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**MENTOR**  
C A P I T A L

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## Mentor Monthly Missive

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### Will you benefit from the federal stimulus package?

President Obama recently signed into law the massive \$787 billion federal stimulus package that we've all heard so much about in recent weeks. As for whether the bill will actually help to turn our economy around, that's to be determined in the future. However, we can tell you that the bill includes some tax breaks that might benefit you.

**Tax Credits.** For 2009 and 2010, some taxpayers will receive tax credits of up to \$400 for individuals or \$800 for married couples filing jointly. This credit begins to phase out for individuals with Adjusted Gross Income (AGI) over \$75,000 or married couples filing jointly with AGI over \$150,000. Also, you will receive the credit via small reductions to the tax withholdings from your paychecks rather than receiving a check from the federal government. It's expected that this credit will begin affecting your withholdings this summer.

**Unemployment Benefits.** Unemployment benefits will be increased by \$25 per week and extended an additional 20 weeks, to a total of 46 weeks. However, those living in states with unemployment rates higher than 6% (which includes Illinois and Georgia) will receive benefits for up to 59 weeks. Finally, the first \$2,400 of unemployment benefits in 2009 will be exempt from federal income taxes.

**Health Insurance.** People who were involuntarily terminated from their jobs (although gross misconduct is not included) and are paying for their health insurance through their former employer under COBRA are eligible to receive a federal subsidy of 65% of the premium for up to nine months. This subsidy is directly applied to the premium; you would pay your 35% share and your former employer would recover their 65% cost by reducing their federal payroll taxes.

If you originally declined COBRA coverage (most likely because of the high insurance premium), there is good news! You are allowed to retroactively sign up for the insurance during the first 60 days after receiving notification of this new election period from your prior employer. You will also be allowed to recoup 65% of the premiums you previously paid going back to September 2008.

There are a couple of catches to this provision. First of all, you must have been laid off between 9/1/08 and the end of 2009 and your income cannot exceed \$125,000 for individuals and \$250,000 for married couples filing jointly. Second, if you retroactively sign up under COBRA, the 18-month window during which you may continue COBRA coverage begins after your termination, not after the date of your retroactive election.

**Social Security Recipients.** Most Social Security recipients will receive a one-time \$250 payment, which should be paid out within 120 days of the bill's signing. State and local government employees not eligible for Social Security benefits will also receive the payment.

**Paying For College.** A tax credit of up to \$2,500 of the cost of college tuition and related expenses will be allowed in 2009 and 2010. The credit will start to phase out for individual taxpayers with AGI above \$80,000 and for married couples filing jointly with AGI over \$160,000, and replaces the Hope tax credit. Also, 40% of the credit is

refundable, so lower-income students paying their way through college will benefit from this provision.

The maximum Pell Grant amount has been increased by \$500, so qualifying students may receive up to \$5,350 in 2009 and \$5,550 in 2010.

**Car Buyers.** You will be able to deduct the state and local sales and excise taxes you pay on the purchase of a new car, light truck, motorcycle, or recreational vehicle even if you do not itemize your deductions. This tax break begins to phase out if AGI exceeds \$125,000 for single taxpayers and \$250,000 for married couples filing jointly.

**First-Time Home Buyers.** Those taxpayers buying their first home between January 1<sup>st</sup> and November 30<sup>th</sup> of this year will be eligible for a refundable tax credit of 10% of the home's purchase price, up to \$8,000. If you sell that home within three years of buying it, you forfeit that credit. (Exceptions made in certain cases, such as death or divorce.)

The credit begins to phase out for individuals with modified AGI over \$75,000 and married couples filing jointly with modified AGI over \$150,000.

For purposes of this provision, a first-time home buyer is someone who has not owned a principal residence for the previous three years before the date of the 2009 purchase.

**AMT Patch.** Because Congress refuses to pass a permanent Alternative Minimum Tax (AMT) law that would subject only the truly wealthy to this “stealth tax”, temporary patches have been passed during each of the past few years to keep millions of non-wealthy folks from paying AMT. The stimulus package includes another such patch, for 2009, which means that those not subject to AMT for 2008 will probably once again avoid it this year.



## **Risk-free returns?**

How much can the U.S. government go into hock before it damages its reputation around the world for financial stability? For decades, investors around the world have considered U.S. Treasuries as the safest haven.

One must wonder. Uncle Sam's ability to issue debt to finance its operations – and to fund the bailout packages passed by Congress – is not unlimited. The national debt as of Feb. 18 was \$10.8 trillion, or more than \$31,000 for every man, woman and child, according to the Concord Coalition, a watchdog group ([www.concordcoalition.org](http://www.concordcoalition.org)).

Democratic Congressman Jim Cooper of Tennessee quotes Standard & Poor's as saying that U.S. Treasury bonds will lose their AAA rating by 2012.

At some point, investors will question the safety of U.S.-issued debt and stop buying. That will drive Treasury prices down and yields up, making it more expensive for Uncle Sam to sell more bonds, notes and bills.

In a worst-case scenario, with no one buying Treasuries, our government may be forced to start selling assets. We wonder where bidding would start on the Grand Canyon.



## **High cost of bottled water**

Despite the relatively low gas prices we've paid in the past few months, most of us are still concerned about how much we're paying for gas and fearful of higher gas prices in the future. It probably wouldn't surprise many of us to see gas hitting the \$4 mark again, sooner rather than later.

But for those of you who buy bottled water, do you realize how much you're paying per gallon? In many cases, you're paying a cost much higher than you pay for gas. This is for something we can get for almost free, and that's safe, out of our own taps.

You might be interested to know the following:

- The Natural Resources Defense Council estimates that 25% of all bottled water, including Aquafina and Dasani, is municipal water taken directly from a tap and purified again. Other organizations believe that this percentage is actually much higher.
- Food safety experts say that there is no evidence that bottled water is healthier than tap water.
- Bottled water is no safer than tap water, and in some cases is less safe. Tap water is usually tested often, while bottled water is not tested after bottling and storage. The FDA says that federal standards for bottled water are almost identical to those for tap water, so neither type of water is significantly cleaner than the other. Also, chemicals from plastic bottles can leach into the water during storage.

Even if you buy bottled water in bulk for substantially less per gallon than the cost of gas, other costs – especially to the environment – come into play. The many discarded plastic bottles in landfills leach chemicals into the ground over time, and then there's the cost and environmental “footprint” of shipping bottled water from one country to another.

The petroleum used to ship the bottles is also used to manufacture them. The current annual production of about 28 billion bottles of water consumed by Americans each year uses 1.1 million barrels of oil and releases one billion pounds of carbon dioxide into the atmosphere (according to the Container Recycling Institute).

Good alternatives to buying bottled water include:

- Buying a reusable stainless steel bottle or thermos. Beware of the reusable plastic bottles you see in stores, as some of this plastic can release chemicals in its contents.
- If you don't like the taste of your tap water at home, consider buying a filter for your tap – such as an inexpensive carbon filter.



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