

## What Families Need to Know About Tax Credits in the American Recovery and Reinvestment Act When They File Their Taxes This Year

The economic recovery plan signed by President Obama in February, the American Recovery and Reinvestment Act (ARRA), provides substantial tax benefits for most working families. It provides a new refundable Making Work Pay Credit, an expanded refundable Child Tax Credit, improvements to the Earned Income Tax Credit, the American Opportunity Tax Credit for higher education expenses that is refundable for the first time, and a refundable First-Time Home Buyer Credit. We have a fact sheet (<http://www.nwlc.org/details.cfm?id=3501&section=tax>) where you can find out more about these tax changes. But as April 15 approaches, you – and the families you serve – may be wondering: what do these changes mean for families when they file their 2008 tax return this year?

Q: Do the new provisions affect the tax returns families file this year?

Generally no, except that families eligible for the First-Time Home Buyer Credit can claim a new homeowner's tax credit on their 2008 tax return.

Q: How can families take advantage of the First-Time Home Buyer Credit when they file their 2008 taxes this year?

A: If a family makes a qualifying home purchase in 2009 *before* they file their 2008 tax return, they may claim the credit on their 2008 return. If they make the purchase *after* they file their return, they may file an amended return for 2008. Or, they may claim the credit when they file their taxes for 2009 in early 2010.

Q: Do families need to make any special claim or fill out a special form when they file their 2008 taxes this year to get the benefits of the tax changes in the ARRA?

A: No. Last year, some low-income workers, retirees, and veterans who ordinarily did not have to file a tax return had to file a special tax form to receive an economic stimulus payment. That's not necessary for these new or expanded tax credits.

Q: Will families get any money this year from the tax credits in the ARRA?

A: Yes. Many working families will start seeing an increase in their paychecks around April, because of the new Making Work Pay Credit. The IRS recently changed wage withholding tables, so employers will start withholding less for payment of taxes. Workers do not have to request this adjustment. However, workers with little or no withholding in 2009 may not get the full benefit of the credit this year, and should claim the balance of the credit on the tax return they file *next* year (2010). Workers who hold multiple jobs or are part of a high-income household for whom the credit phases out may have their withholding reduced too much, and may have to adjust their withholding during the year to avoid penalties for too little withholding.

Other tax benefits from the ARRA -- the expanded refundable Child Tax Credit, EITC, and AOTC -- will be available to families when they file their 2009 taxes next year.

Q: What about seniors and disabled veterans? They were eligible for economic stimulus payments last year. Is there anything for them in the ARRA?

A: Yes. Seniors, recipients of Supplemental Security Income, and disabled veterans will be eligible for a one-time payment of up to \$250. Since the payments will be made through the Social Security Administration or Veterans' Administration, and not the IRS, there's no need for these individuals to file a tax return in 2009 or 2010 if they otherwise wouldn't do so. There's also increased food assistance for seniors.

NWLC knows that families need all the help available to them from the new economic recovery package. To find out more about the resources that are available, go to:  
[www.nwlc.org/economicrecovery](http://www.nwlc.org/economicrecovery)