



# FISCAL FACT

February 2009  
No. 161

---

## The Tax Savings from Fiscal Stimulus

By Robert Carroll and Mark Robyn

*Note: This Fiscal Fact was modified on Feb. 11, 2009.*

The table on the next page (Table 1) shows the tax savings for prototypical taxpayers under the major tax provisions included in the fiscal stimulus bills as approved by the House ([H.R.598](#)) and currently (as of this writing) under consideration by the Senate ([S.350](#)). Table 2 provides a brief description of the major tax provisions included in the two stimulus bills.

As shown below, some taxpayers are set to receive a considerable tax cut from either of these bills with most of the tax benefit coming from the new Make Work Pay Credit and the American Opportunity Tax Credit, which replaces and expands the existing Hope credit for certain higher education expenses. The Senate bill also includes a higher AMT exemption (i.e., the so-called AMT patch).

**Table 1: Tax Savings in 2009 Under House and Senate Stimulus Packages**

|  | Current<br>Income Tax | House Bill ( <a href="#">H.R.598</a> ) |         | Senate Bill ( <a href="#">S.350</a> ) |         |
|--|-----------------------|--|---------|---------------------------------------|---------|
|  |                       | Tax                                    | Savings | Tax                                   | Savings |
| <b>Couple with two children<br/>earning: <sup>(a)</sup></b>        |                       |  |         |                                       |         |
| \$40,000   | (\$1,721)             | (\$4,115)                              | \$2,394 | (\$3,865)                             | \$2,144 |
| \$60,000   | \$2,900               | (\$233)                                | \$3,133 | (\$233)                               | \$3,133 |
| \$80,000   | \$5,604               | \$2,318                                | \$3,287 | \$2,318                               | \$3,287 |
| \$100,000  | <i>\$10,180</i>       | <i>\$6,680</i>                         | \$3,500 | \$4,778                               | \$5,403 |
| \$200,000  | <i>\$35,750</i>       | <i>\$35,750</i>                        | \$0     | \$30,191                              | \$5,559 |
| <b>Single parent with two<br/>children earning: <sup>(a)</sup></b> |                       |  |         |                                       |         |
| \$20,000   | (\$5,274)             | (\$6,774)                              | \$1,500 | (\$6,524)                             | \$1,250 |
| \$40,000   | \$0                   | (\$1,200)                              | \$1,200 | (\$1,200)                             | \$1,200 |
| \$60,000   | \$4,753               | \$1,753                                | \$3,000 | \$1,753                               | \$3,000 |
| \$80,000   | \$9,103               | \$6,203                                | \$2,900 | \$6,303                               | \$2,800 |
| \$100,000  | <i>\$14,105</i>       | <i>\$14,105</i>                        | \$0     | \$13,953                              | \$153   |
| \$200,000  | <i>\$41,113</i>       | <i>\$41,113</i>                        | \$0     | \$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 home in 2009. The same assumptions apply for the single parent.

**Note:** Calculations in *italics* indicate that the taxpayer is subject to the alternative minimum tax (AMT),

**Table 2: Description of Tax Provisions Included in the House and Senate Stimulus Packages**

| Provision   | House Bill (Passed Jan 28)<br><a href="#">(H.R.598)</a> <sup>(a)</sup>  | Senate Bill (Pending) <a href="#">(S.350)</a> (a)  |
|---|---|--|
| <b>Making Work Pay Credit:</b> <i>New credit</i> ; 6.2% of earned income, up to a maximum credit of \$500 per earner.   | Phase-out at rate of <b>2% of AGI</b> over \$75,000 (\$150,000 for joint filers).   | Phase-out at rate of <b>4% of AGI</b> over \$75,000 (\$150,000 for joint filers).  |
| <b>Earned Income Credit:</b> Credit equals a fixed percent 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 unit).   | 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. | Same as House bill.  |
| <b>Additional Child Tax Credit (ACTC):</b> 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 <b>zero</b> .   | Reduces the income level at which a taxpayer can begin claiming the ACTC from \$12,550 in 2009 to <b>\$6,000</b> .   |
| <b>American Opportunity Credit:</b> <i>New credit</i> ; replaces the current <i>Hope credit</i> . A credit for higher education expenses. 100% of first \$2,000 of qualified expenses and 25% of next \$2,000.  | <b>40%</b> of the credit would be refundable and therefore available to taxpayers with little or no income tax liability.   | <b>30%</b> of the credit would be refundable and therefore available to taxpayers with little or no income tax liability.  |
| <b>First-time Homebuyer Credit:</b> Credit is lesser of \$7,500 or 10% of purchase price. Available to taxpayers who purchased a home between April 9, 2008, and June 30, 2009. Currently, the credit is refundable and 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). | Waives the repayment requirement, but only for homes purchased in 2009 (must hold home at least for 3 years)  | Increases the maximum credit to \$15,000, and makes the credit available to anyone purchasing a home, not just first-time buyers. Credit is no longer refundable, but can be equally divided among the two taxable years beginning with the year of purchase. The credit no longer phases out at higher incomes. Extends the eligible period to January 1, 2010. Also, waives the repayment requirement, but only for homes purchased in 2009 and only if the home is held and occupied for 2 years. |

|  |                               |  |
|--|-------------------------------|--|
| <p><b>Alternative Minimum Tax Relief:</b><br/>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.</p> | <p>No AMT patch included.</p> | <p>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.</p> |
| <p><b>Unemployment Compensation</b></p>  | <p>No provision.</p>          | <p>Allows taxpayers to exclude up to \$2,400 in unemployment compensation from gross income for 2009.</p>  |
| <p><b>(a)</b> Unless otherwise noted, all provisions are for taxable years beginning in 2009 and 2010 only.</p>  |                               |  |

© 2009 Tax Foundation

Tax Foundation  
2001 L Street NW, Suite 1050  
Washington, DC 20036  
Ph: (202) 464-6200  
Fax: (202) 464-6201  
[www.taxfoundation.org](http://www.taxfoundation.org)