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\$250 Payments to Recipients of Federal Program Benefits

Under one of the flagship provisions for individuals under the American Recovery and Reinvestment Act of 2009 (enacted February 17, 2009), eligible recipients of federal benefits will receive a one-time economic recovery payment of \$250 in 2009 or 2010. These economic recovery payments are not considered gross income for income tax purposes.

Comment: This is not a rebate or otherwise related to taxes-just an outright payment. The Secretary of the Treasury is required to begin making these payments as soon as possible, but no later than 120 days after February 17, 2009, the date of enactment. No economic recovery payments can be made after December 31, 2010.

To receive an economic recovery payment, you must meet both of the following eligibility requirements:

1. During November 2008, December 2008, or January 2009, you must have been entitled to a benefit payment under a qualifying program-generally, Social Security benefits, Railroad Retirement Act benefits, veterans compensation or pension benefits, or supplemental security income (SSI) benefits.

Comment: Although the provision is generally aimed at adult benefit recipients, the veterans' benefits and SSI benefits categories may include individuals under age 18.

2. Your current address of record under the qualifying program must be in one of the 50 states, the District of Columbia, Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa, or the Northern Mariana Islands.

Comment: Individuals who receive certain government pensions or annuities can qualify for similar economic assistance through a tax credit, discussed in another of our newsletters.

If you are eligible for benefits under more than one of the qualifying programs, you will receive only one economic recovery payment. An individual who might otherwise meet the eligibility requirements nevertheless will not receive an economic recovery payment if, for the most recent month in which the individual is entitled to a qualifying benefit during the three-month qualification period (November 2008 through January 2009), the individual's federal program benefits have been suspended because of the following. If the individual was in prison, a fugitive, a probation or parole violator; committed fraud; or is no longer lawfully present in the United States he/she will not be entitled. In addition, no payment will be made in the case of an individual who dies before the date the individual is certified by the relevant federal agency as being entitled to receive an economic recovery payment.

If you are also eligible for the new Making Work Pay Credit, the amount of that credit is reduced by the amount of your economic recovery payment. These payments are not taken into account as income or regarded as resources for the months of receipt (and the following nine months) in determining your eligibility for, or the amount or extent of, benefits or assistance under any federal program or any state or local program financed in whole or in part with federal funds.

\$250 Credit for Certain Government Retirees

Certain government retirees can claim a refundable \$250 tax credit for their first year beginning in 2009. The credit is \$500 on joint return if both spouses are eligible.

To be eligible for the credit, you must meet all the following tests:

1. During your first tax year beginning in 2009, you must receive some amount as a pension or annuity for service performed in the employ of the United States, any state, or any instrumentality thereof, that is not considered employment for Federal Insurance Contributions Act (social security tax) purposes.
2. You must not receive an economic recovery payment during the tax year.
3. Your tax return must include your social security number. A joint return must include the social security number of at least one of the spouses.

Making Work Pay Credit

In both 2009 and 2010, many individuals are eligible for a refundable credit equal to either (1) \$400 (\$800 for married taxpayers filing jointly) or (2) 6.2% of earned income, whichever is less. The credit may seem like free money – and it is, as far as the tax code goes: It is not included in taxable income!

The credit is not available to everyone, however. It is not available to nonresident aliens, individuals that can be claimed as dependents by any other taxpayer, or estates or trusts. In addition, it is phased out at a rate of 2% of modified adjusted gross income (MAGI) above \$75,000 (\$150,000 in the case of joint filers), and is therefore totally eliminated if you have a MAGI of \$95,000 or greater (\$190,000 in the case of joint filers). Finally, you cannot claim the credit if you do not include on your return your social security number and, in the case of a joint return, the social security number of at least one of the spouses. A taxpayer identification number (TIN) issued by the IRS does not qualify as a social security number.

Comment: If you receive the \$250 economic recovery payment available to veterans, recipients of social security, and certain other individuals, or the \$250 special credit to government retirees, that payment or credit reduces the Making Work Pay Credit.

If you would like more advice about these benefits, please call Goodman & Company, CPAs, **610-253-2745**.

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