



Issue Brief #6

The Federal Stimulus Package: What Employers Can Expect

Overview

President Barack Obama signed the \$787 billion economic stimulus bill in Denver, Colorado on February 17, 2009. Passed by Congress on February 13, the American Recovery and Reinvestment Act of 2009 (H.R. 1) is meant to start to address the current economic crisis. The House of Representatives passed the economic stimulus plan by a vote of 246 to 183, with the Senate approving the legislation by a vote of 60 to 38.

Key Elements

COBRA Subsidy

To help workers maintain health coverage, the stimulus bill provides workers -- who have been involuntarily terminated -- and their families a 65 percent subsidy for COBRA continuation premiums for up to nine months. Employers who pay COBRA assistance payments for their separated employees would be able to recover costs via a credit applied to payroll tax deposits (941 filings). The subsidy also applies to health care continuation coverage if required by states for small employers. To qualify for premium assistance, a worker must be involuntarily terminated between September 1, 2008 and December 31, 2009. Employers are responsible for notifying individuals who are eligible for the COBRA subsidy. The subsidy would terminate upon offer of any new employer-sponsored health care coverage or Medicare eligibility. Workers who were involuntarily terminated between September 1, 2008 and enactment of the law, but failed to initially elect COBRA because it was unaffordable, would be given an additional 60 days to elect COBRA and receive the subsidy. More information can be found by visiting <http://www.dol.gov/ebsa/COBRA.html>



Special Note: For PDR clients who are leased, and currently have experienced (or anticipate) recently laid off employees signing up for the new COBRA premium assistance program, it is important that you coordinate with us -- e.g., by providing the number of employees obtaining COBRA premium assistance, and the amount of credit being sought via adjusted 941 filings. Please contact your sales account executive if the above situation applies.

Refundable Tax Credit for Workers



For 2009 and 2010, the “Making Work Pay” provision of the ARRA will provide a refundable tax credit of up to \$400 for working individuals and \$800 for married taxpayers filing joint returns. This tax credit will be calculated at a rate of 6.2% of earned income and will phase out for taxpayers with adjusted gross income in excess of \$75,000, or \$150,000 for married couples filing jointly. For people who receive a paycheck and are subject to withholding, the credit will typically be handled through automated withholding changes set to begin in early spring. These changes may result in an increase in take-home pay for workers. The amount of the credit must be reported on the employee’s 2009 income tax return filed in 2010. Taxpayers who do not have taxes withheld by an employer during the year can also claim the credit on their 2009 tax return. See <http://www.irs.gov/newsroom/article/0,,id=204447,00.html>

Unemployment Insurance

Under current law, all federal unemployment benefits are subject to taxation. The stimulus bill temporarily suspends federal income tax on the first \$2,400 of unemployment benefits per recipient. Any unemployment benefits over \$2,400 will be subject to federal income tax. This proposal is in effect for taxable year 2009. In addition, through December 31, 2009, the bill continues the earlier enacted Emergency Unemployment Compensation (EUC) program, which provides up to 33 weeks of extended unemployment benefits to workers exhausting their regular benefits. The bill also increases unemployment weekly benefits by an additional \$25 through 2009.

Business Tax Deductions

Under the new law, companies can expense up to \$250,000 in property purchased in the 2008 tax year (via the 179 Deduction) and save on taxes. This almost doubles the previous limit of \$128,000, but is only available for the 2008 tax year.

Companies can write off property acquisitions faster via two special deductions, thus saving on taxes:



First Deduction: For property acquired, placed and kept in service in calendar year 2008, companies may be able to write-off 50% of what was paid for it (a special depreciation allowance).

Second Deduction: In addition to the 50% write-off, companies can take a write-off of the normal first year depreciation on the remaining 50% of what was paid for the property.

For more information on how the stimulus bill impacts companies, and specific examples of what property qualifies for these tax savings, refer to <http://www.sba.gov/stimulus/>