



Save \$10,000+ This Year

Here's how to benefit from
the new tax laws By Kelli B. Grant

Despite all the talk about the benefits of the new administration's economic initiatives, you may be left wondering, "But what's in it for me?" The answer: probably some much-needed cash.

Between the February stimulus (the American Recovery and Reinvestment Act of 2009) and President Obama's foreclosure-prevention program (Making Home Affordable), it's the rare taxpayer who will wind up empty-handed. "There's something for everyone, and quite a lot for some people," says Brenda Schafer, an analyst with the Tax Institute at H&R Block.

Bear in mind that many savings won't be reaped until next year's tax return. Want more money in hand now? Talk to your HR department, which can adjust the income tax withheld from paychecks to reflect the savings available via the latest laws, says Eleanor Blayney, a consumer advocate with the Certified Financial Planner Board of Standards. You'll get bigger paychecks over the rest of 2009 and almost break even come tax time.

Here are specifics on new incentives that'll put more money in your pocket:

BUY A HOME SAVE UP TO \$8,000

First-time home buyers, Kate Wilkinson and her husband just closed on a two-bedroom in California—taking advantage of a stimulus tax credit available through November worth 10 percent of a home's price, up to \$8,000. "The credit pushed us to buy sooner rather than later," Wilkinson confides. To qualify, you can't have owned a home in the past three years, and must make under \$170,000 as a married couple; \$95,000 if you're single. (You can take the credit even if you owe no tax.) Get the cash faster by filing an amended 2008 tax return claiming the credit, advises Schafer.

KEEP ON WORKING SAVE \$400

The daily grind just got a little less taxing for workers. During 2009 and 2010, the stimulus Making Work Pay Credit is \$400 per worker or \$800 for a married couple, says Blayney. For most workers, this credit means slightly higher take-home pay. You'll get a smaller credit if you make more than \$75,000 (\$150,000 for married couples filing jointly); you won't get any credit if you make more than \$95,000 →

95%
of U.S.
workers will
receive a
tax cut from
the stimulus
package

Some families could save over \$400 a month on their mortgage payments

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Saving Money

(\$190,000). Those who owe no tax can still claim the credit.

REFINANCE A MORTGAGE

SAVE ABOUT \$200 A MONTH

Plummeting real estate values have put more than eight million homeowners "underwater," meaning they owe more on their mortgages than their homes are currently worth. Until recently, most lenders were reluctant to refinance loans for consumers whose mortgages were 80 percent or more of their homes' values. This left the owners paying inflated mortgage rates on houses with declining values—clearly a painful situation. But the new foreclosure-prevention plan allows those mortgaged for as much as 105 percent of their homes' values to refinance and lower their payments, says Dale Vermillion, author of *Navigating the Mortgage Maze*. Someone who owes \$225,000 on a home now worth \$221,000 could save \$200 a month or more by refinancing her 30-year, fixed-rate mortgage from 6.50 percent to 5.09 percent (the going rate at press time).

If you'd like to refinance this way, call your lender and talk to customer service. Ask if you're eligible under the new plan, suggests Vermillion. Qualifying loans are owned or guaranteed by Fannie Mae or Freddie Mac, but you may qualify even if you write your check to the local bank, since many mortgages are owned or guaranteed by these government-backed mortgage giants. Your payments must be up-to-date.

BUY A NEW CAR SAVE \$200+

The stimulus plan allows a sales tax deduction when you nab a new auto, as long as it costs \$49,500 or less and was purchased on or after February 17, 2009. Claim it even if you don't itemize, as long as your income is under \$135,000 if you're single; \$260,000 for couples. Deborah Mohlenhoff and Mark Spadolini of Ithaca, NY, just bought a 2009 Chevy Malibu for \$24,000. The 8 percent local sales tax results in a deduction of \$1,920, or \$192 to \$633 saved (depending on their tax bracket).

HELP YOUR HOUSE GO GREEN

SAVE \$1,500+

Installing energy-efficient windows in 2009 or 2010 will pay off in ways beyond lower energy bills. The stimulus offers a credit for 30 percent of the purchase price for some improvements, up to \$1,500 (note: there's no cap on solar and wind energy improvements) per tax return, regardless of your income. You can split the credit over several projects and both years, says Bradford Hall, a certified public accountant based in Irvine, CA. Not just any energy-efficient purchase will do, though: Visit energy.star.gov to see which projects and products qualify for the credit.

PAY FOR COLLEGE SAVE \$2,500

Parents and students writing tuition checks also get extra help thanks to the stimulus package, which replaces the up-to-\$1,800 Hope Scholarship Credit with the beefier American Opportunity Credit. Claim it on your taxes next year, and you'll get back 100 percent of the first \$2,000 paid for tuition, fees, books, and other materials for a college, university, or →

trade school student who attends at least half-time, plus 25 percent of the next \$2,000, for a maximum credit of \$2,500, explains Mackey McNeill, a certified public accountant and personal financial specialist in Covington, KY. Better yet, the American Opportunity Credit can be used for any of the first four years of post-secondary education (previously, only freshmen and sophomores benefited). To qualify, you must make under \$90,000 a year—\$180,000 for couples—and you can only claim one credit per student per year. (Note: If you owe no tax, you can still claim up to \$1,000.) Other stimulus perks for students include the new option to use tax-free funds from a 529 college savings plan to purchase a com-

puter or pay for Internet access, and a \$500 increase to Pell Grants for low-income undergraduate students. For the upcoming 2009–2010 school year, the grant limit is now \$5,350. Learn more at ed.gov.

MODIFY A MORTGAGE ABOUT \$400 A MONTH, PLUS \$5,000

Families struggling with mortgage payments may qualify for loan modifications if their payments (including taxes and homeowners' insurance) top 31 percent of their monthly pre-tax incomes, explains Vermillion. The government is dangling up to \$4,500 in incentives to loan servicers for each loan they modify, so contact yours to see if you're eligible, visit makinghomeaffordable.gov, or

call the Hope Hotline at 888-995-4673. "The goal is to get you down to a reasonable monthly payment," Vermillion says. That might mean cutting the interest rate, lengthening the loan's life, or even forgiving part of the loan. The government anticipates some households could save over \$400 per month.

Borrowers participating in the program can also receive \$1,000 toward their loan principals annually for five years, as long as they stay current on the reworked loans. Check with your lender to make sure the bonus is applied to your loan principal, and enjoy that financial boost. ■

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