law called the Consolidated Omnibus Budget Reconciliation Act, or Cobra. The law applies to companies with 20 or more workers that are continuing to offer a group health plan. The problem is, it's too expensive: about \$370 a month for individual coverage and \$1,000 a month for a family.

The 65% subsidy would lower the cost of Cobra premiums to about \$130 a month for single coverage and \$350 a month for a family, based on 2008 data from a survey by the Kaiser Family Foundation and the Health Research & Educational Trust.

To qualify, workers must have been laid off between Sept. 1, 2008, and Dec. 31, 2009. Participants must attest that their annual income in the year they receive the subsidy won't exceed \$125,000 for single people or \$250,000 for couples who file jointly. Workers laid off from September onwards who declined Cobra will get another chance to enroll.

An education-related item in the package is the American Opportunity education tax credit, replacing what's known as the Hope Credit. It would give a \$2,500 partially refundable credit to cover each of four years of college.

Previously, taxpayers were given a nonrefundable credit of up to \$1,800 for each of the first two years of college. The new credit would help people going to school, but not very quickly, because they couldn't collect it until filing a tax return in 2010.

The new credit only applies to 2009 and 2010; after 2010, the law reverts to the Hope credit unless the new credit is extended.

Families can use withdrawals from 529 college savings plans in 2009 and 2010 for computers and computer technology. Until now, families could use 529 money for computers only if colleges required students to have a computer.

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